

November 17, 2016

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

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 Stakeholder Initiatives Catalog posted on November 4, 2016 (the "2017 Catalog") and the 2017 Draft Policy Initiatives Roadmap posted on the same date (the "Roadmap"):

Overall Process Concerns and Proposal for Reform - - The Six Cities recommend that the ISO make significant revisions to the overall processes by which the ISO identifies and prioritizes market design initiatives. The ISO has emphasized, and the Six Cities agree, that ISO and stakeholder resources are not unlimited, and it simply is not possible to pursue all market design initiatives that may be desired by stakeholders or by the ISO and that could lead to constructive improvements in market design. That being the case, it is all the more important that ISO and stakeholder resources be focused on the initiatives that will produce the greatest levels of market benefits, either in terms of enhanced reliability, improved efficiency, or both. The existing processes for identifying and deciding which market design initiatives to pursue do not lead to that outcome.

In response to a recent comment submitted by the Department of Market Monitoring ("DMM") in FERC Docket No. ER17-110-000, the ISO stated:

DMM also comments if the CAISO believes it will take a major effort to address the issue, DMM recommends that the CAISO and Commission place a higher priority on addressing other issues identified by DMM. The CAISO appreciates DMM's recommendations but notes that the issue of how to prioritize the CAISO's policy initiatives is outside the scope of this proceeding. The CAISO continues to work with DMM and all stakeholders to prioritize its efforts through a stakeholder process dedicated to the purpose of prioritization so that all participants and the CAISO can consider the full array of factors in setting the CAISO's agenda for the upcoming year.

Cal. Indep. Sys. Operator Corp., Docket No. ER17-110-000, "Answer of the California Independent System Operator Corporation to Comments"(filed Nov. 8, 2016). The statement quoted above, however, is not an accurate description of the ISO's current process for identifying and prioritizing initiatives as to the majority of the initiatives planned by the ISO.

The descriptions of various initiatives and potential initiatives in the 2017 Catalog reveal that there are at least four processes that may lead to pursuit of a market design initiative:

- 1) There are initiatives that FERC has directed the ISO to undertake. There is some public evaluation of the desirability and priority for these types of initiatives in the course of the FERC proceedings leading up to FERC's directive, but there is no consideration of the relative priority of other possible initiatives.
- 2) There are initiatives that the ISO Staff decides to undertake on its own and classifies as discretionary or non-discretionary. There often is no public discussion regarding the desirability and priority for these types of initiatives until after they have been launched by the ISO, and there are no clear criteria for the classification of such initiatives as non-discretionary or discretionary.
- 3) There are initiatives that the ISO Staff commits to pursue in response to an *ad hoc* stakeholder proposal during the course of a year and often classifies, without explanation, as non-discretionary. Although there may (or may not) be public discussion of the objectives for such initiatives prior to a commitment by the ISO to pursue them, there is no systematic comparison of the potential benefits versus costs for such initiatives with other potential initiatives that would enable transparent consideration of the appropriate priority for the *ad hoc* stakeholder proposed initiatives. Examples of this type of initiative in the 2017 Catalog include Items 5.2 (Generator Interconnection Driven Network Upgrade Cost) and 5.6 (Review Transmission Access Charge Structure).
- 4) There are initiatives proposed through the stakeholder initiative catalog process, for which all interested stakeholders may comment on desirability and priority. However, the ISO starts the stakeholder initiative catalog process with the presumption that all initiatives falling under the first three categories must go forward, such that initiatives identified through the stakeholder catalog process compete for extremely limited residual time and resources.

From the descriptions above, it is clear that at least two of the four processes by which initiatives commence (numbers 2 and 3 above) are completely non-public and non-transparent. Moreover, the *de facto* prioritization of initiatives commenced through one of the first three processes limits the utility of the stakeholder catalog process so severely that it begs the question whether it is worth the time devoted by the ISO and stakeholders.

The Six Cities recommend that the ISO undertake a comprehensive overhaul of the process for commencing initiatives in order to conform the actual prioritization process to the ISO's description from Docket No. ER17-110-000 quoted above. The reformed process should 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 initiative without seeking stakeholder input through the process described 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. The "non-discretionary" classification should be restricted to

initiatives necessary to address a time-sensitive reliability concern as described or initiatives compelled by the FERC and subject to a defined deadline.

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 do not recommend including a formalized process for initial rankings of proposed initiatives by the ISO Staff, DMM, or stakeholders. The ranking process currently in place is time-consuming and subjective, and it does not provide a valid basis for prioritizing initiatives. In particular, 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. For example, the “Combine IFM/RUC with Multi-Day Unit Commitment” initiative has the second highest ranking in terms of benefits, but it is eighth in terms of overall rankings as a result of the feasibility scores. Similarly, there are a number of initiatives listed on page 6 of the roadmap rankings that have modest scores in terms of expected benefits but fairly high total scores due to high feasibility scores. It makes no sense to prioritize an initiative that is expected to have limited benefits just because it would be easy to implement. Although it is reasonable to consider the resources required to implement an initiative, that consideration should take place after initiatives with the highest anticipated benefits have been identified, and it principally should be reflected in the number of initiatives planned for the following six month period.

Although the revised process outlined above 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. Initiatives identified by the ISO Staff (type 2 above) or committed to an *ad hoc* basis (type 3 above) would not be entitled to automatic priority, as occurs under the current process. Instead, the ISO Staff, as well as stakeholders, would be expected to explain in detail the expected benefits of a proposed initiative, and the ISO Staff would have the responsibility of making a good faith assessment of anticipated benefits from a defined array of proposed initiatives.

The Six Cities recommend that the first revised input and evaluation process take place in January of 2017, with selected initiatives to commence between February and July.

For clarification, the Six Cities do not intend that the proposed reform of the approach for identifying and prioritizing potential initiatives will modify the process by which the ISO pursues and resolves selected initiatives. The Six Cities generally support the iterative, detailed exploration of issues through the steps of the ISO's existing process that takes place once an initiative has commenced. The decision to pursue a particular initiative should not dictate the substantive outcome with respect to that initiative and specifically should not preclude a potential conclusion, after detailed analysis and consideration of stakeholder input, that the initiative should be closed without any rate design modification, tariff change, or change in operating practice. In addition, participation by any stakeholder in the process for identifying and evaluating potential initiatives should not in any way restrict that stakeholder's subsequent positions regarding any initiative that is pursued.

Comments on Issues In Progress or Presumed to be Going Forward in 2017: As discussed above, the Six Cities propose a reformed process for selection of market design initiatives that, as an initial matter, would recognize priority only for initiatives needed to address a time-sensitive reliability concern or to comply with a FERC directive; other potential initiatives would be evaluated and prioritized through the six-month input and review process. Most of the initiatives listed on page 10 of the Roadmap as underway or planned for 2017 would not satisfy the criteria for presumed priority under the reformed process. For initiatives that already are in progress, it would be inefficient to suspend them and require evaluation under the revised process. For initiatives that have not yet commenced (roughly the bottom third of page 10 of the Roadmap), the ISO should apply the revised evaluation process and evaluate and prioritize such initiatives relative to others that are proposed by the DMM or stakeholders.

Comments on Specific Ranked Discretionary Policy Initiatives: If the ISO adopts the revised input and evaluation process proposed by the Six Cities, the discretionary initiatives ranked in the Roadmap should be subject to that process in January. If the ISO does not apply the revised process, it is clear that the ISO will have limited ability to undertake initiatives beyond those already presumed to be going forward at page 10 of the Roadmap. In recognition of that reality, the Six Cities limit their comments on specific ranked discretionary policy initiatives to a subset of those falling within the top fifteen rankings on the Roadmap. Although the Six Cities could take issue with the rankings assigned to some other initiatives, it makes little sense to debate the details of the rankings for initiatives that the ISO clearly is unlikely to reach during the next year. This approach assumes the ISO will respect the rankings for the discretionary initiatives. If the ISO does not respect the rankings for the limited set of initiatives to which they apply, it would compel a conclusion that the ranking exercise is a waste of resources for everyone involved.

Item 6.6.1 Congestion Revenue Rights Auction Efficiency - - The Six Cities once again urge the ISO to pursue this initiative as soon as possible. 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. Given the magnitude and scope of the impact of this issue, addressing this issue should receive a higher ranking and higher priority than the two initiatives ranked just above the CRR Auction Efficiency issue, especially in light of the relative feasibility of implementation.

Item 6.4.7 Management of EIM Imbalance Settlement for Bilateral Schedule Changes - - So far as the Six Cities can tell, this initiative appeared for the first time in the November 4, 2016 version of the 2017 Catalog and Roadmap. It does not appear in the October 28, 2016 version of the Roadmap, nor does it seem to have been included in the October 28, 2016 version of the Catalog. Notwithstanding its late appearance from an unknown source, it has been assigned the second highest ranking. Based on the limited information available concerning this initiative, the Six Cities consider the assigned ranking to be substantially inflated. The initiative focuses on what appears to be a limited subset of potential bilateral transactions. That being the case, the Six Cities question the validity of the high ranking for "Improving Overall Market Efficiency." Moreover, the high ranking for "Desired by Stakeholders" seems particularly questionable given the sudden and unexplained emergence of this issue at the last minute. In the absence of a more detailed explanation of anticipated benefits to the overall market, this should not be considered a high priority initiative.

Item 6.1.1 Export Charges - - The Six Cities 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 a high priority.

Item 6.4.2 Potential EIM-wide Transmission Rate - - The Six Cities disagree with the Feasibility scores assigned by the ISO to this initiative and, therefore, with the overall ranking. The Six Cities assume that the high feasibility scores reflect the ISO's assessment that conducting any modeling or making software changes to implement an EIM-wide transmission rate would not be significantly complex or burdensome. Basing the feasibility scores solely on technical considerations, however, is inappropriate. The Six Cities believe that the effort to develop an EIM-wide transmission rate could be highly contentious and potentially require substantial commitment of ISO and stakeholder resources to address and resolve policy issues. Given the limited benefits anticipated for this initiative and the potential for prolonged controversy, the overall ranking for this initiative should be reduced.

Item 6.5.2 Regulation Pay-for-Performance Enhancements - - This initiative is a good example of the situation discussed above where overall ranking is unduly inflated by perceived ease of implementation. The anticipated benefits for this initiative are modest, but it receives a

relatively high ranking based on high feasibility scores. As described above, initiatives should be prioritized based on anticipated benefits, and then feasibility of implementation can be considered in determining how many issues to pursue during a given period. An initiative with limited benefits should not be prioritized ahead of other initiatives with greater benefits based on ease of implementation.

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