

Stakeholder Comment Template: CAISO Issues and Tariff Analysis

Comments by the Cities of Anaheim, Azusa, Banning, Colton, Pasadena, and Riverside, California (“Six Cities”)

CAISO Issues

Please provide feedback with as much detail as possible on the following topics:

1. Structure: Should the RO be an organization that primarily consists of a policy-setting board (Option 2) or an organization that formally offers and bears ultimate responsibility for market services (Option 2.5)?

Six Cities’ Response: The Six Cities have significant concerns with the Option 2 concept as described in the August 5, 2024 meeting, because it appears to be incomplete and does not propose sufficiently comprehensive corporate protections for the CAISO. Most specifically, Option 2 as described appears to contemplate that the RO as a separate corporation would have full authority to determine market rules, but the CAISO, as a separate corporation, would have responsibility for implementing the market rules established by the RO as well as compliance responsibility and exposure to financial liability. The Six Cities question whether it is reasonable to grant the RO full authority to set policy without holding the RO responsible for the policies it establishes. The “corporate protections for the CAISO” identified at Slide 11 would be wholly inadequate to protect the CAISO from liability for actions beyond its ability to control. Further, the Six Cities question whether the FERC would accept a non-regulated RO having authority to dictate tariff filings by a separate regulated entity. At a minimum, financial exposure should align with responsibility for policy determinations; in other words, the RO (and its market participants) should have financial responsibility for claims and obligations arising from the operation of the markets that the RO oversees; the CAISO’s financial responsibility should be limited to claims and obligations arising from the functions that it retains (such as the balancing authority function, for example).

2. RO-CAISO relationship: Should the RO’s contract with the CAISO be a governance-focused interface agreement (Option 2) or a contract for services from a markets vendor (Option 2.5)?

Six Cities’ Response: However labeled, the Six Cities consider it necessary that the RO’s contract with the CAISO include sufficiently detailed provisions to establish clearly the scope of the CAISO’s obligations and authority for implementing market operations as well as protections against liability arising from implementation of policies established by the RO.

3. Cost: How important to you or your organization is implementation cost in evaluating Option 2 versus Option 2.5?

Six Cities’ Response: Implementation costs and the just and reasonable allocation of implementation costs are both important to the Six Cities. The Six Cities do not support cost allocation that places a disproportionate share of costs onto the CAISO or load within the CAISO. Costs should be shared proportionally among all market participants.

4. Independence: How valuable is the increment of institutional independence gained in Option 2.5 relative to Option 2?

Six Cities' Response: The Six Cities do not perceive a significant increment in the degree of independence of the RO under Option 2.5 versus Option 2 as those options were described in the August 5th meeting.

5. Responsibility: Do you have any feedback on the level of institutional responsibility the RO would bear in Options 2 and 2.5, as outlined in this presentation?

Six Cities' Response: As described in response to Question 1, the Six Cities generally oppose separation of authority and responsibility. Under whatever Step 2 arrangement is proposed, the RO should have responsibility in all areas for which it has authority. Likewise, the CAISO should retain responsibility in areas over which it retains authority.

6. Liability: Are there any particular aspects of financial liability borne by the RO in Options 2 and 2.5 that you would like to raise or address?

Six Cities' Response: The general principle that the Six Cities propose to apply, *i.e.*, responsibility tracks authority, is discussed in response to Questions 1 and 5. At this time, the Six Cities do not have comments on any specific aspect of financial liability that should be borne by the RO.

7. Evolution: Does either option offer a durable institutional home to oversee or host services beyond energy markets?

Six Cities' Response: The Six Cities do not view either potential approach for a Step 2 framework as inherently incompatible with possible evolution of additional services beyond energy markets.

8. Given the potential time needed to rework market-related contracts and establish sufficient contingency reserves, among other matters, do you perceive value in a Step 2 approach that would begin with Option 2 and then transition or evolve to 2.5?

Six Cities' Response: For the reasons previously identified, the Six Cities do not support implementation of Option 2 as described in the August 5th meeting. The Six Cities are not opposed to the concept of a different type of transitional approach, but it may make more sense to retain the Step 1 framework to gain experience with market operations in that mode and take the time necessary for an orderly and thoughtful transition to something like an Option 2.5 framework, assuming there is a critical mass of support for such a transition among entities participating in the Step 1 market(s).

Tariff Analysis

9. Do you agree with the suggested areas where the CAISO and the RO would each have sole authority and the areas where they would have shared authority? Please provide as much detail as possible why you agree or disagree and suggestions on possible alternatives.

Six Cities' Response: As a very preliminary first cut at delineating responsibility for various tariff sections, the draft at Slide 35 of the August 5th presentation materials generally seems consistent with the suggested principles for separating authority. With regard to Tariff Sections 29 (Energy Imbalance Market) and 33 (Extended Day-Ahead Market), it will be necessary to consider whether some sub-sections should be called out for CAISO authority for consistency with treatment of sub-sections within Sections 31 (Day-Ahead Market) and 34 (Real-Time Market). With respect to Section 28 (Inter-Scheduling Coordinator Trades), the CAISO recently posted a Straw Proposal for allowing Inter-SC Trades for Energy in Extended Day-Ahead Market and Western Energy Imbalance Market balancing authority areas. If that proposal is implemented, it would seem appropriate to designate Section 28 as subject to RO Authority with call out of various subsections for CAISO authority.

The Six Cities note that Slide 35 identifies a large number of current tariff sections as subject to RO authority with call out of specific, but thus far unidentified, sub-sections for CAISO authority. The Six Cities take no position at this time regarding the proposed classification of those sections pending identification and analysis of sub-sections that would be subject to CAISO authority.

With regard to the concept of Shared Authority, the Six Cities would like further information on how the decision-making process for Shared Authority would be expected to work. Is the intention that both the CAISO Board and the RO governing authority would have to approve a tariff provision designated for Shared Authority? The Six Cities perceive this concept as analogous to the joint authority model between the CAISO Board and the Western Energy Markets Governing Body that is currently in place.

10. Do you agree with the suggested principles proposed to determine RO sole authority? Please provide as much detail as possible why you agree or disagree and suggestions on possible alternatives.

Six Cities' Response: As worded on Slide 31 of the August 5th presentation, the principle proposed for determining RO sole authority appears overly broad and inconsistent with the classifications of tariff sections proposed on Slide 35. The proposed principle suggests that RO sole authority apply to “[a]ny tariff provision or other rule that is central to establish the policies for operation of an applicable market or provision of an applicable service.” The “central to establish” language is unnecessarily ambiguous and would appear to incorporate provisions such as creditworthiness requirements and dispute resolution, but those provisions will apply beyond the Energy markets subject to RO authority, as recognized in the proposed tariff classifications on Slide 35.

A better formulation of the principle would track language relied on to identify primary authority for the WEIM Governing Body, *e.g.*, “tariff provisions or rules applicable to market participants solely in their roles as participants in the Energy markets subject to RO policy making authority.”

11. Do you agree with the suggested principles proposed to determine CAISO sole authority? Please provide as much detail as possible why you agree or disagree and suggestions on possible alternatives. 2

Six Cities' Response: The Six Cities generally agree with the principle proposed for determining CAISO sole authority as described at Slide 32 of the August 5th presentation. The principle as phrased appears consistent with the stated intent and with the classifications of tariff sections proposed on Slide 35.

12. Do you agree with the suggested principles proposed to determine overlapping authority? Please provide as much detail as possible why you agree or disagree and suggestions on possible alternatives.

Six Cities' Response: The principle for identifying overlapping authority described on Slide 33 appears generally appropriate, but it seems to conflict with the proposed scope of RO sole authority as described in Slide 31. A correct resolution of the conflict would be to narrow the language for RO sole authority as recommended in response to Question 10 above. In addition, the Six Cities request further explanation of the reference to "associated documents" on Slide 33.

13. Please provide feedback on the proposed options for dealing with overlapping authority with suggestions for other possible options.

Six Cities' Response: The Six Cities support implementation of a process for joint review and approval by the RO Board and the CAISO Board for addressing provisions subject to overlapping or shared authority. It would not be appropriate to "simply port" decisions involving shared authority to the RO Board.

General feedback:

14. Do you have any additional feedback you would like to share with the Launch Committee on these topics?

Six Cities' Response: The Six Cities have additional feedback on two topics.

With regard to tariff structure, the Six Cities do not oppose the working group's suggestion to retain a single, integrated CAISO tariff at the inception of the RO, at least for an interim period. However, if the RO evolves to offer services beyond energy markets, it is likely to become increasingly cumbersome to include provisions relating to such services in the CAISO tariff, especially if such services do not apply to the CAISO balancing authority area. Any timeline for transition to expanded service offerings should consider the potential need to establish separate tariffs for the CAISO and the RO.

In addition, as various elements of the RO proposal evolve, the Six Cities urge the Launch Committee to remain focused on the multiple roles that the CAISO will have with respect to the Western Energy Markets as well as operation of the transmission systems committed to the CAISO's operational control and the CAISO balancing authority area. The Six Cities support efforts to ensure independence of decision-making with respect to market rules for the energy

markets that will apply to all market participants. But independence of decision-making with regard to market operations should not limit the CAISO's authority in its roles as transmission provider, transmission operator, and balancing authority. The CAISO should retain the same decisional authority, tariff authority, and operational flexibility available to other transmission operators, transmission providers, and balancing authorities when acting in those capacities, and the RO framework should respect that principle.

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