

Stakeholder Comment Template: Step 2 Draft Proposal

Comments on behalf of the Cities of Anaheim, Azusa, Banning, Colton, Pasadena, and Riverside, California (Six Cities)

- 1. Support for Step 2 Draft Proposal:** Please indicate your level of support for the Step 2 Draft Proposal. Please provide general reactions, an indication of the benefits of the structural elements that are being proposed, and if you think that the Draft Proposal is on the right track.

Six Cities' Comments: The Six Cities take no affirmative position on the Step 2 Draft Proposal at this time and provide below comments on discrete proposal elements. The Six Cities encourage the Launch Committee to ensure that the timeline for stakeholder consideration of the numerous complex and significant policy determinations reflected in the Draft Proposal allows adequate time for a full and complete understanding and evaluation of issues. The current timeline as outlined in the Draft Proposal is not sufficient for this purpose. As this process moves forward, it is critical that stakeholders be provided with as much information and transparency as possible so that they may develop a complete understanding of the structure, framework, and impacts of the contemplated governance, organizational, and operational changes that are being recommended.

- 2. Stepwise approach:** The Draft Proposal would continue the stepwise approach for Step 2, beginning with Option 2.0, followed by the RO commencing a feasibility study within 9 months of its formation. Depending on the results of the study, the RO would assume further responsibility in the form of Option 2.5 or a similar structure. This stepwise approach is motivated by a desire to continue early momentum towards regional governance by standing up the RO in the near term, while recognizing the time required to create the infrastructure and financial reserves to enable Option 2.5, and the need to better understand the costs, benefits and structural specifics of Option 2.5. The RO would then have the ultimate authority, with stakeholder input, to make decisions about next steps from and after its formation. Does this stepwise approach create a platform that can achieve the desired level of independence at an appropriate cost to customers?

Six Cities' Comments: Consistent with prior comments, the Six Cities support proceeding with the Pathways modifications on an incremental basis as proposed. Assuming that the subsequent step to the status quo is Option 2.0, the Six Cities do not support automatic initiation of a feasibility study for Option 2.5 within nine months of the RO's formation. Rather, the focus should be on implementing and undertaking operations under the Option 2.0 framework and enabling the RO, the CAISO, and market participants to gain experience under the Option 2.0 structure to inform future evolution of the RO. The Six Cities recommend that if it is necessary to include a timeline to assess the feasibility of future modifications—and observe that it is not apparent why such a timeline is needed or beneficial—then the study should commence no earlier than 24 months following the formation of the RO.

- 3. Cost:** The Launch Committee has created a high-level preliminary cost estimate for Option 2.0 and 2.5. Please provide feedback on the level of staffing and the costs for both options. Do these estimates seem reasonable, and would stakeholders be willing to shoulder these costs associated with increased independence?

Six Cities' Comments: While the Six Cities understand and appreciate the attempt to provide a “high-level preliminary cost estimate” for the two options, the Six Cities have concerns with the preliminary nature of the estimates. While the proposed amounts do not appear to be unreasonable in light of the proposed activities associated with each of the options as envisioned by the Launch Committee, the Six Cities encourage the Launch Committee to consider ways that market participants can be provided with additional, more granular and refined cost estimates at an appropriate future stage of the RO's formation and before any commitment or allocation of costs to market participants takes place. This may be in alignment with the intended approach of the Launch Committee, and the Six Cities acknowledge that the provided estimates represent an initial assessment of potential costs and expect that this estimate will be refined over time.

It would also be worthwhile to leave room for further dialogue with stakeholders regarding initial budgeting of costs, including to discuss which parties will be responsible for paying the costs and what happens should costs exceed preliminary estimates.

Additionally, the Six Cities note that any cost allocation associated with these budgeted activities should be fair and reasonable and should ensure that entities within the CAISO footprint are not allocated a disproportionate share (directly or indirectly through their funding of CAISO activities through existing charges) or serving as backstop for cost overruns. The Six Cities do not anticipate that this will be the case and understand that the intent of the Launch Committee is to allocate costs consistent with cost causation principles, but encourage clarity and transparency on the applicable allocation principles.

- 4. Tariff approach:** The Draft Proposal recommended maintaining a single integrated tariff at the outset, and embarking on an effort to organize the tariff into the areas of sole CAISO, sole RO, and where there is overlapping shared authority. This effort would lay the groundwork to eventually to progress to separate tariffs, should that separation be desired by stakeholders. Do you support this approach? If not, please provide an alternative approach and as much explanation as possible on how the alternative would better address stakeholder needs.

Six Cities' Comments: The Six Cities do not oppose this proposal, which is obviously contingent on a future stakeholder process for the contemplated tariff organizational activities. As with other elements of implementation for Step 2, the Six Cities encourage transparency and openness with stakeholders in any future tariff revisions to address the respective authorities of the RO board and the CAISO Board of Governors.

Additionally, consistent with earlier comments by the Six Cities, it is critical that tariff provisions governing RO oversight and operations clearly delineate a fair and reasonable allocation of responsibilities and accountability for liabilities and risks incurred by or on behalf of the RO so that the CAISO and its market participants and load-serving entities within the CAISO balancing authority area are not disproportionately exposed to any financial or other risks associated with the CAISO's conduct of activities under the RO as the governing authority. These risks should be borne by the market and by market participants on a proportional basis, as they are now under currently applicable rules.

With respect to the decisional classification discussion on page 43 of the Draft Proposal, the Six Cities do not oppose exploration of the proposal to transition responsibility for deciding if a decisional item is classified as sole, shared, or within the authority of the CAISO Board of Governors from the CAISO staff (as is currently done today, subject to stakeholder input) to stakeholders. The Six Cities request that there be clarity as how stakeholder disagreements about classification be resolved. Stakeholders should not be permitted to override through voting the general limitations on the categories of sole, shared, or CAISO Board authority. For example, stakeholders should not be able to decide that the CAISO's resource adequacy rules for its balancing authority area, or its transmission

rates and charges, should be placed under sole RO board authority through a voting process. One way to resolve this may be provisions for input by legal counsel for the RO board and the CAISO on any disputes regarding decisional classifications.

5. **Department of Market Monitoring (DMM):** The Draft Proposal recommended a joint reporting structure for DMM and RO shared decision making in DMM upper management hiring. Would this change enable sufficient independence? If you think that the proposed approach does not achieve sufficient independence, please provide an alternative approach that would better address stakeholder needs, including any cost implications.

Six Cities' Comments: The Six Cities do not oppose a joint reporting structure for the DMM as discussed in the Draft Proposal, nor do they oppose shared decision-making in hiring for DMM management.

6. **Sectors:** The Launch Committee is holding a workshop (10/7) focusing on sectors and seats on the Stakeholder Representatives Committee (SRC), and will release a revised sector proposal on 10/14. Please share your thoughts on the revised sector proposal and if this component of the overall stakeholder process would allow for meaningful participation and all stakeholder voices to be heard.

Six Cities' Comments: The Six Cities do not oppose the Revised Sector Proposal released by the Launch Committee on 10.14. As among various market participants, the proposal appears to strike an appropriate balance of interests and provide for adequate levels of participation on the SRC commensurate with the SRC's anticipated responsibilities.

However, the Six Cities request that the Launch Committee address the role of the CAISO, in its capacity as an EDAM and WEIM-participating balancing authority area, within the SRC. As currently configured, there is not balancing authority area representation for the CAISO that provides comparability with EDAM and WEIM Entities. There are likely a range of options that could be considered for addressing this concern. One such approach could be to include the CAISO as a participant within the EDAM Entities sector of the SRC. While this topic warrants further consideration, it may be beneficial to clarify that any SRC participation by the CAISO not be fulfilled by a CAISO staff person who simultaneously has decisional authority over market policy design for the EDAM and WEIM, and that the assigned role would entail consideration of CAISO balancing authority area and market participation interests, as opposed to the interests of the RO-overseen markets. Some of the same principles of functional separation may apply to SRC participation by the CAISO as are discussed in the Draft Proposal at 43-44. This topic could be further addressed through the task force or advisory committee process contemplated in the Launch Committee's recommendation.

7. **Tariff based funding for new public interest protections:** To help safeguard the public interest, the Draft Proposal recommended a new Consumer Advocate Organization and an Office of Public Participation. Both entities are contemplated to have minimal staff (possibly one or two staff members) and modest budgets funded through the tariff. The current BOSR funding structure would remain unchanged and not be funded through the tariff, but may be revisited in the future if stakeholders think reevaluation is appropriate. Do you support tariff-based funding for these

enhanced public interest protections? Please share as much detail as possible in your reasoning to help the Launch Committee understand the drivers for stakeholders on this topic.

Six Cities' Comments: The Six Cities do not support funding these structures through the tariff at this time.

With respect to the proposal to create a new Consumer Advocate Organization, the Six Cities note that the state consumer advocates may have jurisdictional responsibilities with respect to state-regulated entities. Entities that are not regulated by the states, such as municipal public power utilities in California, should not be responsible for funding the activities of state consumer advocate organizations. For the same reason, the Six Cities do not support providing state consumer advocate organizations with data or information from the Department of Market Monitoring, at least not to the extent that such data would be specific to market participants that are not state-regulated.

Similarly, public power utilities in California are responsible for advancing the public interest of their customer-owners as they engage with the RO, the CAISO, and other stakeholders and market participants throughout the West. For this reason, the Six Cities do not support tariff funding for an Office of Public Participation within the RO. Public interest organizations currently can and do participate in CAISO stakeholder processes and other regional structures, including the Launch Committee for the Pathways initiative. While the Six Cities support the participation in initiatives and regional efforts by these organizations, the Six Cities do not support the provision of dedicated funding and staff for these activities as contemplated in the Draft Proposal.

- 8. Chapter specific feedback:** In addition to the questions above, we are seeking feedback on the entire Step 2 Draft Proposal. Please use this space to provide general feedback by chapter, as well as feedback on the embedded technical questions by chapter.

Step 2 Draft Proposal Chapter Headings

- Chapter 1: RO Scope and Function
- Chapter 2: Formation of the RO
- Chapter 3: RO Governance
- Chapter 4: Public Interest
- Chapter 5: Stakeholder Engagement
- Chapter 6: Pathways to Additional Services

Six Cities' Comments: The Six Cities have no additional comments at this time.

Submitted by:

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