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AWEA-Interwest-Renewable Northwest Comments on Regional Grid Operator Governance

Additional submitted attachment is included below.

AWEA, INTERWEST ENERGY ALLIANCE AND RENEWABLE NORTHWEST COMMENTS ON REGIONAL GRID OPERATOR GOVERNANCE PRINCIPLES

The American Wind Energy Association (AWEA), Interwest Energy Alliance, and Renewable Northwest appreciate the opportunity to offer comments on key principles for regional grid operator governance in the California Energy Commission's (CEC) docket addressing this issue. AWEA, Interwest, and Renewable Northwest are supportive of a transition to a regional grid operator, as a regional market structure should allow California, and other western states, to more readily access some of the highest quality and lowest cost wind in the country to efficiently achieve renewable portfolio standards and clean-energy goals. Below, AWEA, Interwest, and Renewable Northwest offer comments on six general areas of regional grid operator governance that need to be considered as a new governance structure and associated transition plan are developed.

1. Level of Specificity Contained in the California Legislation that will Enable a Governance Transition

AWEA, Interwest, and Renewable Northwest believe that the California legislation enabling the California Independent System Operator (CAISO) to transition to a regional grid operator, with a new governance structure, should not be overly specific. The legislation should provide boundaries and principles that must be adhered to in a new governance structure, but should allow many key details to be developed outside of the legislation, through such mechanisms as the grid operator charter and bylaws, as well as its tariff. Including too much specificity in the legislation will preclude those working on transitional governance from finding creative solutions to address the concerns of California, other states, and various stakeholders. AWEA, Interwest and Renewable Northwest also believe that the legislation must allow for a transition period as new governance is enabled, but should not be overly prescriptive in defining exactly what the transition should entail.

2. Need for a Transition Period

In order for the CAISO to transition to a regional grid operator, a "transition period" will be necessary. While it will be important to keep the structure of the transition as simple as possible, it is also critical to begin defining the transition plan in a timely manner. The general principles of the transition plan will be critical to the establishment of the first board of the new regional grid operator and, therefore, will be of the utmost importance to California, other states, and industry stakeholders.

AWEA, Interwest, and Renewable Northwest encourage the CEC, the CAISO, and others to look to examples of other organizations that have transitioned their governance structure for ideas to help shape a transition plan. Of course, the establishment of the governing body for the Energy Imbalance Market (EIM) can offer significant guidance, with some modification. It may also be beneficial to explore, and borrow elements from, the transition plan used by the Western Electricity Coordinating Council (WECC) when it bifurcated and created a fully independent board and the parallel process used to create Peak Reliability. Applied to a transition to a regional grid operator, a WECC/Peak-style transition plan might establish an interim committee that is given authority to define the regional grid operator's bylaws (within the bounds established in applicable laws) and also for nominating board members to the regional grid operator's first board. This "interim committee" could include one or more existing CAISO Board members, along with representatives from other states and industry stakeholders. This type of structure would ensure that California's voice is represented as bylaws and initial board members are selected but would also provide a voice for industry stakeholders and representatives from other states. AWEA, Interwest, and Renewable Northwest encourage exploration of an interim committee concept, along with consideration of other transition plans.

3. Board Composition, Conduct, and Role

Members of the regional grid operator's board must be financially independent from market participants. Based on AWEA, Interwest, and Renewable Northwest's collective experience, a board of seven to nine members is the appropriate size to govern the start-up and operation of a regional market. Governing documents should establish protocols and procedures to ensure that the board operates in a transparent manner. To reflect the diversity of the region and the electrical grid, the board's composition should reflect a balance between diverse regional

representation and diverse technical expertise. Furthermore, it will be important to ensure that the board includes collective experience across the affected Western areas and also from outside of the region.

Finally, the governing documents should specify that the board's role is not to set energy policy. The board should be focused on operations of the regional transmission grid, functioning of the regional market, and transmission planning that respects and enables implementation of the energy policies established by the states.

4. Role of State Regulatory and Energy Policy Participants

In order for a regional grid operator to be successful, there needs to be a meaningful role for states that are a part of the regional grid operator's market. Therefore, it should be a priority to ensure, in legislation and elsewhere, that the states are provided with assurances that each state will retain authority over its retail rates, resource mix requirements, generation resource planning, and, where applicable, transmission siting. States and state regulatory agencies should be reassured that those key functions will remain in their jurisdiction.

Additionally, a formal "state regulatory committee" should be established. This committee should ensure that states are given a meaningful and active role at the regional grid operator by taking the best aspects from other state regulatory committees, such as the Organization of MISO States (OMS), Organization of PJM States, Inc. (OPSI), and SPP's Regional State Committee (RSC).

In order to ease concerns of states across the interconnection, the state regulatory committee may require more than an advisory role. A formal voting role and specific rights for the state regulatory committee may be necessary. When the time is right to explore voting structures for a state regulatory committee, AWEA, Interwest, and Renewable Northwest encourage exploration of multiple voting structure options. One structure that deserves exploration is the model used by the Western Interconnection Regional Advisory Body (WIRAB) which, for formal actions, requires the affirmative vote of at least one-half of the voting members and those members must represent at least one-half of the load in WIRAB.

A formal role and authority for the state regulatory committee in a regional grid operator could take many forms. Some regional grid operators give the state regulatory committees Section 205 filing rights (e.g. SPP and, in a more limited capacity, MISO). Other options include allowing the state regulatory committee to have the right to approve proposals of the regional grid operator before they are filed with FERC. At this time, AWEA, Interwest, and Renewable Northwest do not have a preference on which method is used but reiterate that providing states with an adequate and active role in the regional grid operator will be critical.

5. Structure and Role of Other Committees

Beyond a state regulatory committee, other advisory committees such as a stakeholder committee, and a consumer advocate committee should be considered. Regional grid operator committees, while important, are only one part of a successful grid operator, thus the organizational structure must ensure other key functions, such as market monitoring, are included and adjusted, as necessary, for a regional organization.

The number and size of the committees should be manageable and should ensure the ISO's current practices that allow for broad stakeholder input are not diminished. Therefore, at this time, AWEA, Interwest, and Renewable Northwest do not believe that it is necessary to replace the CAISO's existing stakeholder process with a formal committee structure. Nevertheless, additional committees will be necessary under a regional grid operator structure.

AWEA, Interwest, and Renewable Northwest support the development of stakeholder-level committee to provide the board with advice and guidance. Generally, the role of this committee should be advisory, and it should not have a formal role in approving any proposal from the regional grid operator, though the committee (or its predecessor) may have a role in organizational transition and nomination of board members. It may be necessary for stakeholders to become more formal "members" of a regional grid operator to participate in the stakeholder committee and the nomination of board members. However, such "membership" should be broad and should encompass the numerous stakeholder interests that are represented at the CAISO today.

As the role and structure of a stakeholder committee is established, AWEA, Interwest, and Renewable Northwest believe it will be critical to ensure that there is a role on the stakeholder committee for renewable generators/renewable developers and for independent power producer interests. It is necessary to have separate voices and roles for independent power producers (as opposed to utility owned generators) and for renewable generators (as opposed to conventional generators) to ensure the unique perspectives of these stakeholders are heard. The structure of the EIM transitional committee may be a reasonable starting point for the stakeholder committee, though it would require some modification to ensure adequate representation of key stakeholders, such as consumer advocates (if they are not otherwise represented on a committee of consumer advocates).

As discussed in the previous section, it will also be critical to have a state regulatory committee. Other committees may be important as well, such as a committee of consumer advocates. However, there should not be too many committees as they could increase the complexity of organizational governance. AWEA, Interwest, and Renewable Northwest suggest looking to existing ISO/RTO structures to determine which other committees are necessary and where committees might be able to be consolidated to ensure efficiencies are gained, but critical voices are not lost.

6. Compensation for Committees

Once the necessary committees for a regional grid operator are determined, a decision will need to be made about whether funding will be provided to some or all of the committees, what level of funding would be provided and whether funding would include staff support from the regional grid operator. While compensation from the regional grid operator may be critical to the success of committees (and, thus, the success of a regional grid operator), the effect on operational costs of the grid operator must also be considered. All costs used to fund committees will likely increase operational charges for the regional grid operator and would need to be recovered in the Grid Management Charge, which would ultimately be funded by ratepayers. It will be critical to ensure that there is an appropriate balance between success of the committees and ratepayer impacts associated with funding committees.

Therefore, in developing compensation structures for the various committees under a regional grid operator, the models that have been successful in other ISOs and RTOs should be evaluated. Many ISOs and RTOs have established funding mechanisms to pay for state regulatory committees. For instance,

- In MISO, the OMS receives operational funding, including funding for a small support staff through the MISO's tariff.
- PJM's OPSI also has a small staff and is funded through the PJM tariff.
- In SPP, the RSC receives funds from SPP to cover meetings and travel expenses and to enter into contracts with consultants or counsel, as necessary.

Peak Reliability and WECC may also be an example for compensation for other types of committees. For certain committees, both Peak and WECC will provide, when necessary, funding for travel expenses for Member Advisory Committee members to attend meetings. AWEA, Interwest, and Renewable Northwest encourage a review of other ISOs and RTOs for guidance on compensation to committees established as part of the regional grid operator.