

May 30, 2019

**COMMENTS OF THE CITIES OF ANAHEIM, AZUSA, BANNING, COLTON,  
PASADENA, AND RIVERSIDE, CALIFORNIA  
ON THE ISSUE PAPER AND STRAW PROPOSAL ON  
REQUIREMENTS FOR IMPORT BIDS GREATER THAN \$1,000/MWH**

In response to the CAISO's request, the Cities of Anaheim, Azusa, Banning, Colton, Pasadena, and Riverside, California (collectively, the "Six Cities") provide their comments on the May 10, 2019 Requirements for Import Bids Greater Than \$1,000/MWh Issue Paper and Straw Proposal (the "Straw Proposal"):

The Straw Proposal acknowledges at pages 5-6 that (i) the CAISO Department of Market Monitoring ("DMM") annual report for 2017 identified the potential for increased ability of energy suppliers to exercise market power in the day-ahead market at the system level, and (ii) the CAISO Balancing Authority Area relies heavily on import resources, particularly during the morning and evening ramp periods. Indeed, the Straw Proposal highlights these considerations in recommending the adoption of a requirement that import bids greater than \$1,000/MWh be based on actual or expected short-run marginal costs. Straw Proposal at pages 6-8. The Six Cities support the CAISO's proposal to require sellers of imports to base any import bids greater than \$1,000/MWh on actual or expected fuel or fuel-equivalent costs.

The Six Cities are concerned, however, that the CAISO proposes to allow import bids exceeding \$1,000/MWh to set market clearing prices without any *ex ante* review of the cost basis for such bids. For resources within the CAISO BAA or resource-specific external resources, the CAISO will review bids greater than \$1,000/MWh prior to including them in market processes based on calculated "reasonableness thresholds." A bid that exceeds \$1,000/MWh and the reasonableness threshold will not be eligible to set market clearing prices, will be included in market processes at the level of the reasonableness threshold, and will be eligible for *ex post* cost recovery if the seller's documentation demonstrates that the bid price reflected actual or expected short-run marginal costs. In contrast, the CAISO proposes to allow non-resource-specific import bids greater than \$1,000/MWh to set market clearing prices, subject to discretionary audit of supporting cost documentation after-the-fact, potential disqualification from bidding at the interties for some period of time if such documentation does not support the submitted bids, and potential referral to FERC. Presumably referring to the potential for *ex post* review of bids greater than \$1,000/MWh and exposure to possible disciplinary measures, the CAISO's presentation for the May 16, 2019 web conference on the Straw Proposal asserts at page 12 that the Straw Proposal "provides strong disincentives to submit import bids above \$1,000/MWh that are not based on verifiable costs."

Allowing a non-cost-based import bid greater than \$1,000/MWh to set market clearing prices will expose the entire market to excessive prices during the affected intervals, and it is not clear that the *ex post* remedial measures contemplated by the CAISO will compensate customers for the market-wide impact. Recognizing that non-resource-specific import bids by their nature

would not support calculation of resource-specific reasonableness thresholds as applied to bids exceeding \$1,000/MWh by internal resources or resource-specific import resources, it is not obvious to the Six Cities why it would not be possible to apply some sort of proxy reasonableness threshold to import bids exceeding \$1,000/MWh, subject to the opportunity for *ex post* cost recovery for bids supported by documentation of actual or expected short-run marginal costs. Such a non-resource-specific reasonableness threshold could be based on the highest reasonableness threshold established for any specific resource or on prices for same-day bilateral transactions at external hubs. The CAISO should give further consideration to developing a basis for *ex ante* review of import bids greater than \$1,000/MWh rather than relying solely on the potential for after-the-fact audit and disciplinary action.

Submitted by,  
Bonnie S. Blair  
Thompson Coburn LLP  
1909 K Street N.W., Suite 600  
Washington, D.C. 20006-1167  
[bblair@thompsoncoburn.com](mailto:bblair@thompsoncoburn.com)  
202-585-6905

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