

Bonnie S. Blair
P 202-585-6905
bblair@thompsoncoburn.com

June 15, 2018

Mr. David Olsen – Chair
Board of Governors
California Independent System Operator Corporation
P.O Box 639014
Folsom, CA 95763-9014

Re: Congestion Revenue Rights Auction Efficiency Track 1B Proposal

Dear Chair Olsen and Members of the Board:

I am writing on behalf of the Cities of Anaheim, Azusa, Banning, Colton, Pasadena, and Riverside, California (referred to collectively as the “Six Cities”) regarding the ISO’s Congestion Revenue Rights (“CRR”) Auction Efficiency Track 1B initiative Draft Final Proposal Second Addendum posted on June 11, 2018 (the “Track 1B Proposal”).

The Six Cities appreciate the ISO’s efforts to address the persistent revenue shortfalls arising from the CRR auctions and have participated actively in the ISO’s stakeholder process relating to the CRR auction issues. The Six Cities have supported the Track 1A CRR tariff amendments filed by the ISO in FERC Docket No. ER18-1344. As described by the ISO in the Track 1A filing, “[t]he primary purpose of CRRs is to enable market participants to hedge congestion charges associated with supply delivery.” The Track 1A tariff amendments to limit auctioned CRRs to sources and sinks related to physical delivery of energy not only are consistent with the primary purpose for CRRs but also are likely to enhance the ability of the ISO’s CRR markets to serve that purpose by reducing the uplift burden that has undermined congestion cost hedges of Load Serving Entities (“LSEs”) since the inception of the nodal market design.

The Six Cities also strongly support efforts to develop additional measures to reduce the structural and pervasive CRR uplift burden to LSEs. In their comments in the Track 1B stakeholder process, the Six Cities suggested an alternative approach for reducing CRR payments to align with congestion revenues, one that is similar to an approach recommended by the ISO’s Market Surveillance Committee (“MSC”). Both the Six Cities and the MSC have expressed concerns that the constraint-by-

constraint approach to reducing payments to CRR holders as would occur under the Track 1B Proposal will undermine the essential purpose of CRRs to hedge congestion costs.

Implementation of the Track 1B proposal, however, may provide greater benefits to the CRR markets than taking no action to align CRR payouts with congestion revenues received. In light of the potential for interference with the hedging purpose of CRRs and other unintended effects as noted at pages 14-15 of the MSC Opinion, the Six Cities respectfully urge the Board to condition approval of the Track 1B Proposal on comprehensive monitoring, analysis, and reporting of the impacts of the constraint-by constraint adjustment approach. Specifically, the Six Cities ask the Board to direct ISO management to include in the monthly Market Performance Reports data regarding:

- a) the reductions in payouts for prevailing flow CRRs by constraint prior to consideration of any off-setting surpluses,
- b) the amounts of off-setting surpluses by constraint,
- c) the net reductions in payments for prevailing flow CRRs (*i.e.*, after consideration of off-setting surpluses), by constraint,
- d) the amounts of residual surpluses, by constraint and in total, distributed to Measured Demand,
- e) the distribution of CRR payments among different types of CRR holders (including holders of allocated CRRs in general, holders of auctioned CRRs in general, LSEs, generators, traders of physical energy, and financial traders), and
- f) the distribution of net reductions in payouts for prevailing flow CRRs among different types of CRR holders (identified above).

Thank you for your consideration of the Six Cities' concerns.

Very truly yours,



Bonnie S. Blair

Attorney for the Cities of Anaheim, Azusa, Banning, Colton, Pasadena, and Riverside

Cc: Mr. Ashutosh Bhagwat, Mr. Mark Ferron, Ms. Angelina Galiteva,
and Mr. Richard Maullin
Stephen Berberich, President and Chief Executive Officer,
Roger Collanton, Vice President and General Counsel