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Public Power Statement of Principles On CAISO Market Expansion

INTRODUCTION

There are number of utilities that operate existing Balancing Areas (BAs) in the West that are either joining or contemplating joining the California Independent System Operator Corporation's (CAISO) Energy Imbalance Market (EIM). Importantly, PacifiCorp is also evaluating transitioning to full Participating Transmission Owner (PTO) status in the CAISO's organized market and consolidating its BA into the CAISO BA. It is likely that there will be additional utilities that join as PTOs. Publicly Owned Utilities (herein referred to as POU's or Public Power), who may have their own BA or be Transmission Dependent Utilities (TDUs) inside a third party BA, in the Western Interconnection, are concerned about how this will impact our existing arrangements for supplying electricity to our customers. POU's in the West recognize that each utility that is a BA has the right to decide with its wholesale and retail customers how it wants to engage in the Western markets, including participation in organized markets.

The POU's support a full and on-going evaluation of the CAISO EIM. The EIM is still in its early stages with only two EIM entities operational, and the currently planned expansion of EIM participants deserves a continuous and thorough evaluation. Many POU's are currently evaluating the potential benefits of participation in the CAISO EIM and additional analysis will allow them to make a more informed decision.

The CAISO and PacifiCorp are exploring the implications of fully integrating PacifiCorp into the CAISO, and the CAISO is performing a series of studies and analyses to asses those implications, as directed by the California legislature and its Governor. Public Power is concerned that the current timeline for this effort, in parallel to the operational aspects of additional EIM entities already on-schedule to join the CAISO EIM, is creating a situation where the regionalization effort will receive inadequate analyses – particularly in the area of potential impacts to existing load and resource arrangements across the West that would be directly impacted by the regionalization as currently proposed.

Public Power does not believe it is prudent to ask the California legislature to consider this very significant step without a more complete analysis than the CAISO's current timeline will permit. Similarly, if the regionalization effort moves forward on the CAISO's current schedule, a number of Western state Public Utility Commissions (PUCs) will be asked to approve this "merger" without a foundational factual analysis of the costs, benefits, and potential impacts to their state's consumers whom they are charged with protecting.

Public Power encourages the CAISO to consider a broader, more fair and open stakeholder process that would support a West-wide analysis which could then be the factual basis for

the California legislature's consideration of this matter, as well as the subsequent review by state PUCs. Absent this more thorough analysis, Public Power is concerned that the current pace will only generate opposition and litigation that will prevent the CAISO from achieving the objectives its current timeline was established to achieve.

POUs in the West have identified four areas we believe deserve this deeper discussion:

1. Future governance model for the CAISO as it expands beyond California
2. Treatment of resource adequacy (RA)
3. Transmission access issues, including cost allocation and access rules between the expanding CAISO footprint and non-participating market participants.
4. Allowance of a transition period in order for entities to address stranding of existing assets and realigning of commercial arrangements that may be displaced by CAISO expansion.

GOVERNANCE

If a regional Independent System Operator within the Western Interconnection were to be established, Public Power supports the formation of an independent Board of Governors ("Board") that would govern any regional entity that operates in states in addition to the boundaries of the current CAISO. If the State of California makes statutory changes necessary to reform the governance of the current CAISO, Public Power strongly recommends the following principles for any new Western ISO.

"Independence" is not the only hallmark of sound governance. Any properly structured Board and appurtenant committees must ensure accountability, openness, accessibility and responsiveness to consumers and market participants. Additional structural protections, as described herein, are therefore required beyond the creation of an "independent" Board for a regional ISO to be successful. Further, there will have to be instilled an organizational culture that reflects the sometimes competing energy policy objectives of the states that make up the Western Interconnection.

Board Size and Composition

While many possible Board compositions (state appointed, stakeholder, non-affiliated) may meet the independence criterion, the most practical approach is likely to be a non-affiliated Board, consistent with the designs of other ISO's and of the EIM Governing Board. Generally, this means that Board members must not have financial interests in individual market participants and have met a minimum level of ethical conflict of interest checks. Public Power recommends that the Board be sized appropriately, likely seven or more members, to allow the Board to be diverse. In this context, diversity means diversity of professional experience and geography, industry backgrounds, expertise, and gender/ethnic/cultural. Emphasis should be given to ensuring representation across subregions within the Western Interconnection. A strong preference should be given to candidates with experience within the Western Interconnection. Any Board member must, first and foremost, have a fiduciary duty to the ISO.

Subject to further consideration, Board governance and meetings should be conducted along the lines utilized in the Southwest Power Pool (SPP), where the meetings ordinarily include the Members Committee and representatives from the body of state regulators as described below.

Committees/Advisory Bodies

Absent additional checks and balances, merely constituting an independent Board does not ensure sound governance. Additional measures designed to allow for sufficient input from members and state commissions will greatly improve the likelihood that consensus is reached prior to submission of proposals to FERC. Additional measures such as instilling a culture of “dispute avoidance” should be considered to ensure that resolution of differences among ISO members takes place within the stakeholder process, rather than within a FERC docket.

Market/Member Advisory Committee

Consistent with other Regional Transmission Organization (RTO) governance structures, Public Power recommends a strong Market or Member Advisory Committee. This Committee would consist of market participants that have direct financial interests in the market operation through ownership of electric power or transmission assets, or load serving responsibilities. This Committee would not have decisional authority, and could not veto or modify ISO Staff recommendations, but would be a formal advisory channel to provide opinion and counsel to the ISO Board itself. Subject to further consideration, this Committee should be modeled along the lines of the Members Committee utilized in SPP.

In SPP, the Members Committee provides both individual and collective input to the Board of Directors. This provides a direct indication to the Board, in a public forum, of the views of the Members Committee, and provides clear feedback to the Board of the ISO Staff’s ability to resolve disputes before they arise.

Representatives on the SPP Members Committee cover a diverse array of interests, including investor-owned utilities, cooperatives, municipal utilities (including joint action agencies), independent power producers/marketers, state power agencies, a Federal Power Marketing Agency, alternative power/public interest, an independent transmission company, a large retail customer and a small retail customer.

One benefit of this type of committee structure is that it forges a working bond between the ISO organization itself and its market participants, resulting in a great deal of consensus on matters and making it a rare event when the Board formally considers a matter that does not have broad Member support.

Whether through the Market or Member Advisory Committee or in a separately but similarly constituted committee such as the SPP Corporate Governance Committee, market participants or members should comprise the nominating committee and select Board

members on a going forward basis.

The Role of the States

Public Power supports a strong role for the states on key market design issues, particularly in matters that are directly relevant to state jurisdictional issues. At least two such issues are: (1) Resource Adequacy; and (2) Transmission Cost allocation. Each of these issues greatly impacts state procurement and siting jurisdiction, respectively.

Subject to further discussion and consideration, Public Power believes that it should be difficult for a regional ISO to make significant policy changes absent strong concurrence from the States. We stop short of formal approvals, but other tools should be considered that bound the regional ISO's authority in key areas. While not limited to a particular vehicle, tools such as requiring the ISO to assume a Section 206 burden of proof when not acting in accord with state consensus should be considered.

An organized body of state regulators for each of the states in which the ISO operates transmission is essential.¹ The composition and responsibilities of this body of regulators is a subject for further discussion. This body of regulators could be fashioned along the lines of the SPP Regional State Committee (RSC).

Under the SPP bylaws, the RSC has "primary responsibility for determining regional proposals and the transition process" for specific issues: the use of participant funding for transmission enhancements, the type of rate used for transmission access charges, and Financial Transmission Rights (FTR) allocation. Moreover, the RSC determines the approach for resource adequacy across the region, whether transmission upgrades for remote resources will be included in the regional transmission planning process, and the role of transmission owners in proposing transmission upgrades in that process. The RSC also has a standing Cost Allocation Working Group to address this sensitive and critical issue. This body of regulators would serve an advisory role on all issues, but play a critical component on decisions in enumerated issue areas.

While there are differences between the SPP and ISO regions, the SPP organizational structures provide a good starting point to develop governance for a broader ISO encompassing other portions of the Western Interconnection.

Thought should also be given to whether Public Power should be represented in any Body

¹ In addition to a committee of state regulators, SPP bylaws explicitly allow for state regulatory commission participation. Section 7.0 states that: "Any regulatory agency having utility rates or services jurisdiction over a Member may participate fully in all SPP activities, including participation at the SPP Board of Directors meetings. These representatives shall have all the same rights as Members except the right to vote. Participation includes the designation of representatives by each of the regulatory jurisdictions to participate in any type of committee, working group, task force, and Board of Directors meetings."

of State Regulators, given that in most states Public Power entities are not jurisdictional to the state utility commissions. Yet, major Public Power transmission owners, including agencies of the federal government, operate substantial portions of the grid in the Western Interconnection, and how their interests will be considered will likely be a key consideration as they assess whether to participate in any regional ISO.

Durability of Energy Imbalance Market Governance

The PacifiCorp/ISO presentation of February 10, 2016, opened the discussion on whether there would continue to be a separate Energy Imbalance Market Governing Body if and once an independent Board is set up for a regional ISO as a whole. It is our strong view that the EIM Governing Body should continue to exist as currently structured and empowered, so long as the EIM is a separate market offering, and there are EIM Entities that have chosen not to become PTOs. For all practical purposes, the EIM is the only regional market collaboration that many Balancing Authority Areas (BAAs) may consider. Continued separate governance is a key indicator to assure existing EIM Entities and those considering future participation in the EIM that the EIM is a durable market operation and one that won't be dissolved if a full "Day-Two" Market operates across multiple states in the Western Interconnection. Public Power recommends that affirmative protections for the durability of the EIM be included in any new ISO bylaws.

RESOURCE ADEQUACY

The different regions in the West have developed resource sufficiency/adequacy requirements that both meet their regional needs and ensure compliance with the North American Electric Reliability Corporation (NERC) standards. The CAISO has developed a set of Resource Adequacy (RA) rules in accordance with the RA requirements set under California law and local authority regulation. As the CAISO looks to expand its market footprint, the POUs in the West recommend the following be considered:

- It is recognized that those entities that elect to join the CAISO BAA will be subjected to the RA standards adopted and prescribed in the CAISO Tariff. However, for those entities that are not joining the CAISO BAA, individual entity or state regulator decision-making regarding RA, as long as it meets the applicable NERC standards requirements, should be respected.
- RA should incent entities to procure and transparently assure the system can be operated reliably and equitably.
- RA should be structured to incent availability of adequate capacity to limit unnecessary price volatility and minimize use of price caps and CAISO purchases without resorting to centralized mandatory capacity markets.

- There should be proactive efforts by the CAISO and interested parties at the market interfaces to promote voluntary participation of resources across these interfaces, which should minimize both economic and environmental impacts.

TRANSMISSION ACCESS

Parties in the West have developed long standing contractual and operating arrangements to ensure transmission access for serving load. As the CAISO looks to expand its organized markets, the issue of flow-based vs. contract-based transmission access will become a greater regional issue. This issue was addressed initially during the creation of the CAISO and later through its market redesign process, where it moved from a zonal market to a locational marginal pricing market structure within California. The lessons from that experience should be considered to minimize impacts to those parties who voluntarily or involuntarily become part of the CAISO organized market or EIM or who become neighboring BA's to the CAISO footprint. The POU's in the West recommend the following be considered:

- Pursue collaborative solutions between the CAISO and neighboring BAs to address seams issues in ways that equitably benefit their transmission customers. These include:
 - Cost allocations
 - Recognizing and respecting existing transmission priorities
 - Recognizing and respecting existing long-term transmission and bilateral contracts, reserve sharing and other resource arrangements of load-serving entities
 - Ability to bid at interties
 - Reconciling differing scheduling timelines that create liquidity issues at intertie points
- Ensure economic benefits are properly allocated to entities that fund, or have funded, transmission facilities.

Transition Period

The POU's support the consideration of a transition period immediately following any BAA's integration into the CAISO as a PTO to provide a period of time to address stranded costs and to realign commercial arrangements impacted by the expansion of the CAISO footprint. Such a transition period has a precedent as one was used during the initial launch of the CAISO. The POU's believe it is necessary to use a similar approach as the CAISO considers expansion in order to protect customers impacted by such a transition. The POU's' specific concern is with loads currently served by resources delivered pursuant to OATT transmission service where the market seams will be re-positioned by the CAISO expansion and interjected in between the load and the resource(s) serving that load.