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Comments of Environmental Defense Fund

Additional submitted attachment is included below.

There are environmental benefits to markets, but the way markets are designed is important – fair and transparent markets are essential to ensuring optimal integration of low-cost clean energy resources. This, in turn, is largely a function of the regional ISO’s governance and how it interacts with the states. As Californians, we want to design a market that supports the continued transition toward clean energy and away from carbon intensive fossil generation, but we need to do so in a way that will encourage other states to participate in the creation of market in the West. To this end, we believe the following high-level principles should inform ISO governance and the transition to a regional ISO:

- *The market must support renewable and demand-side resources and facilitate renewable integration at a lower cost.*
- *The development of a Western energy market must support California and other state’s climate and air quality goals.*
- *California must retain control of its ability to pursue innovative renewable and demand-side management policies. Thus, ISO must support California’s - and all states - ability to pursue their own policies.*
- *To encourage other states to join, we must have a fair and balanced governing structure, with no special control by any state, clear paths for stakeholder involvement (and compensation), and transparent processes.*

We therefore recommend the following:

As California wants to control its procurement, the regional ISO must acknowledge and respect the continuing rights of all states involved to oversee and guide resource procurement by their utilities. As stated in the paper presented by Washington Utilities and Transportation Commissioner Ann Rendahl at the May 6th workshop, “Decision-making should be ‘bottoms up,’ meaning that individual States continue to set their own policies wherever possible...” **The enabling legislation should also explicitly disallow¹ capacity markets, which can interfere with state-determined procurement.**

ISO Board: In traditional ISO boards, “sectors” ratify independent board members and vote on other significant ISO matters. These sectors typically include a representative array of stakeholders, including alternative power and environmental interests, in a fair and nondiscriminatory manner. It is foundational and necessary that *the process by which sectors engage and elect representation is both meaningful and not susceptible to marginalization.* California should also ensure² that real/tangible policies are put in place to protect and benefit

¹ I.e. condition California IOUs participation upon this requirement

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consumers and end-users in each of the covered states. The ISO stakeholder advisory board(s) should include renewable energy, demand-side, and environmental experts, as well as experts on consumer and labor issues.

California can support renewables regionally in an organization of states where all participating states are fairly represented. *This requires some active and meaningful role for all states in a regional decision-making body with fair representation by all states. We agree with Commissioners Rendahl and Florio that, “only those matters that must be decided at the ISO level should be the province of the governing board of the regional ISO, and those decisions should respect state policy priorities...”³ The board of state regulators should have FERC Order 205 filing rights on certain key issues.⁴*

California should use its procurement authority to support renewables locally and encourage, but not require, renewable energy development in other states. This means that California utilities acquire a *substantial amount of renewable generation under SB 350 (De Leon) that is either in state or delivered directly to California as well as more renewables from the larger regional electricity grid.* And it means ensuring that the regional market and future demand forecasts take into account the considerable growth of distributed generation, rate-design, and other demand-side resources in California.

Though we believe that the regional market is likely to advance the closing of coal power plants in other parts of the West, **the development of a Western energy market must support California’s climate and air quality goals.** *At a minimum, coal-generated electricity must be kept out of California, and we must ensure that gains made in California are not offset by increases in the carbon produced elsewhere in the expanded ISO. It is critical to ensure that air quality in California is not be diminished as a result of the regionalization, especially in environmentally sensitive areas and communities already saddled with heavy pollution burdens. We support a mechanism similar to the GHG adder in the EIM being applied to the day-ahead market with significant transparency to keep coal-generated electricity from coming into California.*

We recognize that this will be a multi-year transition, with important decisions being made before and after California’s individual process. Many issues will need to be resolved through conversations with other states after California’s legislation. It is critical that we get the right – if simple - legislative framework in place that meets the needs of California and other states. Doing so may not be possible by August and we strongly recommend that decision makers not feel constrained by this timeline.

Thank you for considering these comments. If you have any questions, please contact Lauren Navarro at lnavarro@edf.org or (916) 492-7074.

³ Commissioner Rendahl, http://www.energy.ca.gov/sb350/regional_grid/documents/2016-05-06_documents.php

⁴ Commissioners Rendahl and Florio, http://www.energy.ca.gov/sb350/regional_grid/documents/2016-05-06_documents.php