

January 9, 2017

**COMMENTS ON BEHALF OF THE CITIES OF ANAHEIM, AZUSA, BANNING,  
COLTON, PASADENA, AND RIVERSIDE, CALIFORNIA  
ON THE 2017 POLICY INITIATIVES ROADMAP**

In response to the ISO's request, the Cities of Anaheim, Azusa, Banning, Colton, Pasadena, and Riverside, California (collectively, the "Six Cities") submit the following comments on the ISO's 2017 Policy Initiatives Roadmap posted on December 15, 2016 (the "Roadmap"):

Supplemental Comments on Overall Process Concerns and Proposal for Reform - - The Six Cities' November 17, 2016 Comments on the ISO's 2017 Stakeholder Initiatives Catalog posted on November 4, 2016 and the 2017 Draft Policy Initiatives Roadmap posted on the same date recommended that the ISO make significant revisions to the overall processes by which the ISO identifies and prioritizes market design initiatives. Specifically, the Six Cities recommend that the ISO undertake a comprehensive overhaul of the process for commencing initiatives so as to limit narrowly the number of initiatives that are commenced by the ISO of its own accord or are committed to by the ISO in response to demands or lobbying by subsets of stakeholders. Unless compelled by the FERC, the ISO should commence a new "non-discretionary" initiative without seeking stakeholder input through the reformed process summarized below only when necessary to address a significant and time-sensitive reliability concern, and the initial issue paper or straw proposal for such an ISO-commenced initiative should provide a detailed description of the reliability concern the initiative is needed to address.

All other initiatives (including ones identified as desirable by the ISO Staff, the Department of Market Monitoring, or ones requested by stakeholders) should be classified as discretionary and prioritized on the basis of expected benefits to the overall market in terms of enhancements either to reliability or to market efficiency or both. There should be a formalized but streamlined mechanism to allow for input from stakeholders every six months (as opposed to the current annual process). The Six Cities suggest that the ISO Staff, the DMM, and interested stakeholders each identify during each six month process no more than five discretionary initiatives they consider to be most important and beneficial and explain why each of the initiatives they support will provide sufficient benefits to the market as a whole to justify the commitment of resources. Although benefits cannot necessarily be quantified in monetary terms, conclusory assertions regarding market efficiency or reliability should not be considered sufficient. The proponent(s) of an initiative (including the ISO Staff and DMM) should explain the anticipated benefits of a proposed initiative with enough specificity to support the assertion of overall market benefits. Based on the submissions, and particularly the explanations of anticipated benefits to the market, the ISO Staff should prioritize between five and ten initiatives (depending on the complexity and resource demands of the selected initiatives) to be commenced during the succeeding six months.

The Six Cities reiterate their recommendation to eliminate the process for “ranking” initiatives that is currently in place. The pseudo-quantitative ranking approach currently in effect is time-consuming, inherently subjective, and divisive. With respect to the “Desired by Stakeholders” metric, stakeholder comments tend to offer up self-interested assessments of the desirability or undesirability of potential initiatives in an effort to shift the overall ranking scores, sometimes going so far as to assert, inaccurately, that no other stakeholders have a different view. Furthermore, as explained in detail in the Six Cities November 17, 2016 Comments at page 3, combining the “Feasibility” scores with the “Total Benefit” scores to derive an overall ranking allows initiatives that are deemed to have limited benefits but would be easy to implement to achieve a higher overall ranking than initiatives with higher anticipated benefits. Overall, the ranking process provokes unproductive controversy and seeks to create an impression of objectivity and precision that is fundamentally misleading.

Although the reformed process recommended by the Six Cities would rely heavily on the exercise of judgment by the ISO Staff, the Six Cities believe the revised process would be more meaningful, more transparent, and less burdensome for the ISO Staff and stakeholders alike than the existing process. In broad terms, the process the Six Cities recommend would involve three basic steps:

- Step 1 - - A nomination process, in which any interested stakeholders, the Department of Market Monitoring, and the ISO Staff each could propose no more than five initiatives, and the nominating entity would be expected to explain with specificity (*i.e.*, not just “improve reliability” or “enhance efficiency”) the expected benefits of a proposed initiative. Initiatives identified by the ISO Staff or committed to on an *ad hoc* basis should not be entitled to automatic priority, as occurs under the current process, and there should be no special priority or *a priori* reservation of resource bandwidth for any particular type of initiative or initiatives affecting a particular market segment (*e.g.*, the Energy Imbalance Market, regional expansion).
- Step 2 - - A good faith, qualitative assessment by the ISO Staff of anticipated benefits from the defined array of proposed initiatives.
- Step 3 - - Consideration by the ISO Staff of resource intensiveness, complexity, potential for controversy, and potential for impact on other market design elements for initiatives with the highest anticipated benefits and selection of a manageable number of “high benefit” initiatives to be pursued in the following six month period.

With respect to implementation of the revised process for evaluating and selecting stakeholder initiatives, the Six Cities hoped that the revised process could guide selection of initiatives to be pursued in the coming year (2017). As the ISO has developed the 2017 Roadmap based on the process that has been in place, the Six Cities urge the ISO to undertake prompt consideration of the revisions recommended by the Cities, including publication of the ISO’s recommendations regarding potential process revisions early in 2017, with opportunities for further input from all interested stakeholders. The goal should be to adopt process revisions

in time to guide the selection of stakeholder initiatives for the period beginning no later than early 2018.

CRR Auction Efficiency (Item 6.6.1 in the 2017 Stakeholder Initiatives Catalog posted on December 15, 2016) - - The Six Cities appreciate and strongly support the ISO's commitment to pursue this initiative in 2017. Based on previously submitted comments and statements made during the December 22, 2016 stakeholder web conference on the Roadmap, the Six Cities anticipate a further attempt by other stakeholders to dissuade the ISO from moving forward with this initiative. However, the ISO's Department of Market Monitoring has documented and explained in detail that the current design of the ISO's CRR auction process has resulted in revenue deficiencies averaging approximately \$130 million per year from 2012 through 2015 at the expense of LSEs in the ISO area. *See* DMM's 2015 Annual Report on Market Issues and Performance at 182-190. To place that amount in perspective, the ISO's quarterly reports quantifying Energy Imbalance Market benefits estimated gross 2015 EIM benefits to ISO market participants of approximately \$12.7 million. Thus, the average annual costs to ISO LSEs resulting from the design of the CRR auction process have been more than ten times the estimated EIM benefits to ISO market participants in 2015. The ISO should reject the efforts by recipients of the wealth transfers documented by the DMM to dissuade the ISO from addressing this misappropriation of the benefits of transmission assets paid for by ratepayers.

Moreover, the Six Cities urge the ISO to commence work on this initiative earlier in the year than is indicated in the chart on page 9 of the Roadmap. The chart indicates that the ISO sees a need for additional analysis before formally commencing this initiative, and that the ISO plans to commence that preliminary analysis in the third quarter of 2017. ISO representatives indicated during the December 22, 2016 web conference that the additional analysis would include an evaluation of root causes for shortfalls in CRR auction revenues as compared with payments made to the holders of auctioned CRRs. Any preliminary analysis considered necessary should commence as soon as possible (and well before the middle of 2017) so that an appropriate solution to the CRR auction revenue deficiencies can be implemented prior to the auction for annual CRRs for 2018. The massive wealth transfers from ratepayers to financial speculators documented by the DMM should not be permitted to continue.

Export Charges (Item 6.1.1 in the 2017 Stakeholder Initiatives Catalog) - - The Six Cities continue to challenge the high score for "Desired by Stakeholders" assigned by the ISO to this initiative. Although the Six Cities are aware that there is a subset of stakeholders that strongly support the exemption of export schedules from transmission access and measured demand uplift charges, there are other stakeholders, including the Six Cities, that just as strongly oppose any such exemption. Given

the strong division of stakeholder views and the otherwise limited benefits of this initiative as assessed by the ISO, this initiative should not receive as high a ranking as the ISO has assigned.

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