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CALIFORNIA ENERGY COMMISSION

LEAD COMMISSIONER WORKSHOP

In the Matter of:  ) Docket No.
) 16-RGO-01
) }
) }
Regional Grid Operator and  ) WORKSHOP RE:
Governance  ) Regional Grid Operator
_____________________________  ) and Governance

CALIFORNIA ENVIRONMENTAL PROTECTION AGENCY HEADQUARTERS

BUILDING -- BYRON SHER

AUDITORIUM

1001 I STREET,

SACRAMENTO CA, 95812

FRIDAY, MAY 6, 2016

9:30 A.M.

Reported by:
Kent Odell
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Karen Douglas, Commissioner, California Energy Commission

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Cliff Rechtschaffen, Senior Advisor, Governor Jerry Brown's Office
Liane Randolph, Commissioner, California Public Utilities Commission

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Dan Shonkwiler, Lead Counsel, California ISO
Commissioner Michel Florio, California Public Utilities Commission (CPUC)
Commissioner Ann Rendahl, Washington Utilities and Transportation Commission
Ron Binz, consultant to Hewlett Foundation
Tony Braun, representing California Municipal Utilities Association
*Steve Kozey, MISO Participating via WebEx

Panel Moderator:
Rebecca Wagner, Energy Imbalance Market Transitional Committee and Former Commissioner, Public Utilities Commission of Nevada
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Mark Smith, Vice President Governmental & Regulatory Affairs, Calpine

Dede Hapner, Vice President FERC & ISO Relations, Pacific Gas & Electric

Marc Joseph, Shareholder, Adams, Broadwell, Joseph & Cardozo

Carl Zichella, Natural Resources Defense Council

Kevin Woodruff, Consultant to The Utility Reform Network (TURN)

Tom Darin, Western Regional Representative, American Wind Energy Association

Rachel Gold, Policy Director, Large-scale Solar Association (LSA)

Public Comments (* Via telephone and/or WebEx)

Fred Heutte, Northwest Energy Coalition

Eusebio Arballo, SDG&E
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Dede Hapner, Vice President FERC & ISO Relations,
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MR. BARKER: So Chair Weisenmiller just to let you know we have to do a couple of housekeeping remarks, if you don't mind.

Thanks everyone for coming to the Regional Grid Operator and Governance Workshop here today hosted today by the Energy Commission and Governor's Office.

I've got a few housekeeping remarks. The first one is the microphones on WebEx are coming in a little bit soft, so if you don't mind speaking directly into the mics that's going to help the folks that are online.

The workshop is being recorded. A copy of the recording will be available on the Regional Grid Operator and Governance Website a few days after the workshop. And the notice will be sent to the listserv.

Information about this proceeding is generally sent to those who have joined the Regional Grid Operator and Governance ListServ. There's a handout on the table just outside this auditorium with instructions on how to join the ListServ. Only this list will receive emails on the topic.

For those of you in the auditorium if you wish to make public comments at this workshop please fill out a blue card and give it to the Public Adviser, who is in the
back left corner. She will then deliver them to Chair Weisenmiller who is chairing this workshop.

Speakers will be called to the podiums. This is starting around 2:30 today on either side, so we're going to try and start to line folks up -- one on the right, one on the left -- to be efficient.

During public comment after the stakeholders in the room have made their comments we will call on WebEx participants who have indicated through the "raised hand" feature that they would like to take comment. We will unmute the phone lines for each caller as we call on them. Please be aware that if using this feature your hand will remain raised until you remove it.

Alternatively, please send a private message to the WebEx host stating that you would like to speak so we may call on you.

We'll also have a three-minute timer on the screen for all comments.

It helps us to know who's here at this meeting, so if you somehow dodged the security badge sign-in process at the designated table for this workshop downstairs we'd appreciate you signing in on the sheet outside to be circulated. Or please provide a business card if you prefer.

Finally, I'd like to share some evacuation
information for this building. Please look around now and identify two exits closest to you. In some cases, an exit may be behind you. In the event of a fire alarm we are required to evacuate this room. Please take your valuables with you and do not use the elevators. While staff will endeavor to assist you to the nearest exit you should also know that you may find an exit door by following the ceiling-mounted exit signs.

Evacuees will exit down the stairways and possibly to a relocation site across the street. If you cannot use stairs you will be directed to a protective vestibule inside the stairwell. Should we have to relocate out of the building please obey all traffic signals and exercise caution crossing the street.

Quickly, to just touch base on the agenda, we'll start with opening remarks from the dais. We'll then move on to presentation of Governance and Corporate Framework from Dan Shonkwiler from the ISO.

We have four papers on governance, which will have a panel for them to go through their papers, their thoughts and we'll take questions starting with the dais. If we do have any extra time we may be able to open it up to the audience, but we're going to start with the dais.

We then will finish with the WebEx participation on the MISO's Structure. That will be at 11:45 to 12:00.
We'll take a one-hour lunch break and then we'll come back for our afternoon panel. That panel will last about an hour and a half and then we'll go to public comment and next steps.

With that, I'll turn it over the Chair Weisenmiller for opening remarks. Thanks.

CHAIR WEISENMILLER: Good morning. I'd like to thank everyone for being here today.

I think we have all seen in the past ten years a real revolution in the power sector from renewables. And we've probably been at any number of occasions that we keep talking about the implications of that change for utilities, for power markets, for all the ecosystems associated.

And at the same time I've always wondered, "Well, what about the regulators?" You know, I mean or that silos of staff's ecosystems of intervenors. It's like, is there any reason to think that tide of change isn't going to scrape through there?

And actually one of the things that SB 350 does is it structures a historic opportunity for a potential transformation of the CAISO to a more regional entity. And so again it's sort of almost heartening that that institution is actually trying to respond to the changes of the times while the rest of us are still trying to move
forward and think through the implications.

And thinking back on really what we're dealing with today, I'm thinking in part back to the symposium we had at the CAISO and a couple of the remarks of Travis Kavulla. I don't think anyone can actually channel Travis particularly well. But having said that, Travis's observation was that what we're really talking about here is a 21st century IT system. I mean, there's all the overlays of California, CAISO, etcetera, you know, all the historic backs-and-forths.

But fundamentally what we're providing an opportunity for the rest of the West to really move to an IT system of the type it would need, to deal with increasing levels of renewables and to take advantage of that.

Now, having said that the other thing that Travis really noted was having gone through EIM, "Energy Imbalance Market," and seeing the transformation there. The potential cost savings are stunning. And as we go forward, and certainly when we look at more of the sort of partnership that PacifiCorp is talking about in terms of joining the ISO, it's like EIM on steroids. Potentially you're affecting commitment and not just dispatch.

Now obviously as we noted today, the cost benefit studies structured under 350 are not really the purpose of
today, but I think Travis's point was that looking at those potential savings regulators have to wonder what is their role and mission if they ignore those? You know, again it's sort of we're all struggling on how do we deal with utility costs or rates? And having said that how could a regulator not take advantage of potential cost savings?

And the answer is pretty clear. In a way it's back to governance issues. Certainly California has a substantial investment in CAISO. It's a key part of our system of going forward on renewables, but it's very much a California institution at this point. Looking at Governance it was pretty clear from the EIM Transitional Committee conversations; it has to really change into much more of a regional entity. But in that transformation it really needs to continue to respect and enforce California's environmental policies.

And at the same time we have to recognize that those policies are not the policies of every other state in the West. And we have to respect those differences, going forward. But we need to come up with a way on the governance to really make it work. And if we can't then obviously those savings won't be achieved or a potential savings won't be achieved. And so today is an attempt to start the conversation, we have a number of esteemed panelists.
We also have a follow-up conversation. And this conversation is just the first of what I'm sure will be many. Today's focus is very California-centric. As we go forward there will be other venues and means that continue the conversation across the West. And certainly we want people deeply involved in those conservations.

Cliff, would you like to say words?

MR. RECHTSCHAFFEN: Thank you very much, Chair Weisenmiller, and thanks for spending Friday talking about this topic.

Thanks for Cal/EPA letting us have their building. Actually, I have an announcement to make that the Regional ISO will take over this Cal/EPA building, its beautiful auditorium. We don't want to have to go to Folsom for meetings. I just thought I'd surprise people with that.

Chair Weisenmiller talked about some of the real opportunities, economic and environmental, we have with regionalization. It's been a priority for Governor Brown and it's of great interest to stakeholders here and regulators and stakeholders throughout the west. This is a really big deal, and it's getting the attention that it deserves.

Governance, we've heard over and over is a critical issue in moving forward. The Legislature here
made it extremely clear that it wants to see and approve any governance change before the current ISO is turned into a Regional ISO. And that's totally appropriate.

I want to just take issue a little bit with -- not take issue, but just have a friendly amendment to something that the Chair said. This is a California meeting, but I don't think the focus is solely on California. We're going to hear regional perspectives.

And in fact a lot of the presenters, their papers and their ideas, are ones that are important to the other states and take into account some of their considerations; and where we will end up having to land on a structure that meets the needs, both of California and the other states.

Just for a second to put this into context, this is part of a process that's been happening for a number of months. It's going to continue to happen until any legislative changes are enacted in California.

Starting as early as six months ago the Public Utilities Commissioners and other regulators from other states started meeting to talk about ideas for what regional governance should look like. And you'll hear from Commissioner Rendahl about some of that. But they've been thinking about how to best protect state interests and how to best mesh state regulatory approaches with a Regional ISO. So that's been ongoing and their input and insights...
is very, very valuable. Our office, the Governor's Office, has been meeting with other state governors' offices and other energy advisers to feel out the priorities and issues of concern to the other states that would be in a Regional ISO. And those meetings will continue.

And as many of you know we had a big meeting yesterday. We've had an internal stakeholder process convened by the Legislature. We had a meeting yesterday and this issue is part of that discussion; will continue to be part of that discussion. And as Bob mentioned after this workshop we will probably have other public venues, either through the Legislature or otherwise to continue talking about this issue.

The last point I would make is that at this point there are no specific proposals that we know are going to do the trick. We're talking about concepts, high-level concepts in a number of critical areas.

And I think the presentations and the roundtable afterwards should be seen in that venue. We're throwing out ideas. Some will work, some may not. Some need further discussion. But in that spirit we wanted to get the discussion moving forward. So we welcome your participation here.

I want to thank especially our folks from out of state, who came to join us to speak or to listen to us.
Thanks very much.

COMMISSIONER DOUGLAS: Hi. Good morning,
Karen Douglas from the California Energy Commission. I just wanted to join the Chair and Cliff in welcoming everyone here. I'm really looking forward to today's discussion.

As the Chair said we are in a tremendously transformative moment in the electricity sector. We've seen the changes, we see what's coming, and we understand that the regional dialogue and just thinking through regional issues including governance is something that we need to focus on.

So I'm very happy to be here. I'm looking forward to the presentations and the comment today.

CHAIR WEISENMILLER: Okay. Let's start with the first presentation, Dan.

MR. BARKER: Real quick, just before we jump in to Dan, I'd like to recognize that we have two Commissioners from the Public Utilities Commission here. Commissioner Florio is in the audience; he's going to be joining us actually on the first panel after Dan's presentation. And we have Commissioner Randolph here, who's joining us on the dais right now. Thank you.

COMMISSIONER WEISENMILLER: Thank you.

MR. SHONKWILER: Good morning, I'm
Dan Shonkwiler. I'm an in-house attorney at the California ISO. It's a privilege to address you this morning and to assist with this workshop and to begin Friday morning discussing several of my favorite legal topics.

The reality is that any discussion about corporate governance, let alone a discussion about changing the governance of the ISO, with all of the energy regulatory overlay that brings, is an inherently legal discussion. The discussion is going to center on concepts and legal concepts and legal precedents. And my purpose today is to make sure that everybody has a background in those key concepts and precedents.

I'm going to keep it at that high level and not get into how to apply those concepts to regionalization or analyzing just how far the precedents might be expanded. I will note that my presentation is designed to facilitate future research and analysis by others, because it includes in almost every case, the citations to the key precedents at the bottom of the page.

There are four issues that commonly come up in any discussion of ISO regional governance. They are: the current California statutes that regulate ISO governance, FERC authority over ISO governance, and then in particular among the Federal Power Act issue, Section 205. And finally, the ISO's tax-exempt status is something lurking
in the background that people ought to be aware of.

In terms of California statutes the most important one is the section of the Public Utilities Code that controls membership on the ISO Board. It says -- Section 337 says that, "ISO Board members will be appointed by the Governor of California subject to confirmation by the Senate."

Now it's important to understand that SB 350 contemplates that this section would be repealed at the end of the process laid out by the Legislature. And that process is the ISO would do impact studies, will be a public workshop on the outcome of those studies and also proposed governance. The Governor would transmit the plans and the studies to the Legislature for consideration. And if the Legislature decides to adopt those plans, then Section 337 currently states it would be repealed at that point. So that's something that's already baked into the overall process that the Legislature has set out.

There are also a number of other statutes, many of them near Section 337 of the Public Utilities Code, that mention the ISO or address ISO governance. The details of those statutes are just beyond today's purposes, but that's something that people should be aware of as the process unfolds.

Let's switch to FERC authority over ISO
governance.

No matter what you may remember from energy crisis litigation FERC does regulate ISO and RTO governance. And that means that depending on what proposal might emerge, the ISO may need to demonstrate compliance with a couple of FERC requirements. So the areas of governance that FERC regulates are independence, then overall responsiveness of governance, and also the exercise of 205 rights, which we'll get into all those in depth.

But before I do that FERC also regulates a non-governance issue that's relevant here. A number of the proposals would have the ISO fund outside groups of state regulators, of state consumer advocates. And that's important, because any funding that the ISO provided would be subject to FERC regulation and oversight. And as I understand it there are two different mechanisms how an ISO or RTO might fund an outside group.

The first is that it could be funded through a special charge in the ISO's tariff. And the ISO does this right now, market participants may be familiar with it, with dues payable to WECC. There are special charges that appear periodically on a market participant's bill. They pay them, the ISO collects it, and sends the payment to WECC.

It's not a part of the ISO's budget, it's handled
through a special tariff provision that's approved by FERC. And this is the model for the New England State's Committee on Electricity. Those are the state regulators for ISO New England and also for the organization of PJM States.

The other model is to fund outside organizations through the ISO's budget. In that case the outside group, that payment becomes an item on the overall annual budget. It goes to the Board, which will approve it and then the payments are made as part of the budget. In that case there's no tariff provision or special charge to be approved by FERC, but FERC does have oversight over the rates that the ISO or RTO collects for its services. And that's how it would be overseen in that way.

I also note at the bottom, because I've added the citation to it -- 2016 FERC Order -- that approved PJM funding state consumer advocates in the PJM profile. And so that's the last citation down at the bottom.

The core of FERC's regulation of ISO and RTO governance is independence. This means both financial independence and also independence of the decision-making process from too much influence by one stakeholder or class of stakeholders. The financial independence requirements are not new. The ISO governors have been under those since they became independent in 2001. And employees in the ISO have always under them. They prohibit all of us from
having financial interests that could depend on the performance of the market participant.

The decision-making process also has to be independent and free of influence from particular market participants. The ISO satisfies that currently, because we have an independent board and we have an open stakeholder process. The other ISOs or RTOs that have a different stakeholder process with committees and voting would have to make a different or additional showing to satisfy that requirement.

In 2008, FERC issued Order Number 719. And that set out a broader regulation of ISO governance that all falls under the heading of "Responsiveness to the Customers and Stakeholders." And without getting into each of these details up here, which are there for your reference, this essentially requires that stakeholders must have access to the governing board. And that in any policy debate both sides have to be presented to the governing board.

Now, the ISO currently satisfies this through a combination of the fact that we have open board meetings, so stakeholders can address our board in the board meetings and also that the open stakeholder process. And entities and ISOs that didn't have open board meetings, or have a different stakeholder process, would have to make a different showing.
Now I mentioned just a moment ago about that
those who remember the Crisis Litigation may wonder --
because there was a decision then that sort of trimmed
FERC's authority over governance -- and that stemmed from
the Energy Crisis. In that at the height of the Energy
Crisis the ISO had a stakeholder board and the Legislature
stepped in and said it wasn't really functioning. The
Legislature stepped in and passed what's the original
version of what's still Section 337. And said, "Now you're
going to have a five-member independent board."

And that the time FERC didn't like that, because
they saw it as California not only controlled the board,
but it was temporarily during those years the single
largest market participant. And so they saw that as an
independence problem. And so what FERC did in 2002, is
they issued an order that specified a new board selection
procedure. And they said the ISO had to follow this.

What we did is the ISO appealed FERC's order to
the DC Circuit. And the DC Circuit vacated it. And they
said two things very clearly, "First, it is outside FERC's
authority under the Federal Power Act to dictate the board
composition of a public utility or the board selection
process." And the ISO is a public utility and so that
alone is enough to vacate that order.

FERC also observed -- in dicta they said but it's
okay for FERC to set independence or other criteria for ISOs. And if the California ISO doesn't meet those criteria then FERC feels free to say it's not an ISO. And that can matter. There are, for example to just give one, but there can be collateral consequences of not being an ISO. You may know that any entities that FERC sees as independent, like ISOs and RTOs, get more leeway to depart from FERC's template standard open access tariff. And if the ISO were not seen as independent it would get leeway to depart from the cookie-cutter model that FERC has.

So that's two of four subjects.

Let's switch to Section 205 of the Federal Power Act. This is the section that allows a utility to choose which rates it files at FERC. And this is of course important, because a number of the proposals floating around would have the ISO delegate or share a part of its Section 205 with them. In this context, what I'm going to do then, let's talk about the basics of Section 205 in the ISO context. And then walk through how the sharing arrangements that FERC has approved work in the context of the Southwest Power Pool and to some extent at MISO, the Midcontinent Independent System Operator.

The basics of Section 205, the word "rates" here covers a lot of ground. Rates does not include just
financial rates, it includes any terms or conditions of service. And essentially any market rule that's in the ISO tariff, so we're talking here about control over market rules. What Section 205 does is it puts FERC in the role more of an umpire than a policy maker. It lets the utility, in this case the ISO, decide which rates it's going to file, which market rules it will file. And FERC can reject them only if those market rules are outside the range of what's just and reasonable and not unduly discriminatory, etcetera. Essentially, within that range the policy choice is up to the utility or the entity that holds the 205 rights.

Let's contrast Section 205 with Section 206, which are the rights that FERC and any other party that doesn't have 205 rights has. Anyone can file a complaint under Section 206 if they were able to show that a rate in place or a market rule is unjust and unreasonable or unduly discriminatory. FERC would block that rate and then could set a new one, but it's only when they can show a rate is unlawful. And the same restriction applies to FERC. So Section 205 and 206 work together to protect whoever has got the 205 rights; their ability to make the policy choice.

It matters to FERC how public utilities exercise these 205 rights. And the place to start in terms of
background is a Massachusetts case from before restructuring. This involved -- the Massachusetts Commission wanted one of their state utilities to file a specific rate on FERC jurisdictional issue. So what they did is they actually ordered the utility to file that rate and they did it. FERC rejected the filing. And they apparently didn't reject it, because they thought it was unjust nor unreasonable. They rejected the filing because it had been ordered by the State.

So the State appealed that to the First Circuit. In an opinion by Justice Breyer, who was then on the First Circuit, the court recognized that there are different avenues for going to FERC. And that the avenue that the Federal Power Act contemplates the State going in is Section 206, in filing a complaint. And so they said that FERC was within its authority to reject a compelled filing.

Now this is the context when you get to Order 2000, which is the order that sets out the requirements to qualify as an ISO. It says that RTOs have to have independent and exclusive right to make their own filings. Now a couple of paragraphs later or sentences later FERC tempers that and says it could be flexible and entertain other approaches as long as they ensure the independent authority of the ISO to seek changes to market rules.
So let's look at some of the arrangements that FERC has actually approved under that sort of template. And the first one, the one that's most discussed is the Southwest Power Pool, which has a Regional State Committee that it shares certain 205 rights.

There are certain areas that I'll get to on the next few slides where the Regional State Committee, or the RSC, sets policy direction. But let's talk first about how the RSC works. First of all, the RSC for Southwest Power Pool includes one representative from each State Commission in the SPP footprint. They operate by majority vote. Although I understand informally that their practice -- or at least they commonly act by consensus.

So what they do in their areas of authority is if they set a policy, and then they direct SPP to make a tariff filing with FERC, that implements that policy. Now when that happens in these areas of authority when the Regional State Committee directs a filing under a certain policy SPP has the right to include its own alternative policy in that filing. That's what it means to share the 205 rights. As a matter of practice, SPP has never done this. That's important to understand, so that's what it means to share 205 rights.

At the same time the RSC does not have, as it's structured, a veto or an ability to block a filing by SPP.
And there apparently was a recent instance of this where SPP had to make a FERC filing within an area where the RSC set policy and the RSC wasn't able to agree on the policy. SPP went ahead and made the FERC filing as required with their own version of the policy. So it didn't -- the RSC's inability to reach an agreement, at least within the timeframe set by FERC, didn't block a market rule filing.

Let's talk about what are other areas of the authority. I've copied the bullets here directly from the SPP Bylaws, which were approved by FERC. And significantly FERC also approved the description here of primary responsibility. There are two areas, but the primary responsibility includes a set of transitional issues when the SPP became an RTO. They include essentially the structure of transmission rates, how to pay for transmission enhancements, and then how to allocate CRRs. Of course, they call them FTRs or Financial Transmission Rights.

In addition, and this appears to be beyond what's called primary authority, the RSC has sort of ongoing policy authority over resource adequacy. The second bullet, transmission upgrades for remote resources, that sounds like policy-driven resources and wind projects. And has certain aspects, other aspects of the transmission planning process.
Now the RSC can also make recommendations and sort of take action outside the areas of authority, but when they do that it's purely advisory. It's advisory, it's based on their relationship and the significance in their roles, but these are their areas of sharing 205 authority.

MISO in the org has an organization of MISO States, which are their state regulators and they have similar authority. Now I'm not going to get into this in detail, because Steve Kozey, the MISO General Counsel, will be calling in later today. I'm going to let him talk about it. But I do want to highlight the differences between -- it's particularly a process between MISO and SPP, which I just described.

The first is -- well there are two differences. MISO's authority is narrower. It's over cost allocation of certain new transmission projects. It doesn't include RA or CRRs, so it's a little more circumscribed.

And second they don't appear to, at least formally, dictate the policy. What the OMS can do is direct MISO to begin the stakeholder process to reconsider an issue that the OMS wants reconsidered. Now OMS can steer that stakeholder policy. They can essentially make one of their commissioners the co-chair of the stakeholder process. But at the end of that process if MISO decides or
the stakeholder process yields that a change isn't needed
MISO doesn't need to file changes, they just need to write
a letter back to OMS and explain their reasons for not
making a change.

On the other hand, if MISO does file a change and
OMS wants to see something different, they vote by a two-
thirds vote to approve a different policy. MISO would need
to include the OMS's alternative policy along with the
policy that it's filing. In other words, so that's shared.
And it's my understanding -- I guess Steve will be able to
speak authoritatively of this -- that that hasn't happened
either. These situations tend to be resolved informally.

Finally, something for everybody to be aware of
is the ISO's tax-exempt status. The ISO is a 501(c)(3)
public charity. Now I'm not a tax lawyer, that's as far as
I'm going to go. With tax law the ISO is working with
outside tax counsel on the regionalization issues, but
there are a couple of things people would want to be aware of.

First, an element in the ISO's governance
structure -- I'm sorry, an element in our tax-exempt status
as approved by FERC, is our governance. That's one of many
elements, so changes to governance could be materialized
with the IRS's approval.

Second, we don't have complete flexibility in the
sense of being able to just simply wait to see what the governance process yields and then pick a tax-exempt status that matches, that's best for that governance structure, because we have a clause in our articles and corporation that irrevocably dedicate our assets to charity. So that represents a certain constraint to some degree.

Third, unlike energy agencies who will give more sort of feedback pre-filing, which is my experience with FERC, the IRS doesn't answer hypotheticals. So a governance proposal would have to be pretty fully baked in order to either informal comfort from the IRS or a ruling. So that's why I emphasize that we're working with tax counsel who will get their feedback within guidance along the way.

That's all my prepared material. I'm happy to answer questions if you have them.

MR. RECHTSCHAFFEN: Dan, I have a -- just if we go back to the SPP model where you said that -- yeah, the last bullet of this one where the Regional State Committee doesn't approve a policy. And you said in some instances it's actually done. So do you happen to know, and this may be beyond what you've been able to learn, was that a situation where the Committee actually considered something and was that a stalemate and couldn't make a decision or they just didn't do it? But just to confirm, this was in
their area of authority and they failed to act. So then
the SPP went ahead and filed.

But I'm just sort of interested in what the
process was there, because as we've learned they have a
very consensual process there. And as you note they've
never filed an alternative proposal. They describe that as
their cultural norm, but I'm wondering if you have any more
insight?

MR. SHONKWILER: I learned about this informally.
I don't have a FERC order or a written background. But my
understanding was this was a situation I'd presume in a
rulemaking where the SPP had a deadline to make a certain
filing. And my understanding informally was that the RSC
couldn't reach agreement within that deadline. And so SPP
had to act, so it sounds like a somewhat unusual situation.

COMMISSIONER RANDOLPH: Can I ask a follow-up
question about that? In that situation does the RSC have
the ability to comment or participate on proposals
submitted by the SPP in the FERC process?

MR. SHONKWILER: The answer is I think so, but
I'll be clear, I don't know much more than I'm putting up
on the screen in terms of the RSC's authority. But any
person can comment. And I say, "I think so," because any
person can comment at FERC. And so the RSC could always.

All of these entities comment at FERC. I've been
to their web pages. The RSC, the organization of PGM States, the OMS, they all submit comments at FERC. And so I'd assume RSC could do the same thing.

CHAIR WEISENMILLER: First, I was just going to note that when we had the EIM Transitional Committee, myself and some of the other members who will speak later today, it was like a crash course in a lot of these issues. And one of the things that I'd have to say at the end was a very helpful one is we had tons of questions and so they prepared material for us. And in particular, that is posted on the EIM Transitional Committee's site. Some of the matrices are contained here.

But again in terms of just trying to provide some background, of course these areas can get fairly complicated fairly fast. And so again I think, going forward, we may have additional questions where we need research.

Certainly one of the things to just tee up a little bit, I noticed looking at one of the future papers is a conversation of whether or not that obviously the ISO is a tax-exempt entity. How much of a difference is it that it's a California corporation as opposed to whatever, Delaware or the Bahamas?

MR. SHONKWILER: Well, let's back up. The materials that Chairman Weisenmiller mentioned, I've helped
people find them recently. If you go to the ISO website under "stakeholder processes," there is a button toward the top that says, "archive," because the EIM Transitional Committee is an old process now. And if you go there and find "EIM governance initiatives" that's where the materials are. And there are a lot of them, a lot of charts and things.

Does it matter then, your particular question, that the ISO is a California corporation? I think I'd rather not answer that on the fly. But like you said the ISO Legal Department is always happy to help people try to answer these questions and find the right materials. And will help people find the right materials to answer that question as they go along.

CHAIR WEISENMILLER: Okay, thanks.

I would also note that that was an opportunity for me to get an understanding of the ISO's stakeholder process. And having been involved for decades in PUC proceedings, Energy Commission proceedings, FERC proceedings, it's actually fairly user-friendly. And in fact, I took back from that process some things to try to work through at the Energy Commission.

But anyway, if there's no other questions, let's go on. Certainly Dan is going to be here if anyone has some follow-up with him.
MR. BARKER: So moving on to our first panel, this panel of authors, is Commissioner Florio, Commissioner Rendahl, Ron Binz, and Tony Braun can come to the front table.

CHAIR WEISENMILLER: Wait, let me just note that we have a very distinguished panel and certainly appreciate everyone's hard work on trying to dig in to these issues. Actually, I don't want to single out any individual. I mean all of it's been a lot of hard work.

I just was thinking about how Mike Florio, over time has been one of the premier intervenors in PUC processes, an ISO Board Member, a PUC Commissioner and certainly an ambassador throughout the west for California and the regulatory commissions.

This is sort of a perfect assignment for you to try to make some sense out of.

COMMISSIONER FLORIO: Well, thank you for that. It's not easy. I think, the paper that I wrote originated back in early March. It was revised subsequently a couple of weeks ago. And I'm really not making a proposal so much as trying to set a context that first of all, I should say I'm speaking only for myself. I'm not representing a PUC position or a State of California position. It's just based on having worn all those different hats some thoughts about how to make this work.
And I think I start from the premise that there are some real benefits to be had here from a Regional ISO; economic benefits that I think will accrue to all of the participating states. And there are much more rigorous studies going on to try to quantify that. But there are also risks.

It's clear in any conversation with folks from states outside of California that they're not particularly interested in having their fate determined by the California Legislature or the California PUC. There shouldn't be anything surprising about that. Just as California wouldn't want to be subject to Utah or Idaho law, the reverse is equally true.

So I think the first thing we have to recognize is this has to be a partnership. And a partnership requires a certain degree of trust. And I think that's become very evident. We've had these Commissioner meetings under Ann Rendahl's leadership now for about six months or maybe a little more. And I think we're beginning to develop that trust as state regulators. But we're one tiny part of the body politic in each of the states, so we still have a long way to go.

You hear folks who aren't in the middle of the process make statements like, here in California people will say, "You know, a Regional ISO is a way to export
California's energy policies to the other PacifiCorp states." That's a non-starter. If that's the premise that we come in with nobody is going to dance with us. Similarly, people might say, "Oh, well this is our chance to get rid of California's Cap and Trade that's blocking our coal power from coming in to California." Obviously that's a non-starter for California.

So in order for this grand endeavor to work there is going to have to be an acceptance of the fact that from a state perspective nobody is telling somebody else what to do. State policies have to continue to be under the control of the individual states.

There's also the issue of being more subject to FERC jurisdiction than the states are now. Now certainly CAISO is subject to FERC today. But with a Governor-appointed Board there's a considerable degree of comfort that the ISO won't do something that's an anathema to California government. But when you get into this multi-state situation it becomes much more challenging.

Even though the decision itself probably wasn't surprising the recent Supreme Court case in Hughes v. Talen, that struck down a Maryland law that provided for construction of local generating capacity in that state, is a huge red flag to a lot of people looking at this saying, "Oh my God, the states in PJMF have lost the ability to
control their own destiny." I think it's important in reading that case to note that it was the existence of PJM's-centralized capacity market that resulted in the Maryland statute being preempted. And I haven't detected among any of the states an interest in having a centralized capacity market as part of a future western ISO structure.

I think the question is, is there a way to build that into the governance such that we don't a situation as happened in PJM where the states entered into a settlement that provided them certain rights. And later those rights were removed as result of a complaint filing at FERC and suddenly the states lost the control that they thought they had.

So my evolving thinking on this is maybe we need something in the governing documents of the ISO that basically says, "We're not in the business of running a capacity market." And that provision can only be changed with the approval of the participating states. I'm not saying I've figured out the exact right mechanism, but I think something like that is going to be necessary.

Similarly, the issues that jump to the forefront are pretty much the same in all the ISOs. We look at SPP probably has the most comprehensive list of items around: transmission cost allocation, firm transmission rights and resource adequacy where a committee of state -- in their
case, regulators, but I think they could be state representatives more broadly -- has the primary authority to determine policy on certainty issues.

I think something like that again is going to be necessary in order for this to be acceptable to the states. Because you're not just looking at the situation today and what current ISO policy is and who the current ISO management is, but you've got to look 10, 15, 20 years down the road and say, "How might it be different? And if we surrender authority today are we going to come to regret that?" So I think durable mechanisms to protect state prerogatives are going to be a necessary component of this.

And there are a variety of other important questions that I haven't delved into in this paper, which is how big is the Board? How is it selected? Does it transition over time? Does the ISO stakeholder process continue as it is, or is it more formalized?" All of these things are going to have to be worked out.

But the bottom line is in order for PacifiCorp to become a participating transmission owner in a western ISO they're going to need the approval of all of the states that they serve. That means there's a one-state veto. So in a sense whatever proposal comes forward is going to have to satisfy every single state. And similarly before it gives up control all over the ISO governance our
Legislature here in California is going to have to be satisfied that they're not giving away the store. So as you sit back and look at the challenge there you could say it's hopeless, but given what I think is a pot of gold at the end of the rainbow I think it is worth doing the hard work that's already underway to try to find the structure that gives the individual states the assurance that their own policies will not be preempted if they allow this process to move forward. So I think that involves particular bylaws, voting requirements and a strong body of state representatives that will have continuing authority.

And as Dan pointed out there is some case law from FERC addressing this. But there are relatively few examples that have been adjudicated, so I think we do have some leeway to craft something that is uniquely western. And my sense is that FERC is enthusiastic enough about the idea of a unified western grid that they will give us some leeway to craft a solution that is uniquely western. And beyond that I will continue to work as hard as I can to find that narrow path through the wilderness to a consensus approach that everyone can support.

CHAIR WEISENMILLER: Okay. Thank you.

Let's go through the panel and then do questions.

Again I'd like to welcome Ann Rendahl. What I
was actually trying to say was as we start the conversation our intent is not to make everyone come to California. And that's the location we are at today. But certainly going forward, and has already occurred, we understand that dialogues have to occur throughout the west.

Please come forward.

COMMISSIONER RENDAHL: Good morning.

First, I'm really honored to be a part of this conversation. And as Commissioner Florio mentioned I have a few caveats, which are that I'm only speaking for myself. I'm not speaking for the Washington Commission, my fellow commissioners nor am I speaking for all commissioners in the west. I have the honor of serving as the Chair of our EIM Body of State Regulators and I'm honored to be in that role too.

Also, I was born and raised in California. And I've got my graduate degrees in California. But then I moved to the northwest and moved to Washington and I've been there for over 20 years. So I consider myself to have a good perspective on both California and at least the northwest. And again I'm not speaking for the Washington Commission, but in my role as the Chair of the Body of State Regulators I'm going to talk about this paper that was really more of a Committee-produced paper. I can't say I'm the sole author of the paper.
And I also understand I'm talking about the role of state regulators. And for those of you that know we are really creatures of statute and constitution; we can only act based on the authority that we have. And it's based primarily on economic regulation of private utilities and now more increasingly safety of railroads and pipelines and other transportation models.

But because we regulate private utilities we do not regulate public utilities. And I think in the west and very much so in Washington public power is a very big part of the fabric of our state and the fabric in the west.

We have 63 utilities in Washington state and the Utilities Commission only regulates 3 of them, so there is a very strong public power presence in our state. And I understand that Oregon, there's about 30 percent of the utilities in Oregon are public power. And California also has a very strong public power presence. So I think it is something we need to address. And we know that Tony Braun is going to talk a bit about their perspective, but I would be remiss if I didn't mention it. And also mention the presence of EPA and the importance of EPA in the northwest.

In terms of the role of State Commissioner one of the things we'll be asked to do is approve, as Commissioner Florio said, petitions for transfer of control over the assets. If and when PacifiCorp decides to join a Regional
ISO they will have to ask our permission to do so. And because we are decision makers that puts us in an interesting position in this process. So I've been very clear that at some point State Commissioner will likely have to extricate themselves from this process as it becomes closer to the point that FERC will make filings.

So we have to be careful that we don't prejudge what might come before us, make sure that once something is filed we don't have communications with other folks when something is filed to violate the ARRA Ex Parte requirements, and make sure we maintain the appearance that we're unbiased. So with all of those caveats it's also very important that we engage in this conversation now, because we understand there are utilities in the State, we understand the role of our utilities in the State. And we can be a very strong part of this conversation, and many of us have been.

So in talking about the paper itself, as it's noted in the preamble this really represents thoughts and concerns by State Commissioner as they began to think about governance, as conversations began over the course of the last few months. And frankly, a fair amount of worrying that governance hadn't really been discussed yet with the other policy proposals that the California ISO had been putting forward for discussion. We began to think about
what was important to us in governance and putting our thoughts forward. So this is really a combination of thoughts, it's a group effort, and I am not the sole author of it.

Also it's not a position piece. I think many of the Commissioners, this is a great learning experience for us, we don't engage in markets the way California does. And so we don't have the same experience over the last 20 years or so that California has experienced, so we have a lot to learn about how markets work and all of these various topics including Section 205 Rights, which I'm learning about myself. So I think our thoughts and preferences are changing over time as we learn more and are learning more, so this kind of conversation is very helpful.

I would also say that regional governments, the discussion that was started during the Energy Imbalance Market Transitional Committee process, which you were very much a part of, Chair Weisenmiller, was a very good place to begin. And the documents that have been shared as part of that process have been very useful in educating ourselves.

And I do think that the EIM still continues to be a very important part of this. While the Regional ISO obviously has great potential benefits and possibly great
risk for many of us involved, the EIM still should remain viable. I think there are many folks still interested in EIM and it's still in its infant stages. So for myself personally, not just because I'm the Chair of the Body of State Regulators, I think it's a very important model and entity to maintain.

So on to the document. The document itself addressed a number of different things, but I'm going to focus on the governance priorities that were identified starting on page 2 and going on to page 3 and 4. It's very important to structure the governance so that the decision making authority is placed appropriately where it belongs. Obviously states have an important role in resource procurement and other issues. And those issues as Commissioner Florio discussed should remain. And that's going to be part of the tension.

The ISO or the RTO or whatever we're going to call this regional entity that comes out of this process will have certain authorities. And speaking for myself I think some form of Regional State Committee with either specifically specified or shared 205 Rights is really critical in identifying what those shared rights -- and whether it's in the bylaws or where those specified -- is going to be probably one of the more difficult things to discuss in this process.
Again, many of the Commissioners and Commission staff in the states have this very steep learning curve. And so please bear with us as we are learning more and more about this.

Obviously, the independence of the Board is critical. No financial interest, no political interest, so no one state at this point should dominate that. I think my colleague in California explained the concerns from the west about making sure that they retain their independence in their ability to ensure their state policies go forward and are respected.

Part of the issue with the composition of the Board -- and I think those details are maybe too much in the weeds today -- they're important. But some of the larger concepts about obviously you're going to have a Board Member, you're going to have various committees. And that'll be a lot of discussion going forward, what type of committee should we have, and what the form of a Regional State Committee should be?

So in talking about the Regional State Committee -- and I know Tony and I have discussed this a bit and I've discussed it with others -- I think given the strong presence of public power in the west the Regional State Committee would have a form that takes -- there's going to have to be a discussion about the presence of public power,
obviously being careful to recognize that many of those public power entities are also market participants. However, I'm sure we all know that EPA is never going to join the EIM and is never going to join the ISO. And so while it is in a sense a market participant, I think there are some public power entities who may need to have some role and how we craft that is going to be important to talk about.

In terms of process, one of the things I think we need to think about too is as governance discussion goes forward how much of the structure of the new Board needs to be decided in the California Legislature and how much needs to be decided as a stakeholder process afterwards. And I think that's an important thing. I think the states will need to have a good understanding going forward what the process is going to be, because of obvious concerns about control of California over this entity. And so having some transparency over the process going forward is also going to be helpful for the other states.

I think I'll leave it at that. The papers are posted on the website. And I'm happy to answer questions later if you have them.

CHAIR WEISENMILLER: Great. Thank you.

Next we have Ron Binz. We certainly appreciate the Energy Foundation's support of this activity and
It's been really great to have someone who is sort of a nonparticipant, but very knowledgeable in these areas, take a fresh step, fresh perspective, going forward. So again thank you for your work on this.

MR. BINZ: Thank you, Chair Weisenmiller.

It's a pleasure to be here. I want to start by saying that I've got more in common with Mike Florio than a hairline. I was the Chairman of the Colorado Public Utilities Commission for four years. And so under Mike I served for a dozen years in Colorado's Consumer Advocate Office, I was the Director of the Office of Consumer Counsel.

So all the issues on the table are very familiar to me from at least three contexts -- those two I just mentioned -- and I also have a consulting practice currently working with regulators, with governments, with utilities, with solar companies along with other people. So I was very pleased when the Hewlett Foundation asked me to take up this work.

So just to move through my slides, the idea from Hewlett was to develop ideas for stakeholders' use as they negotiate an RTO governance structure. Hewlett does not intend to advocate beyond a general support for the concept of a regional system operator. Hewlett and the Energy
Foundation, I believe I could also say, understand the benefits as to the region, economic benefits, that are being studied in various studies, but are also motivated by the fact that this is very likely to make it possible to integrate much more clean energy in the west as the balancing footprint is expanded substantially. The amount of wind being built in the eastern part of the western connection is prodigious. California has over-generation in solar. And all that, if it can be spread around the region like that, there's tremendous amounts of economic surplus that can be created.

I was engaged in 2015, November, on this project. My methodology was having discussions with numerous stakeholders across the western region in other ISOs and RTOs. I spoke to Commissioners Rendahl and Florio. I've spoken to about 30 or 35 people across the region and in other ISOs to gather some ideas.

I did a lot of research on the RTO structures in the country and on FERC rulings and I've produced a written report. The only chapter of which has been released is the document you have in addition to the slideshow, which is a somewhat longer written description. I hope I'm consistent with that today.

So the topics it discussed in the report are the RSO governance. And by that I mean the Board, the
stakeholders, the state regulators and the consumer advocates. That's in the April 21, 2016 draft. The process recommendations and additional research are going to come in a future version of this draft report.

So Commissioner Rendahl you've described the details of the Board as maybe being in the weeds, I think of it as being in the swamp. It's a very difficult set of challenges, as you all know. So I've made a run at it. I want to offer a transition from today's gubernatorial-appointed board to an independent expert board. Doing that -- I'm going just going to release these two words -- it moves from a "bicameral board" to a "unicameral board."

The end result is a nine member, independent expert board confirmed by the stakeholders, which I think is ultimately everybody's either acknowledged or grudgingly acknowledged end point.

So let's just explore what's meant by going from "bicameral" to "unicameral."

In a bicameral phase here we have the Board table. And I'm going it pause it, it's ten seats around the table, five of them constitute what's called an Expert Committee. And the other five constitute something I'm calling a States Committee.

Now, the Expert Committee consists of five people whose candidacy was identified by Nominating Committee.
There's obviously all kinds of ways you can put details to these things and that we suggest that there be qualifications, maybe even subject area qualifications or slots on this Expert Committee, there would be staggered terms, and the members of this would be confirmed by a super majority of the Stakeholders Committee and a majority of remaining Committee members.

All right, going back now to the States Committee, the States Committee is different; it would be political appointees. So there would be five people coming from through a political process. Three members appointed by California and then two members from the PacifiCorp states. I'm just suggesting one from PAC East and one from PAC West. That it means it would look a little like the CAISO Board. Now this isn't the full Board this is the States Committee.

Now the way this works you've got the ten members sitting around the Board table there. A matter will pass the Board only if there are three votes on the Expert Committee and three votes on the States Committee. You can do the calculus of what sort of rights and vetoes and sorts of things are given.

You might argue, "Well, California will have three votes on that States Committee and so they will always dominate." I think that's probably an unfair
assumption about who votes on that. Not every vote is
going to (indiscernible) straight down in any political
line.

(Audio cuts in and out during presentation.)

(Indiscernible) have the ability of the rest of
the Board Members obviously to influence each other. But
that's the proposal for the bicameral phase of the Board.

Now, there's a short version. This table is
taken up in my longer paper. Now the State Committee I'm
proposing would sunset one year after either California has
no longer a majority; they are a(indiscernible) or five
years, whichever comes first. There would be a Bicameral
Board for, at most, six years; five plus a wind-down year.
It might be less than that depending upon how many
utilities have joined.

The move to the permanent Unicameral Board would
be as I just said a wind-down of the States Committee
(indiscernible) year six. During the wind-down year the
Expert Committee's expanded from five to seven members.
One year later the Expert Committee is expanded seven to
nine and the States Committee has disappeared at that
point.

Now there's no restriction on who can serve on
any of these. There are ways in which you get confirmed to
do this, but if in the scheme of the Expert Committee
California wanted to move three of its sitting ISO Board Members into those slots that's a possibility as a start.
And I suggest PAC East and PAC West, but that's going to be up to the stakeholders to negotiate. And you can have some consensus process to come up with additional members.

I'm suggesting a Stakeholders Committee.
Nationally each of the multistate ISO/RTOs has a Senior Stakeholder Committee ranging in size from 15 MISO to hundreds in PJM and ISO meeting.

The smaller senior boards -- and there's actually lots of boards of stakeholders of various sectors; there's topic-organized ones, there's functional organized ones. But the senior level one, with the one effectively as the last channel to which an idea gets to the Board of Directors is typically having a set of representatives representing sectors. And it's six to ten sectors, the usual suspects: transmission owners, independent power producers, utilities, consumers in some cases. One of them actually has a regulator, an ISO has a regulator on that highest level.

In general, that Stakeholders Committee has a duty to advise the Board of Directors and in general elect or confirm the Board. As I said earlier that's one of the roles that I would posit would be used.

State Regulator Committee, you've heard a bit
about that already. It's common in multistate ISOs. MISO has OMS, the organization of MISO States. PJM has OPSI, the organization of PJM States. Each of these is populated by one Commissioner from each of these states in the footprint.

ISO New England has actually two organizations. One is NESCOE, which is a body of representatives from the Governors Offices of the northeast states. It's called the New England States Committee on Electricity.

Independently or separately the state regulators in the northeast form what's called NECPUC, the Northeast Council of Public Utility Commissions. And I take it, from what I understand, that NECPUC and NESCOE both operate as regional -- let's call it regulatory or governmental influencers in that process.

And in SPP you've already heard it mentioned is a Regional State Committee.

Now the first three or four of these, MISO, OMS, OPSI, NESCOE, NECPUC are all stand-alone organizations. I don't know their corporate organization. They may be non-profits. They may not be organized, but they are stand-alone. The Regional State Committee of SPP is more nearly appended to the SPP. It's the members of State Commissions throughout the region. But they form, in effect, a committee in SPP and so all of their support is provided by
SPP.

The annual budgets of these entities range from about $800,000 a year to about $3 million a year. Some of them are a little hard to discern. We have a public number for what SPP spends on the Committee. It's a little harder to discern what the internal costs are at SPP from obtaining that, but I think the two together come up to about $800,000.

I've visited with Paul Suskie at SPP. He is a somewhat known person around here, former Chairman of the Arkansas Public Service Commission and a fellow alum at Catholic High School for Boys in Little Rock, Arkansas. Paul serves as a secretary to the RSC, has lots of good things to say.

Now I don't have a lot of detail about the 205 issues that you heard about. There's more in my paper. I thought we had a great presentation earlier on that subject, so I'm not going to get into that. But here's some suggestions for potential structure to regulators. And I understand fully it's up to those regulators as stakeholders in this process to craft what works for them, but a Committee with one Commissioner from each state in the RSO footprint pretty obvious, provisions for additional non-voting members seems to be a good idea.

In these other state organizations you have
states bordering the ISO tending to join. You might also
expect states whose utilities might join the Western RSO,
would have an interest in (indiscernible) I think it's just
a good practice to do that.

Voting protocol, one model -- and again, this is
for you to decide if you want to use it -- is the WIRAB
model for voting, which is that a matter passes the
Committee if and only if it represents a majority of the
load and a majority the states. That seems to be a formula
which people are happy with and I've heard it come up in
other discussions.

I'm suggesting that there be funding for a
regional coordinator of a small staff and for Commissioner
and staff travel. That's more or less the OMS and OPSI
model. I think each of those has two employees, a state
regional coordinator and an administrative staffer. I'm
told that it's a good contact point for the RTO to go to
that person who is rounding up the ideas of the states.
Personally as a former chairman I would welcome someone who
would prod me when necessary to make sure I took up on
these issues. It turns out not to be that expensive, but
we'll come back to that in relative terms.

And again, I'm proposing that the budget be
provided by the RSO. I'm not making the distinction
between a line-item budget and a surcharging tariff. I
think those are effectively equivalent, but there's
important differences. Fine, I don't care which.

I'm going to suggest something, which I haven't
seen much elsewhere. And that is an organization of states
consumer advocates.

In the west, having a Regional Committee of one
advocate from each of the NASUCA: National Association of
State Utility Consumer Advocates; they have very clearly
defined membership and associate membership requirements.
I think that's the right group to put in this position.
That ends up being six people in the west and I'll detail
that in a minute. Also, I think they should have
provisions for nonvoting members. I'm suggesting also a
Regional Coordinator with a small staff.

And this is new. I'm suggesting a separate fund,
which would be administered by that regional consumer
advocate (indiscernible) to be used for grants to reimburse
costs of qualified non-profits under strict standards as
funding.

Now I chose not to use the term, "intervener
compensation." That has a lot of baggage with it. But the
notion, and I'll have a little bit more on this, is that if
administered by the consumer advocates in the region it
seems to be it might be more wisely targeted. And having
that job go to the RSO is probably not something the RSO
would care (indiscernible). The funding would be, as I said, a RSO line-item budget. And there would annual reporting to the RSO board on the effectiveness and the uses of those funds.

Now, NASUCA members in the west include the Washington Office of the Attorney General; Oregon Citizen Utility Board; the Wyoming Office of Consumer Advocate; the Utah Committee of Consumer Services; "TURN," that is The Utility Reform Network and "ORA," the Office of Ratepayer Advocate in California. Funding for those, the funding in that pool that I mentioned would not necessarily be restricted to those entities. I mean, any qualified entity could pursue that.

A little more detail of the process for expense compensation. Again, I realize this won't go down well with everybody, so I want to make sure you understand what I'm proposing, would be that this Consumer Advocate Committee would entertain proposals, would review and give preliminary approval subject to certain standards, which I'll get to, would review the applicant's performance. And then after the fact, approve or not, reimbursement of those costs.

This is not going to be open-ended. I'm proposing a fixed amount each year, which will be adjusted over time. But it would cause the consumer advocates to
force -- it would force them basically to focus and coordinate among their colleagues.

    The standards for expense compensation would be that the entity would need to demonstrate financial need, that it had provided effective assistance to the RSO and I'm including here FERC, that the advocacy benefits consumers in the entire region. I would caution against funding one consumer advocate to go after another state's situation. The costs are reasonable.

So just to wrap up that budget issue, if you take -- and RSO's budget right now is $198 million, I think, for last year assuming it grows to something in the range of $250 million (indiscernible) spot. I'm suggesting that the State Regulators Organization be funded out of that. That the Consumer Advocate Organization be funded out of that. And that a separate, qualified participant expenses pool be designated, which would be administered by the Consumer Advocate Organization.

That's the end of my presentation. I wanted to thank everyone who invited me here. I appreciate that. And I look forward to your questions.

CHAIR WEISENMILLER: Thank you.

So let's go to Tony. I guess before you start talking, which exact public power entities are you representing today?
Tony was a really valuable member of the Transitional Committee, looking at some of it I wasn't sure if it was California or not in California, go ahead.

MR. BRAUN: Thank you Chair, thank you Members of the Panel. I was going to address that upfront, since it seems like that's an obvious question, something that's got some attention in the trade press last week.

So before that I will say I won't start out with any caveats. I think when you've got several hundred public power entities that are coming under one umbrella, the caveats are somewhat implied. But it was a broad group. Of course, I am Counsel to the California Municipal Utilities Association and that is my role.

But I was involved with, over the course of the last few months, a group of about 20 public power entities that were actively engaged in thinking about some of these ideas and coming up with some proposals. Those included some of the larger and smaller customers in the northwest, Public Power in the southwest as well as in the Rocky Mountain region and of course, California.

So all across the west it was spearheaded through American Public Power Association and then vetted through their process. So I think it can be fairly characterized as a consensus product across the entirety of public power in the west.
I want to thank Dan. As the Chair mentioned Dan was instrumental in some of the transitional committee educational efforts to try to understand of the legal parameters. I thought that presentation was remarkably clear and concise for a very complex and nuanced issue. And I get additional nuances that every time I listen to some of the considerations that we all need to think about as we're crafting potential structures here.

So the Public Power document is definitely a living document; that we know that there are additional details that are necessary. For example, we didn't wrestle squarely with whether any RSC for a -- I'm going to use that term generically -- should have 205 filing rights. We pondered on that purposely to consider and get ourselves more educated on some of the pros and cons of that approach. So this is a living document.

We are working -- and I'll put the pressure on us here -- we are working on a 2.0 and we hope to have that out in some form or fashion towards the end of this month. And so as this process continues to evolve we hope to continue to participate in it and we intend this to be part of a constructive engagement. It almost goes without saying that if you're putting out proposals you're not trying to kill something. But that seems to pop up occasionally. And I just want to address that, as well.
So when we were looking at some of the goals of how to structure a regional organization we obviously prioritized independence. But along with that we prioritized openness, transparency and accountability.

I will say upfront a common theme is we fear, in public power, we fear an insulated Board. We fear a Board of experts that don't have a touchstone somewhere where stakeholders and other interested parties can have an effective voice in influencing how the policy is developed. Because as these markets evolve they deal with, on a day-to-day, week-to-week, month-to-month basis, critical policy issues that entail millions and millions of dollars. Oftentimes it's zero-sum game.

And so you're talking about really critical policy issues, right down into the weeds. And it's important that there be a way for the stakeholders and other interested parties to really have a finger on the decisional process of the RTO. And so that leads us to some of the structures that we've considered.

Checks and balances along with that, it goes without saying, are critical. And we see that the existing Board in a California framework has a lot of those capabilities. I mean, it is a politically appointed Board. And whether that's messy or not it is a politically appointed Board and there are ways to access the Board.
And so we view that as a positive not a negative.

We're not saying that needs to translate over to any Regional Board. But we do think the concepts of having access to the Board and having its formal structures to be able to have our views known directly to whatever the ultimate Board is. Those concepts are important.

And then when we talk to other public power entities, particularly in SPP we think there's some cultural advantages that come out of that direct participation with the Board. There seems to be a culture of collaboration and a culture of consensus building. And again, just in rough surveys of our public power colleagues in other parts of the country, they've had a much more divisive and contentious experience. And so we want to try to avoid those things.

I will say of course that a lot of those have to deal with the specific substantive issues that come before some of the other RTOs that we haven't had here, to date. But we can also think that there's organizational focuses and priorities that lend themselves to that type of culture of engagement and consensus building.

And then particularly listening to Mr. Binz's presentation, I think as we walk through and consider all of these options we need to remind ourselves that good governance principles need to predominate. And we'll get
to stakeholder processes in a minute.

We are advocating for a formal stakeholder processes, but we would not advocate for something that's so administratively complex or that could bind the organization up in knots, such that decision making could not get done. That's not what we want to accomplish. Those of us that remember the price cap debates in the early Stakeholder Board, we don't want to visit that; that's a lesson learned. So I wouldn't anticipate that we would advocate for anything that is so overly complex or makes decision making so difficult. There has to be a decider.

So, in the details of some of the concepts that we've put out we do favor an independent Board. Although I haven't seen specific formulations we've heard more complex formulations of politically appointed Boards, how to deal with some of the obvious voting and waiting type of issues that come out of that since we're not like some of the other areas where you've got somewhat commensurate load ratio shares across a multi-state footprint. We have California, which is depending on numbers you use, 75, 80 percent of the load and the other states that are roughly 20 percent of the load. And so that is a big factor in how this is going to be structured.

And you can get into a lot of complication. We'd
like to avoid that, so we'd advocate an independent Board. A big enough independent Board, of course, to reflect the diversity of the region. So yes, so we think it's probably going to have to be bigger than the current Board. But we don't have a particular number in mind, just big enough.

We definitely support a strong state role. How strong? How the mechanics of that evolve we are very much open to being educated on those issues and coming up with a consensus position.

Getting back to the good governance, and maybe violating my own tenet that I'm not going to provide a caveat, when I look at some of these filing structures and having started my practice in D.C. practicing before FERC I get a little nervous about dual filings. Those kinds of structures look cumbersome to me, confusing to the ultimate regulator, and burdensome from an administrative standpoint, but because putting together FERC filings is not an easy task. It's expensive. And then to have interveners have to then file on two different proposals just increases the expense and confusion.

So just as an aside I think those types of structures, even though we see that they don't actually perhaps come to pass in practice, give me some pause.

Ann has graciously introduced the issue of the role with public power in the Regional State Committee.
And it's true, we have a dual role. The Transitional Committee wrestled with this a bit. The dual role can't really be avoided or swept under the rug. We've got states where over 50 percent of the load is served by public power entities that are not regulated by state commissions. Even in California we're approximately 25 percent. We have two of the top five largest public power systems. And then you have of course in Arizona, Salt River Project; City of Seattle, Seattle City Lights.

We have some fairly significant load-serving entities, some of whom are larger or on par from a load-serving perspective size with the EIM entities that have already signed MOUs in implementation. So that can't be avoided. And yet I don't throw it out there I think it would likely be inappropriate for the Director Of Power Trading, for a public power entity to serve on the Regional State Committee.

So that tension needs to be balanced. I think there's some initial thoughts on how that might be accomplished, but that is something that is going to have to be wrestled with.

Stakeholder process, and this is perhaps an area where we've gone into a little bit more detail than in other concepts that have been put out to date. I want to make clear from a California POU perspective we're pretty
happy with the existing stakeholder process at the ISO. We feel like we have a voice. We have worked very closely on any number of market rule flavors that more align with our business model than perhaps would be applicable to a utility that isn't still completely vertically integrated. Or an independent power producer or other market form. And so we're pretty happy and we feel like we're heard and that we have an effective voice in that process.

And yet to therefore reach the conclusion that no changes are required for regional entity I think is likely incorrect. If you think there is a gap between the sort of philosophical outlook of public power in California versus perhaps other sectors in California, when you compare that to a philosophical gap in others states compared to California or other power entities compared to California entities, it's very narrow. We have a very diverse region. Of course we've mentioned the federal PMAs, we have their preference customers. There is vertically integrated utilities that are still the predominant model in the rest of the west.

So there is not only a huge size, but there's a huge diversity of opinion, diversity in outlook and we're going to have to somehow channel that through some sort of stakeholder process. And so we think that some formalities, some additional formality in the stakeholder
process, is going to have to be warranted.

Again, we look at SPP. They seem to have a decent approach. I will say I've looked at some of their Committee structure. That's very daunting. I don't think we would want to replicate some sort of process where there's 40 committees covering every issue under the sun.

But part of what we see at SPP includes a very robust touchstone between stakeholders and the Grid operator to prioritize tasks. The ISO has an annual roadmap process. SPP does that quarterly. So they constantly come back and they say, "All right. Here's what we have prioritized to tackle. Are we doing it right? Are we channeling our resources? Are we getting things done? Do we need to make reprioritization, because of changed circumstances?" So it really enables the stakeholders that have the skin in the game to help to work with the grid operator to focus resources.

Then I also see that their Market Committee, their MOPSI, and which is the Senior Committee, and their Regional State Committee, they sit on the dais when they hear presentations from the management on what they want to do on policy issues. They're advisory, they don't vote. But it really is a very direct engagement between both State Commissioner and stakeholders and the Board that's the decider and also between State Commissioner and the
stakeholders.

And I think there's a lot to be said for that. I don't think that should be feared. It sounds somewhat more complicated than what we have now and it is. But I think it facilitates that culture of engagement and inclusiveness. And it's a lot easier. It's a lot easier to sit back in a stakeholder process, write comments, then file a pleading at FERC objecting to something than it is to sit in a group of your peers and not compromise on a position. And I think we should want to facilitate that. We should want to further that type of dynamic.

And from our observation, and of course we're not wedded to the precise mechanisms of SPP, when we look what happens there it seems like they've struck some good cords. And we want to see whether those can be applicable to a Western Regional Grid.

So moving forward, we really appreciate this issue being part of commencing an open dialogue. As we've said in other forums this is a foundational issue. I think you can make a reasonable argument this issue needs to come first. The resolution of it needs to come first.

When you look at the RSC for example, which we're talking about here whether to have one, how it might be structured, they have a say in critical market design issues including transmission costs allocation and resource
adequacy that we're addressing in parallel processes right now. They're going to want to have a say. Once they're formulated they may want to change something. And so I think a reasonable argument that can be made that whoever the chicken and the egg is, whoever comes first is governance. And we ought to have a decent idea of how we're going to structure the governance before we make final decisions on some of the other critical policy issues.

And then obviously a little bit of an admission against interests I think California, whatever the hard issues are here, California obviously needs to recognize this needs to be a Regional. We are not going to have the same control over this tomorrow as we do today.

And there's other letting go. I was reminded in a meeting in D.C. just last week that FERC is the Regulator. And we can have the RSC have opinion, even delegated 205 Rights on transmission costs allocation, for example. But at the end of the day if FERC doesn't like it they can change it. And so we are going to be letting go to a greater extent than we are right now. That's okay, but it emphasizes the importance of the structures that we're trying to put in place right now.

CHAIR WEISENMILLER: Thank you.

MR. RECHTSCHAFFEN: I have a couple of questions
for Mike; if I could ask you maybe to comment on?

We heard Dan talk about the Massachusetts versus FERC case from the '80s and the FERC Order 2000. And I'm wondering if you have a view of how far -- you were replying about this a little bit, but maybe you could elaborate -- how far do you think the Body Of State Regulators model of developed authority with that group could be pushed where they have maybe just beyond shared authority, but sort of controlling authority over whatever the Regional ISO would file? Does that in your view run afoul of where FERC would allow things to go?

COMMISSIONER FLORIO: I don't think there's a bright line at this point. And I do think that FERC appreciates how many efforts there have been to do something like this in the west that have failed in the past. So I think there would be some deference to something that the west could come up with. Ultimately, since they don't give advisory opinions we may just have to send something up and see what the reaction is.

But I think there are, for normal issues that aren't of pressing urgency, I think the structure that encourages compromise, as Tony was explaining, is the right way to go. I think if we could achieve maybe a culture that SPP has created I think that would be terrific. It's just a long way to go from where we are today, but I do
think it's doable. And we're breaking some new ground here and I don't think the answer is crystal clear.

MR. RECHTSCHAFFEN: Okay. Another question, if I could?

Ron, your Consumer Advocate Organization, do you see any concerns from FERC's perspective with that and with paying for that through the tariff and so forth?

MR. BINZ: We don't have a case on point. We have in OPSI or in PJM authorization to fund consumer advocates. And it's in the tariff I guess you would say. I've forgotten the number; I think it was 300,000. It was rejected and then accepted, if I've got it right. So FERC has crossed the bridge slightly.

I'm proposing something a little more structured that might in practice be more meaningful in terms of how the process is affected.

I know all the FERC Commissioners. I don't feel like there's going to be a pushback on something like that as long as they clearly will want accountability for the use of customers' money in that regard. And I think that would be an important thing to build into it. And I would frankly give the RTO or the RSO the ability to shut it down if it's not working. I'm quite sure that would be something else that FERC would be interested in seeing.

So no, I don't. I think they've shown pretty
good flexibility on the funding for NESCOE and OMS and 
OPS1, this one Consumer Advocate one. And those were -- I 
think the pushback really was at the RTO, but not at FERC.

CHAIR WEISENMILLER: Let me ask a variety of 
questions, but I think probably it would be good to start 
with Commissioner Florio. And to some extent his paper 
reminded me of a New Yorker cover, but from the regulator's 
perspective of the world. And so one of the things we need 
to figure out is how to run (indiscernible) by the EIM 
Transitional Committee. As the regulators we're dealing 
with everyone else in this stakeholder process to come up 
with something.

So one of the things is have you given any 
thought to not only getting consensus among the regulators 
going forward, but how to pull in the other important 
stakeholders?

COMMISSIONER FLORIO: Well, I think it probably 
helps to have the State Commissions. And first of all when 
we talk about a body of state representatives I'm not 
assuming that that's all regulators. And I think we could 
leave it up to the states. Maybe it would be a Governor's 
Office representative, maybe it would be a State Energy 
Office. I'm not presupposing that sitting here now.

I think having Commission staffs engaged in the 
stakeholder process is important. We have some of that
now. I like the idea from SPP of the Board, the body of regulators and the stakeholder representatives sitting together. I think that is very much an encouragement to the kind of collaborative consensus-based approach that everyone seems to like.

That pretty much worked in the old ISO Stakeholder Board until we got in the middle of an extreme crisis. And then under that kind of pressure things fell apart. But prior to the crisis if there was a lot of division, you'd call a break and people would caucus and things would get worked out. And I think reasonable people can do that. So I think the goal would be to avoid these situations where there is a 52 to 48 percent vote on something.

But I think we have to remember that you do have the Public Utilities Commissions of the PacifiCorp states are going to have to vote to allow transfer of control. So they are being asked to give up a certain degree of authority and control that they have now, so I think to achieve that they are going to have to be assured of an important role going forward.

And I don't think State Commissions are just another stakeholder. I noticed in one of the decisions, whether it was MISO or SPP I don't remember, where there was an objection to the state regulator role. And FERC
said, "No. State regulators are not just stakeholders. They're part of our cooperative federalism view of how things should be done. And we want to encourage them to be very much involved."

So I think again it's not a fine line, but there is a difference between fellow regulators and stakeholders that needs to be acknowledged.

CHAIR WEISENMILLER: In a Transitional Committee, when we talked about things we tended to think of or talk about people who had real skin in the game. But we also thought that an important role for the state regulators was basically to represent the public, which has a lot of skin in the game in that context.

Now having said that one of the issues which -- I'll probably ask Tony more questions on this -- but which we which we also struggled with was a public power wall. And then distinguishing between someone who's on their governing body versus the general manager or the power marketer going, "No, that's not an independent member, per se."

But would you foresee a public power participant on this regulatory body?

COMMISSIONER FLORIO: I think that's possible and you could potentially have a state's vote proportion be based on the proportion of public and private utility load
in the state. I'm not prepared to say whether that's a
good or a bad idea, but it's one option that's out there.

CHAIR WEISENMILLER: Okay, Ron? Let's talk about
you were on the prior Stakeholder Board, which as you said
was very successful until basically the rubber hit the road
and it was impossible to make a timely decision. So in
terms of it seems like in that SPP context there is some
sense of you get some very arcane issues, resource
adequacy. I remember one the Commissioners saying it was
like walking into a room with people speaking rapid Italian
and not knowing the language that well. So basically at
some point there has to a decision, so you don't have
leaning on.

And so you're prepared to say if the regulators
can't come to an agreement at some point it just has to
happen?

COMMISSIONER FLORIO: Yeah. I think that that's
true. And absent in an emergency I would think you have
periodic Board meetings. Typically, these bodies of
regulators meet the day before the Board Meeting. I think
you should be able to at least carry over one meeting. I
mean, that happens with the ISO Board now if they're not
comfortable with a proposal. And they say, "Well bring it
back at the next meeting."

I think if you can't work something out in a
month or six weeks or whatever the time is then it's probably appropriate to say, "Well the states are not going to reach consensus on this. We're going to have to have it decided at another level."

But I think giving -- outside of extreme circumstances that require a decision today -- allowing that time for people to seek out a compromise is likely to be effective. And there's nothing encourages a settlement more than the threat that someone else will decide if you don't. And so I've been subjected to that and I've created that in different roles that I've been in. And it tends to work.

CHAIR WEISENMILLER: And my last question for you is in Commissioner Rendahl's paper there's a reference to transmission permitting. Now I think Commissioner Picker; I can channel him in saying that the current process is non-functional or dysfunctional at the PUC. But I don't think he sees that problem as ISO related, but more PUC-centric.

What's your sense on that?

COMMISSIONER FLORIO: Basically I think the problem is primarily CEQA-related, that the CEQA issues just seem to take a very long time. And you hear that in virtually every regulated industry that the permitting processes take too long.
I don't think even with an ISO that you divest the states of permitting authority, so that's going to continue to be an issue. For projects over a certain size we have to issue a CPCN. I think in at least one of the other states there was some concern, because they don't use a CPCN process. They vet proposed transmission lines through their IRP. And there was a concern that would that opportunity be lost in this structure? And I think that needs a little more investigation.

Again it comes down to if you're asking people to give up authority that they have now there's going to have to be something that replaces that.

CHAIR WEISENMILLER: Commissioner Rendahl, I'm looking at the list of concerns. The one that surprised me at not being there was the CAISO at this point is leading the country in sort of the role of distributed energy resources behind the meter in the procurement process. Does that give any -- that's certainly a key part of where we're heading, but that's not necessarily where many other western states are heading, at least right now.

COMMISSIONER RENDAHL: Well obviously I can't speak for all the states. And each state obviously is different. California has been moving in that direction far faster than the other states.

I think that will be an issue. And I think
that's covered more in the issue of respecting each state's resource procurement and energy policies. I think that's where that is covered. It wasn't addressed. Obviously this was initial addressing major concerns and each state is going to have their own way of thinking about this. Obviously Washington's Governor is very supportive of renewable energy and moving forward in that direction, but it's political in every state.

So each state is different. And I think that's going to have to be recognized in this process. And that's where it goes to. You know, what should be left to the states to still have control and decision over what should be left to the ISO? And how can that be moved forward in some sort of Regional State Committee or Member Committee? And I do support the idea of as much consensus as possible. And I think the SPP model allowing all of those entities to sit together, even though only the Board is voting, but you hear the same information.

One of the things I am discovering as the Chair of Body State Regulators is that communication and education and as much talking as possible is helping us all get to the same place. At this point I really understand your remark about RA being walking into a room, people are talking rapid Italian. That's what it feels like to many of us. Starting these conversations and going to some of
these CAISO stakeholder conversations about these technical issues, we have just not been exposed. We haven't learned Italian yet and so we're learning rapidly.

CHAIR WEISENMILLER: Yeah, there's some of it -- I mean, I used to testify in California and Nevada and New York, various, you know, FERC. And frankly, California's regulatory process tends to dive in the weeds. And certainly the ISO processes are fairly mind-numbing. So I guess what I'm saying is that I would certainly say the more you're dealing with the fundamental questions and the less that you'd feel like you and your staff to -- you know, looking at some of the charts here the Committee structure is like modern art, frankly. I don't think you have 40 people to send to the 40 committees --

COMMISSIONER RENDAH: No, we don't.

CHAIR WEISENMILLER: -- much less would it have much value? So again, trying to figure out what really matters on the regulatory side and what's more implementation is probably one of the real struggles, because otherwise you'll go into total overload on this.

COMMISSIONER RENDAH: Right. And we don't have the same staff that the California Commission has. We're significantly smaller and other states are even smaller. So the amount of time and energy to focus on this in addition to our regular workload it's a struggle, but we're
doing the best we can to get up to speed as quickly as possible.

CHAIR WEISENMILLER: Yeah, though again I mean, having said I was intervening in Nevada and California at the same time and Nevada was doing a very good job, but had much less staff, a much less cumbersome process. But you know they got things done that needed to get done.

I think again we're all struggling with how to on the regulatory side. As President Picker has said probably less is better on what the PUC is doing at this stage.

COMMISSIONER RENDAHL: So again, the Body of State Regulators is having conversations a couple of times of a month. They're open, anyone's invited, and we're trying to tackle some of these issues that we need to learn more about, so we can all become more educated. But it is a process for many of us.

And it's the speed at which this is moving is also creating some issues with the other matters we have pending before us. So we will involve ourselves to the extent that we are able to. And trying to focus on the issues that are key in governance, in my mind, is really very important.

CHAIR WEISENMILLER: No. That's very good.

I mean, the other thing I would say is part of the thing that's setting -- the timing is not really our
choice as much as the way PacifiCorp has framed it. So
certainly if indeed the issue is there's more time to bake
these things, well that's good. I think that's sort of
certainly everyone's sense.

So Ron I have a couple of questions for you. So
one of them is again when we went through the Transitional
Committee issues one of the things, which we were -- there
was some degree of polite jog back and forth between
"consumer representation" and "environmental
representation." And there are some groups where someone
represents both parties and there are some where there is
different representatives. So you have very much a
consumer focus here.

I don't know if we'll hear from Carl Zichella
later today on, "Well, wait a minute, well what about the
environmental organizations?" Or how do we harmonize that
in the compensation discussion?

MR. BINZ: I don't mean to be flip, but why are
you asking me? I mean, it's essentially going to be a
decision of the stakeholders. I think it would be a good
idea I didn't mention in this. I think in many of the
intervener compensation arrangements, including
California's, it's often the case the environmentalists are
compensated for their involvement when the item of their
advocacy is environmental and not economic necessarily. So
I think it's feasible. It's going to be what appetite does the general collection of stakeholders have for that? But I think it's not a bad idea.

I would also distinguish to some extent some organizations from others, I won't name them. But essentially there are some entities who are quite capable. In fact, that's their business plan to litigate or participate in proceedings. I don't know whether we would need to go out of our way to fund those. I would assume they would have some difficulty in showing financial need for that.

So it may be a little bit self-governing, but I specifically left open the opportunity for that in the proposal I made. It could be a lot more detailed in that respect.

CHAIR WEISENMILLER: Certainly this intervener compensation traces back to I'm trying to remember if it was 1980 or '82 to EDF, so it's had a long history in California. Now to the extent other Commissions are telling us not to export beyond our borders some of our practices, how common is that throughout the other western states?

MR. BINZ: Many states have that on the books. Not all of them exercise it. After you asked me about this I went back and did a little research. California is as
far as I can tell is far and away the most active in that respect. It's on the books in Oregon. I don't know if it's on the books in Washington. There was an amendment in the Legislature, but I don't think it passed if I'm correct. Colorado has one. It's been disused in large part because of a state-funded Consumer Advocate Office, which was set up. And that tends to rule out compensation for entities doing the same subject matter. Wisconsin and Minnesota both have a somewhat more active intervener compensation. Maine does.

It's kind of hard to discern, I mean it's hard to run this all down. I read a 1990 document, which said that 29 states had that capacity in their statute. But I'm quite confident that not more than a handful actually do it with any regularity. And none to the extent California does.

CHAIR WEISENMILLER: I think the other thing which I struggle with, I think Tony made the point that as we're going through this transformation it's good to do sort of that zero-based exercise on stakeholder engagement, figure out what are the best practices throughout the various RTOs, ISOs that exist.

And one of the things, which I think I asked you about, and but I'm assuming there isn't any clear studies at this point comparing. Some of these processes look
incredibly cumbersome or complicated.

But just again, what are the best practices or best elements of practices we can build into the stakeholder experience going forward? It seems to be at least one of the challenges.

MR. BINZ: A couple précis, it's clear that poor performance can screw up any system you set up. I think we should all acknowledge that.

Sometimes they're self-correcting. The MISO stakeholder process sort of revolted and caused MISO to go back and do a stem-to-stern review of what they were doing. They eliminated 14 committees or something like that and did that. So it can go off-base, there's no doubt about it.

And I made the recommendation -- at least with respect to both State Commissioner and stakeholders, I'm calling them; not that Commissioners aren't stakeholders -- I made a recommendation of sort of a manageable high-level committee. I, in my paper, just illustrated with the example the 19-member Stakeholder Committee, with categories represented. That's common and as far as I can tell, fairly useful.

I think you will hear CAISO push back and say, "We do all that now in a different way." And maybe that will fly across the region, maybe it won't. You've got a
region that's as has already been described, where the
perception of how things work in California is not
necessarily a good one. And I don't know on this
derivative issue if that would carry over, but it seems to
me a more clearly defined structure is hard to argue with
in that way.

So it's up to the stakeholders. I think SPP is
an example of where the ISO and the stakeholders are
relatively close to each other.

By the way, we're talking about this, I don't
we've ever been to a SPP Board Meeting. But the
Stakeholders Committee sits interleaved with the Board
Members around the table. And when a matter comes up for a
vote the first vote is of the stakeholder's alone and they
raise their hands or not. And then the guy sitting next to
him or the woman sitting next to him gets to vote as a
Board Member. So it's pretty instantaneous feedback and
they really like it.

Now that's not really legal authority or anything
like that, but it's a way of tuning your system in a way
that I think gives a little more meaning, and the word that
Mike Florio used, "trust" to the relationship.

So I think you take your best shot at what would
reasonably seem to work if it is done correctly, but always
allow for the possibility that it could go off track. I
freely admit that and I think that's going to be true of any system. The difficulty here is that you're integrating a much less homogenous set of state interests into an entity. There will not be the automatic trust that comes if you are rounding up the, just to pick another unorganized region, the southeast or something; it'd be a lot more closer in interests.

So I guess to finish up I think a reasonable and what I would say safe or maybe even conservative step would be do its structure. But I would never shut out the arguments of the CAISO if you can do this more informally.

But it's up to the stakeholders. And if I were a State Commissioner or if I were the lobbyist for the Wyoming Industrial Energy consumers I'm not sure I would want to just be told, "Don't worry, it's going to be all right." I mean I'm lampooning, but that's my prediction as a 44-year western.

COMMISSIONER FLORIO: Could I ask a question of Mr. Binz since we have his benefit of his expertise? Something that's come up in the conversations amongst State Commissioner that's obviously worked out in many of the other ISOs and RTOs is Commissioner participation, which I think needs travel essentially to these Committee meetings, is funded by the ISO. And ultimately from consumers, but the money comes from the
ISO.

And a concern has been raised about ethics or gift rules that Commissioners are subject to. And certainly we have the ISO as a party in our proceedings. And as an initial matter our legal staff is very nervous about the idea of a Commissioner getting travel funding from somebody that's a party in proceedings.

Has that come up in other places? And has it been resolved to your knowledge?

MR. BINZ: Well, I can think of examples that are in line with what you're asking there, not necessarily RTO issues. Some states are extremely strict; New York is one of them. It's almost impossible to find anybody who legally can fund the New York Public Service Commissioner to travel anywhere.

That's true of some other states.

I think a workaround, and I don't mean this in any derogatory sense, a workaround might be to create a pool, which somebody else administers. I don't know if that helps or not, but that might be one way of doing it so that it's not the RSO who is making the decision of whether to sign this check to Commission Florio or not.

I've suggested with respect to the State Utility Consumer advocates that they administer a fixed-amount fund. I would think you might want to consider the same
focus (indiscernible) I don't think it's a merit issue; I think that it actually might pass muster.

CHAIR WEISENMILLER: Yeah. And Mike, I was going to say, the one thing we talked about in the Transitional Committee was also making sure we scheduled things around some of the preexisting western regulatory agencies or events as a way to try to -- but as you know and certainly at some point events will get in the weeds.

I'm sure Dan will be elected to go through this sort of conflict stuff from the various states and try to figure out what's possible or impossible. But for now I think we have the MISO on the line.

MR. BARKER: So as we try and pull up Steve Kozey, who we do have on the line, however -- Steve, we tried to unmute your line. Are you there?

MR. KOZEY: Can you hear me now, yes?

MR. BARKER: Yeah, there you go. Thanks Steve, the floor is yours.

MR. KOZEY: Okay. Well first of all, thanks everybody. And the hard part is going to be to make sure I address what you really want to hear rather than just repeat some things I've said in the past.

Maybe one contribution since we just had the question about funding and conflicts of interest, MISO funds the Organization of MISO States. The only check that
MISO or checks in a year that MISO sends, it sends to that organization, which each of the regulatory bodies have joined. That organization is responsible for keeping and auditing its own books and if that state organization gives money to or refunds travel expenses to its members. So that's one way to imagine putting these problems a little bit at a remove. So maybe that's helpful to the discussion people were just having.

By way of background of the multi-state RTOs, MISO was the only one that didn't have a preexisting power pool, either a tight pool like PJM did or the historical loose pool, Southwest Power Pool. So it was the only one that had to make up its organic documents instead of amend documents that had already been around. So that will give you probably just a little insight again that each of these organizations feels a little bit different, one from the other, even when they're dealing with very similar problems, because of how they came into being.

And our organization's original formation it was in a period of time when there were thoughts that maybe there might be a mandatory obligation to join such an organization and therefore some motivation for companies to act ahead of a mandatory federal command. And the companies who talked to one another first then faced the need to talk to let regulators and stakeholders into their
conversations if they hoped to have a success when they filed their documents at FERC.

And in that interplay of how to create something that would be voluntary, but that would have members. And in those states where such an action was going to require State Commission approval to convey operational control of the transmission facilities to the RTO, the folks back in the mid-90s hit on these balance points that were acceptable enough to everyone. They turned out not to be final, because the Organization of MISO States, for instance, wasn't an original creation. That happened in the very early 2000s as a more apparent, good idea to everybody.

But the notion that the voluntary organization, once the transmission owners agreed that they couldn't control it, they didn't want groups of others to control it, so that pushed towards an independent organization. But nobody wanted an independent, unaccountable bunch of people doing all this work.

And the original start point for that balance was to say, "Members will elect the Board of Directors." And the Advisory Committee, that top high-level stakeholder body will exist for two purposes, the first one being to give advice to the company and its Board about policy matters. And the second to be a place for stakeholders to
be kept informed of what the RTO was going to do, what it was planning to do. There didn't have to be as a matter of rule stakeholder approval for making filings like there had been developed in PJM in New York. But on the other hand, as a practical matter if the RTO was going to file things with FERC that large portions of its stakeholder populace disliked, it was very, very unlikely that FERC was going to approve them. And voluntary organization people can and have withdrawn.

So maybe I'll stop there and see what you all would like to talk about. Unfortunately, I can hear no one.

CHAIR WEISENMILLER: That's right. I was looking around at the dais. And now I'm going to look at the panel and see if people have specific follow-ups.

Go ahead, please. Mike, Ron.

MR. BINZ: This is Ron Binz. Could you comment on the most recent reorganization of the stakeholder process that was undertaken at MISO?

MR. KOZEY: Yes. Thank you. And I don't know if you still get the Honorific Commissioner or the almost Honorific of almost FERC Commissioner, Mr. Binz, but in any event I will give it a try.

MR. BINZ: Nice job. I should have given this caveat. What I say here is not reflection of the federal
Energy Regulatory Commission, because I'm not a member of
the damned federal Energy Regulatory Commission.

MR. KOZEN: Yes, sir. I think we had gotten to a
point where the stakeholder process was frustrating
everybody in part because of proliferation of groups and
subgroups. And then how to use time well in meetings, how
to get MISO staff that were going to support the meetings
to get material done on a timely fashion, and how to avoid
somehow the same topic or a closely-related topic from the
PIER-ian 304 forms. (phonetic)

So our Board last year engaged the stakeholders
with a challenge and said it was considering getting itself
to have fewer meetings. Couldn't the Advisory Committee do
that? And we spent about six, eight, nine months together,
management and the stakeholders, with some enablement by
outsiders. Then we reached the conclusion of cutting about
a third of the bodies. And so far I'd say we're cutting
out about at least 25 percent, maybe as much as 40 percent
of total numbers of meetings. And we're at the beginning
of experimenting or judging whether that has really
resulted in better stakeholder-Board communication.

A lot of people on the call will know Bob Gee, a
former Texas PUC Commissioner, among many other things.
And Bob was a facilitator at our last Advisory Committee
meeting for a dialogue on a hot topic between the Advisory
Committee and the Board.

So Mr. Binz, the goal was get the High-Level Stakeholder Committee up out of the details and get it to talk to the Board in a way that the Board, which oversees management but isn't the substitute management, that they could talk higher-level policy issues. So that's --

MR. BINZ: Thank you, thank you. It sounded like from what I read the complaints were that so much of the underbrush was getting in the way of larger policy considerations, which the High-Level Committee was initially thought to be the appropriate place to look at those. And so --

MR. KOZYE: Exactly, exactly.

And therefore it was getting from one side you'd say, "Well, why don't we have higher-level people serving on this Advisory Committee?" And you'd say, "Well, because it's not worth their time to come, because of what's talked about." "Oh. Well, that's not very good."

The Commissioners, the regulatory sector is the only sector where the Commissioners themselves, the highest-level person from a group would be attending, not so many vice-presidents from companies in the other sectors over time.

MR. BRAUN: I would add, Chair Weisenmiller, that we're pretty upfront that we want a more formalized
process, but we fear greatly that organizational burden.

I mean many, many, many of the POUs don't have huge regulatory budgets to follow all this. The only word of caution I would note -- and so we are really focused on that High-Level Stakeholder Committee -- the only word of caution I would note to that is that -- and this gets back to the Italian references -- there are uplift charges. And I can't remember the name of one in particular that we had a couple of years ago. Mr. Smith behind me I think would probably remember it. And talk about into the weeds of Italian where we almost racked up $200 million in one year under this one uplift charge that very few people understood how it was derived.

So there's a bit of Italian that's necessary in this. I don't think anyone is going to fool themselves that they're just going to fly at 50,000 feet. There are some big money issues that are pretty far down into the weeds and the regulators and the stakeholders that are contemplating this need to consider that.

MR. BINZ: Chairman Weisenmiller, I'd like to take a minute on one thing?

I talk in the written paper, not in the slideshow, about the most important thing to focus on in my view or one of the most important is how does the Stakeholder Committee and/or the Regulators Committee get
their stuff before the Board?

I was counseled that by a number of people I talked to the most important thing they said is to figure out how these High-Level Committees actually get on the Board's agenda? And one of the things I suggest in my paper is that if the State Commissioners -- and I just pulled out a number, I said a super-majority, but do what you want -- ask for something from the Board that the Board be required to act on it. Not just let it sit on the table for the next few meetings; a complaint that we read about in ISO New England.

And I think you can say the same thing about the High-Level Stakeholders Committee there should be a right to be heard or something in the description. I'm not saying that can't be abused. Legislatures are very good at doing that. But at least intentionally we should, it seems to me, imbue these High-Level Committees with those kinds of rights.

It's not far from the discussion about 205 filing rights. If State Commissioner knew that the Board was going to take seriously their 205 preference. That may help obviate the need to have that structured the way we've been discussing early to date.

So that's my two bits on that; I think those relationships, the top level.
The lower-level stuff, all of the what I call underbrush, that's going to go where it needs to go. And the (sounds like) bell system, they were remarkable in how they could turn technical processes through all of this maze of committees, so it can be done. I don't think we need to worry about that right now. We need to worry about the larger, more important institutions.

CHAIR WEISENMILLER: I guess the other question that had come up when the Transitional Committee was for Regulatory Commissioners, whether we were referring to the Commission or their staffs. And in that context we nearly said, "No. We want it to be Commissioners." And that tends to really force everyone to be much more disciplined, on time and priorities.

COMMISSIONER FLORIO: My understanding, and again I could be corrected, is that these organizations are organizations of Commissioners. But that there is a lot of staff participation. And Committee work would tend to be done by staff. But I'm not sure. I've looked at bylaws that there may be an instance in some of them where a Commissioner is the member, but they can give their proxy to a staff member. But I think the general thing is Commissioners vote and staff does the work, which is kind of how we operate anyway.

CHAIR WEISENMILLER: Well, exactly. And the
Commissioners set policy and staff does the technical work, yeah. But again, I think the more you keep it at a principle level the higher level the conversation will be. But god bless, have the staff crank through the specifics.

MR. BINZ: As a practical meeting, you're going to be meeting at NARUC almost certainly. They're there for another purpose. And they're going to have a Tuesday morning meeting with your (indiscernible)

CHAIR WEISENMILLER: We would like to thank you for calling in and for answering our questions. Certainly we may have some follow-up with you.

Go ahead, Mike.

COMMISSIONER FLORIO: This is Mike Florio. I have a question.

I think for MISO the area where the OMS has 205 Rights is narrower than an SPP. But how has the process worked in MISO? Is it that the OMS comes up with a position? I understand there haven't been disputes, but OMS develops a position, and then Board agrees with it? Or is it the Board comes up with a position and OMS has concurred in it, which way does it flow?

MR. KOZHEY: And you're right, there hasn't been a practical application of this yet, so it's looking at how it's done on paper. In a circumstance where changes to transmission cost allocation, changes to the status quo,
would come up. They would come up in a MISO stakeholder process then they could have been initiated. The question, the problem, the circumstance that is making people think there needs to be a change can start with anyone.

The point after all this listening and consolidation, consultation rather, that if for some reason what MISO said it was going to file did not accord with the input it was getting from the State Regulators in that instance the State Regulators would say -- I don't remember the voting rules, I think it's more than a simple majority -- but they would say, "MISO, in addition to filing your proposal, file this one too." And FERC, you have two to consider simultaneously as to whether they're just and reasonable. And what the right outcome should be.

So in a hypothetical, if the states came first and said, "Kozy, MISO's cost allocation is stale, producing unintended consequences, you need to get on with it, fix it," they would be the initiators.

Then when we got to the "Well, fix it exactly how?" that's where this -- if what we filed wasn't what the super majority of the State Regulators wanted and they had something they wanted we would have to file it too.

I have always thought that would be an exceptionally rare hypothetical, because in this voluntary organization we've got the State Commissions as bodies that
have to approve the initial move of system into MISO, they
need to be happy how things are working out in total for
their companies and their customers. So if we had a super
majority of the states in our region saying they thought a
certain of approaching cost allocation was best it's really
hard for me to imagine of filing something different.

But we haven't yet had a case, so this is all
just from the documents as they exist.

    MR. RECHTSCHAFFEN:  And Dan or Steve, this is
Cliff Rechtschaffen. And I don't want to be too much of a
legal geek, but maybe you could say quickly if there were
this issue of concurrent filing under 205, is there a legal
standard under which FERC has to give it more deference
than if the states were filing under 206's interveners or
the way other parties might file them?

    MR. KOZEY:  Yeah. I'll try to go fast and tell
you what people have argued to me. That some people feel
that a complaint filed by somebody under Section 206 of the
Federal Power Act, that there's a greater initial burden to
show that the status quo is deficient, wrong, inconsistent
with the public interests; bad, generally, than there is on
a filing made to change something that already exists,
maybe under Section 205. When all you have to do is show
that the new is going to be just and reasonable.

    So people argued as we developed where we are
today that they didn't want to just be a complainant in 206, they wanted to be able to be the filer or the cause of a filing to change the status quo that had this, in their minds, lower threshold to meet.

CHAIR WEISENMILLER: Sure, Tony.

MR. BRAUN: This is Tony. I'm mindful of the time, but this could be an awfully complicated conversation, but something that has popped up in my head, and maybe Dan or Steve can address this, is that since the zone of reasonableness which is FERC's discretion, is not a single point, you could easily envision that there would 205 filings that both would fall within the zone of reasonableness. And I don't know how that affects FERC's discretion.

Obviously since transmission cost allocation is a somewhat timely issue out here, how these things might get resolved or structured is somewhat important to us. And so that's certainly something I'd like to get educated on and hear some thoughts. I know it's hypothetical since this hasn't happened, but I've still thought about how would FERC look at two filings, that both could be considered JNR and break the tie, essentially.

MR. BINZ: Commissioners, do they know about the key points --

MR. KOZEY: Yeah, what we heard -- oh, go ahead.
CHAIR WEISENMILLER: Please, Ron, give us --

MR. BINZ: How about flipping coins?

CHAIR WEISENMILLER: Okay.

MR. KOZEY: This is Steve Kozey for MISO. The reaction we got when consulting FERC about making the filing that was going to add Section 205 Rights for the Organization of MISO States, we got unofficial, non-binding but oh well FERC would have two matters going before it as a toss-up, FERC would have to pick.

Now we say that within the usual range of sometimes FERC has to pick just when there's one person filing. And it says, "Well, I would have accepted what you had filed if only it had five different elements." So even when you put a change before the Commission you don't always get just yes or no, you get a conditional acceptance or a dismissal without prejudice or something else.

But we thought we would be giving FERC in the hypothetical example, a really good choice between two systems of thought about what was going to produce the best answer for the public and that they would have to pick.

CHAIR WEISENMILLER: Actually, let me ask you a question. Tony had sort of framed it for us earlier -- but to at least get on the table and see how MISO dealt with it -- Tony had raised the question of transition in terms of preexisting transmission rate contracts what happens;
what's the transition period? How did MISO handle that?

MR. KOZEY: Boy, this is going to be a stretch for me, so let me say this would definitely be one where when I get home I'd like to maybe compose an email and get it sent back.

There were some services that just became -- they were no longer individual company service that became MISO services. The rates for them stopped being individual company rates and became MISO rates. So when the interior tollgates were opened up there was lost transmission revenue for every one of the transmission owners from the fact that you wouldn't need to pay multiple hurdle rates to get out. So those kinds of transactions of multiple costs shrank to a single system cost.

However, there were a lot of agreements that ended up, that were bilaterals before MISO existed, that we had to go through a long proceeding at FERC about which ones could be amended voluntarily, which ones could be amended by FERC, and which ones have to be grandfathered. And so my recollection is we ended up with agreements based on or status based on a legal test of what the contracts had said as to whether their existence was grandfathered or not.

Hopefully that answers your question.

CHAIR WEISENMILLER: Yes, that helps.
I was going to ask Tony or Dan if that is similar to what was used before?

MR. BRAUN: Well, dredging up the archive files the California experience I think was a bit unique in that much of the conversation on market design issues, while the WEPEX process was robust, happened in the context of the legislative development, right? And so some of these issues were actually referenced, although not decided, in some of the 1890 discussions.

By and large I would say California grandfathered more existing transmission contracts than in other areas. And I think the California POUs would reflect that it went fairly well.

I think as this relates to a regional discussion, and I mean I'm much more conversant in the contractual terms of the California POUs, there is a wide, wide variety of contracts out there. Some analogous to what the California POUs used to have, most of which are gone now, and some not analogous at all. And so that's from an implementation issue something that's going to have to be wrestled with. And we don't know whether the governance structures will be mature enough by that time to bring their focus onto that kind of issue.

But it'll definitely be from an implementation standpoint and something that's going to be of import to
several of the public power entities across the western footprint.

CHAIR WEISENMILLER: No, thanks. Obviously you're following a reference that is an important issue to your clients in this area. Obviously I've heard a lot of other -- obviously not governance, but TAC or whatever types of questions. So it seems like I at least wanted to get some spotlight on this in this context.

MR. BRAUN: Yeah, especially for the entities in the northwest and others that have Order 888-type derivative contracts or even transmission arrangements that predate Order 888. How this all is going to transition over to that for them and get them some sort of commercial certainty of how they're going to meet their load-serving obligations is a critical matter.

CHAIR WEISENMILLER: Well, at any rate somewhere in the future we'll probably get more into this topic, but again higher level. I think if there's no other questions let's a break for lunch.

I think we're going to back in let us say at 1:15; can we start.

Wait, Kevin are --

MR. BARKER: Just a little announcement. For those online we're only waiting to take comments at the public comment period at the public comment period after
we'd take comments for those in the room.

Folks, if you would like to make comments please on your way out to lunch fill out the blue cards. It helps with the reduction of the long queue at 2:30 when we start to take comment, so please fill those out. Thank you.

CHAIR WEISENMILLER: Kevin, are you doing anything for people on the line?

(Audio cuts off abruptly.)

(Off the record at 12:18 p.m.)

(On the record at 1:17 p.m.)

CHAIRMAN WEISENMILLER: Good afternoon. I'd like to thank everyone for coming back promptly. We have a lot to cover, trying to keep things going on a timely basis. Again, so thanks for your participation.

The next panel is going to be a roundtable discussion of this morning's conversation, with at least some of the members being part of what was the EIM Transitional Committee. And the Chair of that Committee, Rebecca Wagner, has agreed to be the moderator of this panel. So let me turn to Rebecca now.

MS. WAGNER: Thank you, Bob. Thank you for inviting me. And I would note that we need to change my tag to like "Recovering Public Utilities Commissioner of Nevada." So the governance discussion --

(Brief audio issues)
All right, so obviously we heard a lot of interesting discussion this morning on governance. And as I've been traveling around the western part of the -- or the western states this is the topic that seems to be generating the most attention. And it seems to be a precursor towards any other additional movement to regionalization of the California ISO.

So I'm going to go ahead and start with introductions. I know that I have one panel member that is walking in, so I will hold off on his introduction.

(Off mic colloquy.)

Like I said, I'll go ahead and start with introductions of our panelists who are seated in these front two rows. You'll get to know them by the backs of their heads.

We have Mark Smith, Vice President of Governmental and Regulatory Affairs for Calpine; Dede Hapner, Vice President FERC & ISO Relations for Pacific Gas & Electric; Marc Joseph, Shareholder with Adams, Broadwell, Joseph & Cardozo and a representative of labor; is that correct? The one and only recovering from back surgery, Carl Zichella, Director of Western Renewable Transmission, or NRDC; Kevin Woodruff, Consultant to TURN, The Utility Reform Network; Tom Darin, Western Regional Representative for AWEA, and Rachel Gold, Policy Director for Large-scale
Solar Association.

Before we get started on our roundtable I just want to establish some of the ground rules. I tried to talk to you guys about this a little bit before, let's stick to governance. It's an interesting topic. We don't really want to wander into TAC, RA, Grid Management, some of the other ongoing stakeholder initiatives and discussions on this. Governance is clearly a high priority and we'll stick with that for all of our sanity.

So what I'm going to do is start with an open-ended question for you. You can ignore my question and then say what you want to say or you can answer my question. And then we'll move to general principles, discussion on general principles of governance, some of the high level things. And I'll be calling on you with specific questions.

And then finally, we'll move to impressions of the papers that you heard about this morning. And then some of the topical areas like states role, stakeholder processes, transitional periods on how all of this is going to work. But really try and keep it at the broad, high-level, because we all have a tendency -- especially a lot of the folks in this room to get down into the weeds too quickly -- and we really need to think about things from the high level before we get down too far.
So with that, my broad question that you can answer any way you want is -- and I'll just call on you guys so you never know when it's going to come -- I'm going to start with Kevin Woodruff, first.

And why is governance importance important to your organization? So tell us Marc or Kevin, why are you here today?

MR. WOODRUFF: First, to be clear, I'm a Consultant to the Utility Reform Network. I'm actually an independent consultant. So when you talk about my organization, let's talk about my client, TURN. But as a private citizen, I have the same kind of concerns.

Governance matters, well who makes decisions about some of these momentous -- matters very, very much.

The concern, and I think and I'm going to go back to Chairman Weisenmiller, you paraphrased Travis Kavulla, at last year's CAISO Stakeholder Meeting. And I remember that statement very much, as well. It was like one or two sentences where -- and my paraphrase is it's just a piece of software, you know? Let's just start using it.

And as far as that goes that's really good, but there's a lot of overhead that goes with using that piece of software, a lot of exposure to other issues. And so who makes the decisions about those issues matters very much.

There is a concern that challenge of going to any sort of
multi-state organizations, you expose yourself more and more to FERC regulation. This is true for all six of the states currently in play or the PacifiCorp states that have a giant proposal to join.

And certainly between California policy and the way that FERC manages things, it's not clear to me at all that that combination is going to be healthy for the state. You know, the issue of capacity markets is the classic one where we do things in California to tell the utilities to go by capacity and other load-serving entities to go by capacity. It counts in their resource adequacy filings.

Sorry, I'm starting to talk basic Italian now, but I'm trying to give an example.

The problem is that when some of the state-mandated procurement goes to the FERC, they may not see it that it should count as capacity and so that we're not really getting the benefit of -- you know, the full benefit -- that we're paying extra for capacity that we shouldn't even have to be paying. That's the classic simple example of the problem with federal and state jurisdiction.

And the recent Supreme Court decision, I think, sort of reinforced that concern. As Commissioner Florio said it was no surprise, the decision itself, nor the unanimity, but that's a really big concern. And that's my quick answer, but I could go on.
MS. WAGNER: Thank you, Kevin.

Mark Smith, I'm going to pick on you now. Why is governance importance to you?

MR. SMITH: Well, I mean I think Commissioner Florio said it very simply. And it's a precondition to obtaining the benefits that we're all here to try to get, which come from a larger, broader footprint. It's the ability to better utilize the renewables that are being generated in California elsewhere, instead of curtailing them at great cost. In order for us to expand and obtain those benefits, a precondition is a reform of the governance in a way that's going to create more independence. And while still representing member states' interest as best as possible.

That's it as simply as I can put it.

MS. WAGNER: Thank you, Mark.

I'll turn to Rachel. See, you guys have to pay attention because you don't know who's going to get called on.

MS. GOLD: I'm ready. We have a lot in common. I mean, LSA members share a lot of the same interests and concerns that were echoed both this morning and by my colleagues just now, in that we -- the formation of the RSO -- is something that potentially can bring a lot of benefits specifically related to meeting our climate goals.
and the integration of renewables, and cost savings, and
Grid reliability improvements.

And we want the governance of the RSO to properly
be set up to meet those goals. And really share the
concerns around ensuring that state rights are protected in
that process and being really careful about how we
construct the governance, so that we can really achieve our
goals.

MS. WAGNER: Marc Joseph.

MR. JOSEPH: Thank you. I'm going to start with
what I think is a basic principle, which everyone in
California shares and I think regulators in all the other
states share. And that is that the Regional ISO is a tool,
not an end in itself. And it's a tool, which if we can do
it right, will protect and advance California's interests
and not undermine them. And every other state will have
exactly the same interest. They don't want their interests
undermined.

And I think the way to get there is we need a
durable governance structure, something that's not going to
be yanked out from under us at some future time. And is a
durable structure that protects state interests.

We know right now one thing that we don't want.
We don't want to have capacity markets forced upon us.
That's the big issue de jour. We don't know what the
issues are going to be five years from now or ten years from now. And that's where we have to get the governance right. And by right, I mean governance that is responsive to states.

I think the idea of so-called independent experts is a really bad idea. We don't want independent experts that are responsible to no one. We want a Board that is responsive to the states that are creating this.

And I think the model that Mike Florio's paper set out has it close to right. I think the idea of articles of confederation, where we have Board with people who are avowedly representing states, is the way to go. And using what he termed the House and Senate voting, so that you need both the majority of states and the majority of load to make decisions. I think that's the only way we can both protect California's interest and protect the interest of other states who don't want to be trampled by California.

MS. WAGNER: So it's that little nexus that everybody has the same interests, but for different reasons why.

Dede?

MS. HAPNER: I guess for me, just globally, the issue of governance is paramount to this process. I think most of us would agree that the benefits are there to be
had. We've seen lots of benefits in the EIM market. Certainly, we've all had growing pains during the almost 20 years that the ISO has been around and a lot longer in the making. Several of us, including Commissioner Florio and some others in the room, were around for those governance discussions. And we stretched and flexed and sometimes it worked and sometimes it didn't, but the concept has been durable going forward. So I agree with Marc that durability is important.

For me, the state versus federal is a little tricky. I do think that the role of the State Commissions has to be protected. There are certain responsibilities that they have for setting retail rates, procuring on behalf of customers. The states have individualized responses to renewables and global warming responses etcetera. And so I think those things have to be respected.

So I think the first thing that we have to do, and part of this I think we'll get to when we start responding to the papers and sharing some of the experiences we had on the EIM Transition Committee, is figuring out what that right balance is to move this ball forward.

I don't mean to put too fine a point on it, but this is the one element of the integration of PacifiCorp
and other entities into a regional footprint that has a deadline on it. And there has to be a demonstration of movement on the part of California along with its state colleagues to give the states, our states, and the other states enough confidence that we can work these very thorny details out. And I'll refer to that more when we talk about what we learned from EIM.

MS. WAGNER: Okay. Thank you, Dede.

Tom Darin?

MR. DARIN: Thanks, Rebecca.

And again to everyone, I apologize for being late. I assure you that it was only a ploy to get Jan Smutny-Jones to pay for my lunch, because I had to run out of the restaurant. I hope you paid.

AWEA is here to your question, and I think I've heard this there across the board which we agree, is we want governance to work, because we see huge potential benefits for an expanded ISO in WECC, whatever form that starts initially, and maybe expands over the years.

And they've been stated that just from the wind industry's prospective the efficiencies are of a larger market, the ability to integrate tones of renewables at low cost. We hear stories about states like Colorado going it alone and paying six times the amount to integrate the wind in Colorado than the same company, Xcel, who is in
Minnesota and part of MISO.

So if California and now Oregon and other states are going progressively go to higher percentage of renewables, we need a larger geographic market with geographically diverse resources and with also technological diversity. And so we see that as a huge opportunity there.

And then lastly just from the wind side specifically, not only the nation's best but some of the world's highest-capacity factor winds are within WECC. And while we have 6,000 megawatts of wind in California, and our industry has plans to do some more including repowering, we see and my members see a huge opportunity within the rest of WECC to participate in a larger market, where California both imports and exports renewables. But the trick though is to settle all of the interests that have been mentioned here, have been mentioned in the papers this morning, about governance.

And I'll close my opening statement here by saying that within AWEA I'm on the State Policy Team. And so I'm not in the DC headquarters. I work with our regional groups out here in the western 11 states. And so what I focus on the most are state Legislatures, state utility commissions, and state governors' office, to advance the top priorities of the wind industry.
And so near to dear to me is this conversation about the right role for the states and protecting that, but also allowing this Board and the larger ISO to function. And I think that's where those two interests, and others, in a large sense meet up in this governance conversation. So I'm happy to be here and be part of it.

MS. WAGNER: Thank you, Tom.

And last, but definitely not least, Carl Zichella.

MR. ZICHELLA: Good afternoon, Rebecca. Good afternoon, everyone. I apologize for my voice.

When we talk about why governance is important in getting this right, I mean it's fundamental to having the system and as Marc pointed out, getting the benefits that we've been looking for.

This electricity deliver system that we're talking about and doing a better job with it, underpins everything in western life: our economy, our well-being, all of that. It's got to be founded on something that people have to be able to trust that the system is being operated to the best interests of everyone. So it's a trust that the system is going to work. That it'll be as reliable as we expect it to be.

Trust that the system is fair, so that generators get an opportunity, especially renewable generators from
NRDC's perspective, to participate in a market that enables us to meet very lofty goals. Trust that the societal benefits of cleaner air, more efficient service, etcetera are all incorporated in this. And trust that the decisions are vetted by people that are going to be living with the consequences of it. And I think this really goes to the stakeholder role that Chairman Weisenmiller talked about this morning.

So those are our main aspects of that, that I think make governance the critical pivot point. If you don't trust the governance in this thing to be operating fairly, reliably in the best interests of system to provide the benefits we're talking about, I don't think it has much of a future. So we have to start there, whatever we do.

The fundamental elements of how you get there, I think, have to do with things like independence, having a proper role for the states. I think that every RTO in the country has recognized that that is important. In our EIM work we labored mightily to create a role that I think people feel pretty comfortable with is an effective approach to that. Obviously, we'll need to do something more here because this is a bigger challenge, but I think we've identified that as one of the key elements here.

Interacting with non-participating parts of the system, PMAs, the governance structure has to facilitate
those kinds of conversation. We've seen from Bonneville a high degree of willingness to coordinate. They have done a great job in helping to facilitate participation in EIM. We've had many conversations with the Western Area Power Administration. They have shown an interest in joining RTOs as they've done in the Southwest Power Pool.

And I think we're getting to the point where if we create space for those kinds of interactions and concerns to be understood and addressed by the Board, by the governance of this body, we can actually build something even better that incorporates most if not all parts of the system in the Western United States. That's not going to happen overnight. There's a lot of distrust that's been out there, because we've operated in a different way for so long. And we've done a lot of good things with the way we've operated. But as the system is changing, our challenges are much greater, our integration challenges are much greater.

Finally, I think the things that need to be key elements of governance is it has to be workable. We don't want to create something that's so overly complex -- and I think I'm echoing something Tony Braun said this morning as well -- we want to have something that has enough inputs, but not too many. So that we can get the right information, the right decision-making process and the
timeliness of decisions to help make the system operate to
the greatest extent that we can make it.

And then I would be remiss if I didn't talk about
environmental performance. And obviously, a more efficient
Grid, a more reliable Grid in my mind, is one that's better
coordinated, better operated over large geographic areas,
as Tom Darin just talked about. And that provides great
environmental benefits for us, while providing everybody a
fair shot at participating in the system.

EIM gave us a good starting point to look at in
the work we did and the research we did in putting together
that transitional plan. And it's not the ending point, but
it certainly gives a good jumping off point on how to think
about and structure some of these.

And I was struck this morning by the novelty of
Mr. Binz's proposal. We may not have to get that complex.
We can perhaps have a process that involves a transition
from the existing Board that creates a new Board that then
assumes its role as we did with the EIM Transitional
Committee. And maybe that's not good enough, but I think
that is something that we should be considering in terms of
avoiding unnecessary complexity.

MS. WAGNER: Thank you, Carl. And I need to
remember that when you say finally, it's not really
finally. But you did well.
So I'm going to turn to just a general question on governance. And I'm really looking to the panel for thoughts on best practices.

And first I'm going to turn to Dede. We know that you have just a few years of experience working on issues of governance in California, you mentioned dating back to 20 years ago, and prior to that the years building up to the ISO starting.

In your mind, based on your experience, what are the essential fundamentals of good governance? What do you see as the pillars of the structure that we need to be considering before we get down into the weeds of anything else?

MS. HAPNER: Well, that period of time there were a lot of things about the governance and then thinking about putting the ISO together and then sustaining it.

As most people know, now that didn't know when we started this process, we didn't start out with a five-member Board that was appointed by the Governor and confirmed by the Senate. We had a Stakeholder Board. It was unwieldy at times and ballooned to 26, I believe of us that are at the height, which also made for an even number, which wasn't helpful.

But everyone was in the room, absolutely everyone was in the room. Everyone knew that while they were
representing the organization that got them there, that we had a responsibility, a fiduciary responsibility and a responsibility to the state, to make decisions for the greater good of the state. And as Commissioner Florio said, by and large, a lot of that worked. The reason it got to 26 was because more and more groups were interested. And honestly we didn't have a very good mechanism for saying "no".

I think we can do better as we go into this situation. And it may not be the right way to start, but again as Commissioner Florio said, we had issues. We worked them out and by and large we had very few things that came to a dead end or something where we had to bring in any kind of facilitation. So the reason that worked was everyone was committed to making the ISO work. Everyone went into it seeing benefits. There were certainly concerns that state-federal issues were front and center from the time we first started talking about these things.

And just to remind folks, there is a pretty stark distinction between the responsibility of the federal Energy Regulatory Commission or the Volt Power System. And the assets that were turned over to the ISO were all of a voltage level that conformed to their responsibility and the responsibilities that the State of California had. Or for that matter on the governance that SMUD operated under
LADWP or whomever.

So I think that trust is really important. I think that we learned as we went along. We didn't start out not only with that number, but with an agenda that perhaps we could have even foreseen at the very beginning. So I think one of the things that's important in this is that to get enough right in a proposal that addresses trust, that addresses the issues between state responsibility and the RTO, the region responsibility, which will be regulated by FERC, we have systems for issues. And working out the thorny issues that are critically important to all the stakeholders who are involved, but we've got to get the governance right first.

And I think the governance is really a higher order of principles. It's the tablets. And before we have the tablets, before we can have the constitution and the articles of confederation or however many steps you want to take along that path, we all have to be in it for the right reasons. And to me, that's the task.

MS. WAGNER: Thanks, Dede. That's a great overview and a lot of components and a lot of moving pieces.

And I hear everybody referring to the six states and the PacifiCorp states. I just want to gently remind everyone that Nevada has a utility already operating in the
ISO. And I guess my point is not to be Nevada-centric, but to be just as a reminder that it's not just specific to a certain utility. And to your point, Dede, that we have to all be in it for the right reasons. It may be different reasons, but they may vary, but seeing the bigger picture is critical to this discussion.

Panelists, make sure you speak into your microphones closely. I noticed when anybody starts talking with their hands, they kind of move back. So Dede, Kevin, so be sure you're almost like biting it. It's a little awkward. But be sure -- because everybody on the phone is just dying to hear what you say.

I'm going to turn to Mark Smith, a colleague that served on the EIM with both Dede and Carl and me. Mark, what can we learn from -- we spent a year working governance issues with the EIM. What can we learn from that process, so we don't necessarily have to reinvent the wheel here? What are the key takeaways that you think are important from that experience?

MR. SMITH: Thanks, Rebecca.

First of all, the experience was eye-opening I think to several of us, because at a very, very high level it's often simple to understand the direction that we may need to head. For instance, I was struck by the similarity of all the proposals and all the designs actually, of many
of the existing RTOs, in which they have a combination of independents and yet they also have a strong representation of member states.

So at a very high level it's simple to conclude well that's what we need. But the EIM experience, I think, opened my eyes to how quickly the details of how you move from that high-level concept all the way down to the selection of Board candidates. Or, for instance, the definition of what needs to be allocated -- let me back up for a moment. In the EIM, we decided to have a delegated responsibility, a structure of delegated responsibility from the ISO Board to the new EIM Board.

Divining the line between what one entity is responsible for, and what the other entity would be responsible for, necessarily involves a lot of gray space. And it's very, very difficult to be definitive. I kind of see some similarities here as we consider delegations between states and this new RTO entity.

While I think an article of confederation or a constitution is interesting in concept, I think in application -- going back to my point -- an application might be very, very difficult to do. But for the rather obvious issues such as procurement direction for load-serving entities and resource mix, the things that historically -- and what I'm told by the legal scholars --
by the Federal Power Act has been delegated already to the states.

So I guess that's my biggest takeaway. That conceptually, it seems easy to come to conclusions for all of us. Maybe that SPP is the right design, or maybe some other design? Mr. Binz's ideas might be the right one. Getting from there down to the details of how it's implemented is very, very difficult.

MS. WAGNER: Agreed. And I was remiss in not mentioning that Chair Weisenmiller was part of our EIM team.

I'll turn to Kevin. In your opening comments, you raised your concern right away about the tension between FERC regulation and states' rights.

In your mind, how would you address that in terms of designing governance for multiple states? And clearly California is a key player and probably near and dear to your heart. What do you see are the pillars that need to go in to protect that?

MR. WOODRUFF: This may be getting ahead of things. You asked about some of the specific proposals and you said you'd get to those later. I like the idea very much of taking some things off the table as much as can possibly be done, so that each of the six states and possibly more, like Nevada or Arizona or others, each of
the six states and various utilities can join without worrying about having their particular policies undermined. I think that's the one thing that comes to mind that came from reading the various proposals.

Now how that actually works and plays out could be rather complicated. And ultimately of course, regardless of what you have, even if you have multistate compact that all the Governors have signed and Legislatures have approved, there's still a concern about what the federal -- not so much the FERC, because I think they might roll with it. But ultimately it's going to be the federal courts that decide some of these issues or could decide some of these issues, if there's an aggrieved party that has the funding and the incentive to go the federal courts. Because ultimately that's where these parameters may be decided and that could five, ten or more years down the road. So that's kind of an existential worry.

But I think if you want to move ahead trying to come up with governance articles, like multistate compact that very explicitly limits things that will be considered I think is a good approach.

MS. WAGNER: Okay, since we're trending into the presentations from this morning, I'll start with -- what I generally want to get is -- and I'll try and pick on you randomly. But what did you like from what you heard? What
really concerned you? Were there any red flags? And what
was missed? I mean, I think certainly Commissioner Binz's
proposal was the longest. I think the slide deck was
almost as long as the paper, so if you're still here, Ron,
I teasing you. You know, very, very thorough on a number
of points.

Commissioner Florio was short and sweet to the
point and really hit the high points. So, I'd like to hear
from you and I'll start with you, Marc. What did you like
in what you heard? What concerned you? And was there
anything missing that we should be adding to the list on
this discussion?

MR. JOSEPH: Thank you. And I'll start with what
was missing.

None of the ideas floated addressed the problem
that, as Kevin said, ultimately it's not FERC that makes
the decision. It's a federal court that makes a decision
as to what's consistent with the Federal Power Act. And we
need to remind ourselves that the Hughes case was not
brought by any governmental agency, it was brought by an
aggrieved generator. And so we always have to keep in mind
that that kind of litigation is possible.

So what was missing from all of the proposals was
what if something bad happens externally to our governance
structure that we carefully set up? What if a court says,
"No, sorry that's not consistent with the Federal Power Act."

I think we have to have built in an off-ramp. And it would be a -- the idea that I have is a powerful off-ramp, so powerful that it will never need to be invoked -- a mutually assured destruction type off-ramp, which for all the criticism worked really well. And the off-ramp I have in mind is to say that if the structure of the Board is changed in a way, which California does not consent to then we're out. Then the Investor Owned Utilities, under California jurisdiction, are not longer part of the new entity.

I think this would be strong enough to deter unfriendly amendments to the governing structure we set up.

MS. WAGNER: So let me follow up on that so I can be clear. I'm going to try and paraphrase, but what you're saying is that this Board is composed, it's an independent board, it's financially independent of market participants. If California doesn't like what's going on, they can pick up their marbles and pull out?

MR. JOSEPH: Not quite.

MS. WAGNER: Okay.

MR. JOSEPH: If the Board structure is changed. I'm not talking about an individual decision that the Board might happen to make, but if we have a Board where all the
participating states are represented and we have the House and Senate voting, and a decision might be made that California doesn't like we take that risk. But if there is something which changes that governmental structure, the governance structure, and we don't like it then we're out. And that's our only protection over the long run to be sure that we have a structure, which gives a good, a running shot at protecting our interests.

And each of the other states as well.

MS. WAGNER: Right. I was going to say reciprocity there is the other states could do that as well, correct?

MR. JOSEPH: Yes.

MR. RECHTSCHAFFEN: That was my -- I was going to ask him the same question, Rebecca.

So what you're suggesting for California, as a matter for California State Law, that built into the law is that if whatever horrific circumstances reach that California wants to withdraw, by State Law, the utilities are forced to exit from the Regional ISO. And the other states, if they wanted to structure their participation that way, as a matter of their state law could build in something similar?

MR. JOSEPH: Yes, but to be clear it's not just a decision they don't like. It's not just a decision that
the Board makes that they don't like, but a change to the
governance structure itself.

MR. RECHTSCHAFFEN: Okay. Whatever worst case
scenario you're worried about would trigger this. As a
matter of state law the State's IOUs would have to withdraw
from the Regional ISO?

MR. JOSEPH: Yes. And I think that would be
sufficiently scary to enough people that we're unlikely to
have to ever contemplate that happening, because that would
be a bad outcome. And that will help protect the
governance structure we set up.

CHAIRMAN WEISENMILLER: Let's put a
(indiscernible) question Dede. As I understand at this
point, the California utilities have an exit, the option,
you know?

MR. JOSEPH: Exactly.

CHAIRMAN WEISENMILLER: And I assume if the PUC
ever said, "Oh by the way, you can't recover in rates."
They're gone. So what is that? And I'm assuming the other
states will want parity on that option. Obviously it's not
going to be a free exit, but whatever applies to PG&E and
Edison, presumably will apply to PacifiCorp?

Dede?

MR. JOSEPH: That's right. And I'm suggesting
something a little bit more than that. Right now, that's a
lever which California has to actively pull and there will be tremendous forces against ever pulling it. I want something -- I think it would be a good idea to have something built in where it happens automatically, because then the Sword Of Damocles -- if we know the Sword of Damocles will fall if we cut the string of governance structure, then the governance we set up will be durable.

CHAIRMAN WEISENMILLER: Well, but again, to push that I know at one point this happened to PG&E, -- these sorts of conversations -- even if you do that the FERC Order 1000, 2000, 3 or whatever is then in place, would apply to the California utilities. We are still part of the U.S. So you can pull out of that specific structure we have for compliance, but you can't pull out from the federal law.

MR. JOSEPH: No, but we can exit from federal law if we simply have three Investor Owned Utilities operating their own transmission.

MS. WAGNER: So I want to pivot it back to Dede as the Investor Owned Utility person on this panel. Do you have a response for that other than the really scared look that you have on your face that you all can't see?

MS. HAPNER: Well, I'm just thinking about Presidential Campaign and the kind - well, but I'm just having a hard time visualizing how this happens. Do we
build a wall and we don't let anyone in? I really have a hard time with this. And I don't mean to be glib, I really don't, because I know you're extremely serious about this. Every member of the ISO has the ability to leave the ISO with two years notice. And the PacifiCorp companies would have that same opportunity.

That is a complicated endeavor. I don't think that the elements that one would contemplate in that kind of situation would be with respect to governance. It would be more with respect to plus benefit or if it's not working for your customers. It's very hard to contemplate a governance that has a pin attached to it. So I really am having a hard time figuring out how to respond.

When I lived in Michigan, and the UP was always threatening to succeed, that's about the only thing I can compare this to. And I just don't know how to respond. I'm rarely speechless, but I'm kind of speechless.

MS. WAGNER: So Kevin, I'm curious your thoughts on this, because as recovering regulator I think of this like wow, what's the potential down side for consumers if California could just pull out of an entity that it has built and rate payers had funded. What are your thoughts on having this nuclear option?

MR. WOODRUFF: Your question is specifically about the --
MS. WAGNER: Marc's proposal.

MR. WOODRUFF: Marc Joseph's suggestion, yeah the Sword of Damocles as he called it. I like the idea. You know, implementation could be tricky, but implantation of any regional governance that's other than a sort of a FERC cookie cutter kind of thing is going to be difficult.

But yeah, I basically like the idea. It gives an extra level of assurance that the Feds aren't going to screw things up. There might be other tweaks to the proposal. I'm sure Marc's a reasonable guy. He can represent his clients very effectively. But I think that's something we ought to be thinking about, is what happens if things go sideways, like they did 15 years ago, you know?

MS. WAGNER: Mark Smith. You've had history in the area. What do you think of the Sword of Damocles option?

MR. SMITH: I'm not sure I understand it, the triggering conditions nor the consequence and what the outcome of the consequence would be. In other words okay so we have a federal decision that changes the governance structure. The utilities pull out. What do they do then? They still need to operate their system. They're still FERC jurisdictional at least in regards to the transmission system. They still have to buy and sell electricity. They still have to serve their customers.
I'm not sure I understand the consequence of the sword falling, so I guess I'm a little bit with Dede on this one. I'm not speechless, but I don't know what to say.

MS. WAGNER: Okay. I suspect we could spend a lot of time on this topic. And I think that I would mark this down as something to follow up on because like Mark, I'm curious about what it is the triggering events and the resulting conclusions. Well, let's kind of go back to the observations from the papers and presentations this morning.

And Tom Darin, do you want to share your thoughts?

MR. DARIN: Sure, thank you.

Yeah, so there were tons of things obviously in the papers. I've been trying to -- my plane travel this week to read them -- and then stay focused on all the presentations this morning. So I'm only going to pick a couple.

And one goes to the issue of transition and trust. I think, by the way, trust is right at the heart of what Mark was saying. I just have this comment on the last conversation is that I get the point about if it goes south, if the governance structure changes from what the participants thoughtfully put together, that you might want
an exit strategy. But having those provisions in there at
the beginning doesn't really seem to bestow a lot of
confidence in its success or a lot of trust in the other
partners. And I think of things like well depending on
what the court said is there a chance to redesign it that
would be mutually acceptable to all the parties? But I
know that was that conversation.

On the issue of trust and transition,
Commissioner Binz's (sic) paper, I thought was really
provoking about how to sort handle that with something that
has been a California entity, and political appointed by
the Governor and confirmed by the Senate entity, combined
from Commissioner Florio's paper. Just some of the
challenges we have in policy and in culture with the -- I
think you mentioned, Mike, that California, Oregon and
Washington compared to the policies in Idaho, Utah and
Wyoming -- just on three renewable portfolio standards in
those states alone and none in the others, not to mention
some other policies.

And so I think that speaks to the challenges we
have in building trust. And I just want to note on the
Binz paper that the five-to-six-year type transition will
not endorse (indiscernible)want to understand it better.
But those kinds of things I think would help California
transition out of what it's known in terms of its control
and autonomy into easing in to that broader sort of
unicameral Board of Governors for the larger region.

A couple of things that have happened on trust
that I just want to flag here that have been important in
the transition is that every state needs to approve this.
So the fact that Commissioner Florio and Commissioner Jones
and Rendahl in Washington, among others -- and I think I
saw a Flojo, (phonetic) new name, about a proposal, which
is cool we’re adding new acronyms and names to our
electricity world?

But those kinds of things are critical. I mean
the Commissioners are already talking to each other about
these key concepts and forming the concepts of what may be
necessary to hit the right balance on governance are key.

The fact that Cliff from the Governor's Office
and the CAISO are out there on a road show, out there in
Wyoming and Utah and other commissions and presumably
governors' offices, that's really critical at the
beginning. So I think we need to recognize that those are
important. That this is going to be sort of a long effort.
And those are things that obviously I think that everyone
wants to see keep on happening. So thanks for everyone for
doing that.

And I think I'll stop there, but I think that was
one key thing that was common in a lot of the morning
presentations.

MS. WAGNER: Thanks Tom. I'll let solar weigh in after we let the wind in. And there's no geothermal rep here, it breaks my heart.

Rachel?

MS. GOLD: Hi, Rebecca.

I think what we've found in looking at these presentations and then reflecting on this morning, is that there is a lot of agreement on some of these overarching principles. There's a lot of agreement about figuring out a way to put up those side boards and ensure that we have the right balance on state authority and through the Board of State Regulators in order to proposal like the Binz proposal that I think we're also looking at closely and we think is an interesting model to consider.

And it seems like there's more agreement around those pieces than disagreement. Of course those details, as Marc noted earlier, are going to be really important and are tougher to sort out. But of a high level I think there are a lot of principles to move forward on together. And the outreach that has occurred to date, I think, is starting to set that foundation for building something that'll be effective.

And the other piece of this, I would say, is that we're really interested in creating a open and transparent
process that retains the kind of benefits that we see with
the CAISO processes today. So I reflected a lot of
interest in potentially moving to other models around the
ways stakeholders might, the market participants might,
engage just beyond the Board level setup. And as we think
about those issues, we want to ensure that the things about
the CAISO process that work today and are really beneficial
today don't go away.

Some of those Tony Braun mentioned this morning,
we found to be very important to be able to work through
some very solar-specific issues directly in ongoing and
like speaking Italian way at the CAISO. And that ability
and ability to engage at that level has been really
critical to bring on the renewables that we have on the
solar side. And I know for other technologies as well.

So those are the kinds of issues we're thinking
about as we think about potential structures. And there
can be many benefits to providing some more bounds to the
current process, but we want to weigh those out against the
benefits that are there today. And really inform others
about the ways that we think that those processes work
well.

MS. WAGNER: Thank you, Rachel.
Carl?

MR. ZICHELLA: A couple of quick thoughts. I
actually think Rachel actually addressed a lot of the
things I've been thinking about, NRDC's been thinking
about, but I'll sort of summarize some of what are our key
points.

I think there has been a lot of agreement on some
of the higher principles. I think that they may not align
specifically along every single point, but the high lines
of them I think are congruent if you will. I think the
idea that you would have a transitional process -- now it
isn't something that one day it's one thing, another day
it's another thing -- there isn't a black and white switch
on this. It may take some time to facilitate the right
construct. And that trust would be actually increased by
having that kind of transitional process.

Mr. Binz talked about six years. I don't know if
we need to do that, but I think the concept is good to have
an iterative process among the various players while
recognizing the specific and unique roles they're playing
and their interest in having governance evolve in a
trustworthy way. That's a good thing. We put that into
our EIM proposal. We use the process to use our existing
Board of Governors to sort of house that transition. And
once the Nominating Committee has done its work and we had
a new slate of Governors that were approved, then that
would be handed off to them.
I think NRDC would like to see something not overly complex, but would be very open to the idea of some sort of a transitional process that allows the market to function, doesn't give us gridlock for six years or two years, three years or whatever. But enables us to move forward in a way that helps attract more participation, because the more participants, the more the benefits are.

I think when we talk about the work this morning that was outlined one of the things that I really appreciated is it really drew upon the experience around the country that we saw. Actually what was really happening in the application of these markets, so we could put our fingers on things that said this is working, this may not be working, boy that's overly complex.

Again, I think of Tony Braun -- I'm channeling Tony a little bit here -- but he made that point, I thought very well.

We can look at these things, but you have to really draw upon the experiences that people are having. And the interest in what was done in the Southwest Power Pool, which really to my mind has brought together some of the more disparate participants in RTO, that we see much greater participant in public power there than we might have expected.

Now, I'm not saying we need to do what they've
done, but I'm just noting that that process of moving into
from the EIM to the day ahead market, their day two market
there, really did facilitate the trust to enable them to
not only move there, but to bring the Western Area Power
Administration along as part of that system operator. So I
do think those are excellent aspects of the conversation so
far that have some sort of, I don't want to say gradual,
but thoughtful and deliberate a transition.

The other thing that I think is important is
not to lock ourselves in too much. I mean we're going to
have one governing structure and that's going to be it.
And we'll have a Sword of Damocles and the world could end.
We don't know that the conditions are going to be like in
10 or 15 years. That's true, you know, we don't. The Grid
has changed so much in the last five or six years, ten
years; it's astonishing what's happened.

And we may want to provide for ourselves the
ability in a well-founded structure, governance structure,
to be able to innovate, to meet the new challenges that
we're going to be facing as more and more of the cleaner
resources that NRDC cares about into use, and we need to
manage the system effectively for everyone's benefit. So
I'll stop there.

MS. WAGNER: Thank you, Carl.
And now I'm going to turn to Dede as the IOU Rep
up here for us today. Carl points out, you know, look at
the system and how it's changed, just the physical system
even in the last decade. More renewables, more interest on
the distribution side for integrating various DERs.

From your perspective how do you look to the
future knowing it's going to change? I mean we've just
seen rapid change. What are your recommendations on a
governance structure that you don't want to have too much
baked in. In my opinion, you never want too much baked
into state law unless you're really good at changing it.
So what are your thoughts on and what's the right mix to
create flexibility and to address the disruptive
technologies in just the change that we've seen?

MS. HAPNER: Well, first of all I think I'll try
and answer the disruptive technologies and then move to the
papers.

Yes, things are changing. They're charging
rapidly. The next five years will dwarf the last 10 or 15
years. The next five minutes could do that, but I think
that there are clear roles. And in fact PG&E has tried to
articulate those roles in filings whether it's in the
stakeholder process at the ISO in response to filings at
FERC, that are clearly the responsibility of the Public
Utilities Commission. And there are other responsibilities
that are in the Federal Energy Regulatory System.
And I think that both sides, the state and in the ISO and the federal government for that matter, are merely trying to address these issues. And in a more speedy way than typically would resolve such complicated issues, because the clock is ticking.

So yes, I think it has an impact, but each role of government has some very clear responsibilities. And I think they're all taking them on.

With respect to the papers I read them all a couple of times. And a couple of times I had to remind myself who wrote which one, because there were a lot of similarities. And I agree with most of what Commissioner Florio and Commissioner Randal put down. I had a few questions on how these might work in real life.

We spent a lot of time on the EIM Governance Committee looking at the 205 Rights. And as Tony said, we all twitched just a little, because we didn't know the impact of that. And our knee jerk reaction on that -- well thought out knee jerk reaction -- was that we didn't want dueling filings.

That said, I think that several of the ISOs, MISO and SPP that were discussed today have that role and others have it somewhat less overt. And I understand it's rarely if ever exercised. So I think I could get comfortable with that. And especially if that is a threshold issue on the
floor of the other states, it shows up in both Commissioner Rendahl's paper and in Commissioner Florio's paper.

On terms of some of the transitions that Commissioner Binz wrote about, I'm a little bit nervous that it would take too long to achieve some parity between California and the other states. I do think that again it was one option. It might be something we could work on together. But everybody had some sort of balance and evolution that I think could work really, really well.

One of the questions I would have for -- it might have even been for Commissioner Binz -- but Commissioner Florio and Commissioner Rendahl, is everyone seems to be pretty much in sync vis-a-vis the issues like a capacity market, with the other issues that were raised such as transmission planning and cost allocation.

And these, as you know, have been done on an ISO-wide basis. They're evolving procedures. Transmission Planning has change quite a lot and is in flux right now. And certainly the TAC is in flux right now. So I liked where they were going, but I need to know a little bit more in those particular areas about where to you start and stop?

And one last thing, to Carl's point, one of the things we put in, in the EIM proposal after struggling with a few of the issues is one, we felt we needed to punt some
of the decisions that required a lot more work to the new
EIM governance body to see how things worked out. And that
may be something where you punt something to the new
governance structure or to the State Regulators Committee
or something like that. I think there needs to be some
elasticity in that.

We also put in, and it may or may not work in
this case, is some check-ins. How are we doing in three
years or I believe ours is five years. And we also had
some other triggers involved.

MS. WAGNER: Thank you, Dede.

Kevin, I think I may have gotten to -- I started
asking you to respond to the Sword Of Damocles. Was there
anything in the papers that jumped out at you that you
really liked or that you thought was missing?

MR. WOODRUFF: Aside from Marc Joseph's
suggestion, I mean I like the direction the papers were
going and was giving some serious -- gave it some serious
thought. And there was some proposal or notion in there of
taking away or isolating some of the issues that a Regional
ISO Board might otherwise deal with, sort of at an ethereal
abstract, expert level, or insulated level to use Tony
Braun's phase. So I liked where they were going with that.

A couple of comments, one of which of course is
I've heard it said that both God and the Devil live in the
details, right? So I mean obviously there's a lot more conversations to be had and a lot more fleshing out of those matters.

The other thing I was struck by, and this is a comment that the governance discussion has raised in my mind. The ISO is currently -- well they've been pushing the idea, I've heard it said by ISO officers -- that if we expand the ISO you can buy Bucket 1 California resources outside the state. They've been pushing that vision for a few years and it seems to be a big part of the push for the ISO now. And in practical terms, they've got a partner lined up that has a transmission line, you know? That could access one of the good resource areas in the WECC, good renewable resource areas in the WECC.

But then I look at these proposals for governance and I'm thinking, "You know what? Maybe that sort of train?" You know, maybe we need to take a step back and not assume that that's what we are going to be doing with this, you know, if we're going to be doing -- if the allocation of transmission costs are going to be done on sort of a state compact type of level. I'm thinking that sort of a vision that's been pushing forward, sort of a Regional ISO for a few years, has sort of -- the governance proposals don't really fit that very wall any more. I'm thinking it may be time to step back and think a lot more
about governance and what we really expect from this before we go careening ahead.

    MR. RECHTSCHAFFEN: Okay. Kevin, I don't think I really understood what you said. So maybe you could elaborate on --

    MR. WOODRUFF: Starting with what?

    MR. RECHTSCHAFFEN: The disconnection between the governance process and the other efforts that you see are going on. And to keep it high level or simple?

    MR. WOODRUFF: Okay. Let me try another -- I'll try again, appreciate the question.

    Sort of the whole impetus behind the Regional ISO, the studies, the study from last fall, the study I understand the study that will come out presumably this month, and a lot of the sort of the earlier conversations that I saw, assume that the benefits are going to be accessing chief renewables in other parts of the WECC, which may indeed be a benefit. But there’s that whole -- and you have a partner, PacifiCorp, that has a transmission line they've had proposed for almost ten years now that is ready to meet that need or in part to meet that need or something.

    And this is -- it seems like the whole process from a CAISO and PacifiCorp-level has been careening ahead or moving ahead, excuse me, sort of on that front. But
then we get to some of the governance discussions. And I'm not seeing that there's quite that kind of faith in that process? You know, for example, the study last fall said "We'll build a gateway and allocate it on load, which means that California pays 80 percent. And oh yeah, California will get all the renewables." And it's like, "Well wait a minute. Will they really?" I mean, there's just a --

CHAIRMAN WEISENMILLER: Yeah, but again, is this really governance or are you just trying to tear off the benefits? You know, I mean --

MR. WOODRUFF: This issue I'm raising was raised by governance. You're right, it's not governance directly, you're right. And I'm happy to drop that subject. It just sort of seems it --

CHAIRMAN WEISENMILLER: Well, certainly you're saying that in your comments, but again I think we're trying today to deal with governance. Eventually, we'll have something more on benefits and I'll be happy to cross examine you at that stage. But let's not conflate things here.

MR. WOODRUFF: Well, yeah. I was thinking that maybe one of the details we could add to the various papers is something to that effect of these are the kinds of benefits we're looking for and this is how we're going to go pursue them, you know? Something that's a little more
of -- give us more of a road map of how you go and get those benefits if they're there.

    Well, I've been thinking through this the last two days, literally. So I appreciate your comment.

    CHAIRMAN WEISENMILLER: That's fine, but I mean again written comments are two weeks, so you have more time to flesh it out.

    MR. WOODRUFF: Right, fair enough.

    MR. RECHTSCHAFFEN: And just to your larger point, Kevin, and I know this has been -- Dede mentioned this too. Part of the governance discussion is where you draw the line on what the state regulators would have authority over and what the ISO would have authority over. And Transmission Planning and cost allocation are on the table in these proposals of where which body should have which.

    MR. WOODRUFF: Right.

    MR. RECHTSCHAFFEN: So if you take a step back from the gateway project that I think you're talking about, those broader issues need to be thought through and solutions devised, anyway.

    MR. WOODRUFF: Right. Right, yeah I appreciate that. Thank you.

    MS. WAGNER: Mark Smith, impressions from this morning and any responses to some of the commentary we've
heard harkening back to our experience on EIM? I'll give you a little shot to pontificate with us.

MR. SMITH: Thanks.

I think I mentioned earlier, I thought the thing that was the most striking about all the proposals was the level of agreement that was in them. The need for independence, the need for an important visible, consultative, if not decision making model for the states. I was struck by that. Now there's lots and lots of different ways to get there. And we need to think about all those and talk about all of this.

The opening question I think that you asked Dede in part was that we're going through this huge change. And it's a technological change. It's a recourse mix change. It's a change of customer uses and needs, all of which are in their nature very technical, but in this morning's parlance, Italian.

And I believe that that's -- turning back to governance I think that speaks to the type of people that we need, at least on the independent portion of that governance. I mean I think we need at least some levels of technocrats. We need people who speak Western Electricity System or Electricity System in general. And can understand at least at the appropriately high level the arcane nature of the decisions that they're going to be
confronted with.

We can inject or interject the dose of political reality through the Advisory Committee or the Group of State Regulators. But I think the changes that we're going to see over the next five years are going continue to accelerate the need for people to have fundamental technical knowledge of the system.

MS. WAGNER: Thanks, Mark.

Do you have any thoughts on more specifically -- We struggled with the EIM of specificity versus generalities on getting through this. Any thoughts on -- could the legislation be fairly broad, some detail to it? And then the specific governance model, what level of specificity do you think should be in there, what should be generalized and I think as Dede said, what should be punted there?

There's a lot of complicated issues that if we're not careful, we get too bogged down in, and make the governance structure almost impossible right from the gate; thoughts on that?

MR. SMITH: Well, you're outside my area of expertise, but here's what I would say. We do need durability. That's certainly what legislation would give us. But with that durability it implies some level of inflexibility, so that if we want to change or modify over
time, we'd have to come back to the Legislature again.

So I think that our preference would be to have directives from the Legislature that are rather broad in nature and allow the groups that are involved more directly to present the proposals that meet those very general directives of the Legislature.

MS. WAGNER: Marc Joseph, do you want to respond to the question I posed to Mark?

MR. JOSEPH: Sure. I think the appropriate role for legislation is to set the boundaries. Details, obviously it's way too complicated for a piece of legislation, for a legislator to deal with. But it is appropriate for Legislature to set the boundaries if they're going to decide to go down this route.

And the boundaries could be a potential list of things that have to be reserved to the states, a list of characteristics that the governing structure has to have. But it would be -- I could imagine the statutory provision taking a half or two-thirds of a page whereas the articles of confederation would be a book. That's the difference in the level I see.

I do want to respond to the idea of, oh well let's sort just start this and then we'll work it out along the way. This is a really big deal. And but for the Sword of Damocles it's a one-way ratchet. Once we jump the cliff
we are off. And I don't want to sound pessimistic, because we believe there a lot of potential benefits here if we can do it right and we can capture them. But we have to remember this is really dangerous territory. And getting it wrong can be very, very wrong.

I don't think we should pat ourselves on the back for the way we set up the ISO and the market structure the first time around. One can make a very plausible argument that it was the most expensive public policy mistake in the history of the state. You know, well more than $40 billion totally lost to the State of California. To say nothing of blackouts and a Governor recalled.

This is dangerous stuff. And I don't want to see us decide, "Well, we've got the general idea. Let's go." I think we need to be sure we get it right, because it's really important to get it right.

MS. WAGNER: Now Rachel, you raised some points about the California stakeholder process, or the CAISO stakeholder process. Do you see that as something that needs to be addressed right with governance or is it a structure that can be -- if there's modifications that need to be made to it, is it something that needs to happen now, or is this something that as a Board is seated they can take that up to ensure that their getting the proper stakeholder feedback that they need?
MS. GOLD: Rebecca, that's a really good question.

I would just comment on Mark's last comment, which is I think we all really want to get this right. And we need to get it right if we want to get the benefits. And we're in sort of that Rubik's Cube situation where all those pieces have to align correctly at the same time.

So as in Commissioner Rendahl's paper, she noted that we need to bring everybody along with these negotiations and agree upon -- not just California agreeing separately, but all of us getting on the same page together. And so that's going to be one of the challenges in balancing what goes into the legislation at what point.

On the stakeholder issues specifically, I think we would want to understand the general trajectory of any changes. And if a stakeholder or Members Committee is going to be formed to have some good, solid agreement and understanding of what that would look like and what responsibilities or what role that group would have going forward. And to help bound those pieces either in some of the governing docs -- probably not in the Legislature itself -- but the legislation per se needs to be at a higher level on principles and some other side boards that we've discussed already ready today.

But I would think that while we understand that...
the overall process may evolve as a new Board, a larger Board is seated, we would want to have some understanding of the basic structure and how much it will change. And why we would want it to change.

MS. WAGNER: Thank you. And you raise a point that I wanted to touch on. And I wanted to check with Chairman Weisenmiller on time. We had a late start. Do you want me to wrap up now?

CHAIRMAN WEISENMILLER: Actually, go another ten minutes and then we'll flip.

MS. WAGNER: Okay.

CHAIRMAN WEISENMILLER: Although while we've got a break I just wanted make sure we recognize the two ISO Board of Governors who've been patiently here -- Mark Ferron and Angelina are also in the audience.

MS. WAGNER: They are.

CHAIRMAN WEISENMILLER: Yes, thank you. Please.

MS. WAGNER: There's room up here if you want to sit up here with us? Oh, that creates a forum or something, or quorum, not a forum.

Carl, I wanted to -- NRDC is actively engaged in stakeholder processes with the ISO. It seems like now that I'm out in the real world, and outside of my regulatory bubble, NRDC is everywhere. What are your thoughts on stakeholder processes that incorporate a Members Committee
or a Stakeholder Committee versus the process the ISO has right now? And to my earlier question, does that need to be hard wired into governance immediately or can that evolve over time?

MR. ZICHELLA: That's a great question. I actually think it's helpful to have some solid foundations on stakeholder participation early on.

We talked a lot about trust for a lot of different participants in this adventure. And of course I think when we talk about the stakeholder processes, the ISO processes Tony Braun said this morning, it's kind of the gold standard as far as I'm concerned. I think we do a very good job. I think there is plenty of access. We've got to work hard to participate, because the time lines are always tight, but it's about as open a process as you can have.

I've seen a number of different constructs for things like WECC, the Western Electricity Coordinating Council peak reliability that rely on member categories to create committees that provide input to the Board. I think there's a lot of value to that. I'm not saying we necessarily have to go that route, but I don't see it as being mutually exclusive to the stakeholder process either. There could be a role for both.

I prefer the stakeholder process that we have in
terms of being able to influence and guide the decisions that are happening. I think the ISO has been responsive so far. But I also think we need to make sure that we are recognizing the stakeholder classes across the board that are affected by the decisions of the Board. And that includes the consumer advocates. That includes the environmental advocates.

And I think we've learned a lot since the recession started and the American Reinvestment and Recovery Act was passed that allowed for and provided funding for stakeholders to engage in transmission planning at WECC, that the subsequent passage of FERC Order 1000 that enshrined a very prominent role to stakeholders in regional and interregional transmission planning. I think those were major improvements to what we have been doing previously and are bearing some fruit for us.

We're still early days on a lot of this, so we can't overhype it. But I think the fact that people are at the table trying to mutually identify the correct solutions to system challenges that is a really great advantage that we haven't always had. The previous paradigm was "We'll tell you what we need, where we're going to put and you can sue us and we'll see who wins." That doesn't work very well. Especially in a system that's changing as fast as the system that we're in right now.
So I would favor -- I think NRDC would strongly favor having clear delineation of stakeholder classes that were broad for participation. And as the discussion this morning went about, providing some ability to recompense people for participation, I think it's mutually valuable.

And at the Western Electricity Coordinating Council we have found that that was a very worthy investment, as the amount of work and value that was provided by those volunteers to that entity has been profound, so good lessons from those experiences.

And I would simply say, I would even go beyond what we did in the EIM governing of a Board transitional proposal. And I would give public interest stakeholders two additional levels -- one of them we did give -- but an additional role, which would be a vote on the Nominating Committee for Governance. People who are invested in, who participate in those selections, I think are much more trusting of the judgments that are coming out of that process.

So where we didn't give them a vote in the EIM governing transitional process, we may want to rethink that for something like this. That that may be one specific thing I would put my finger on that would be a very useful change.

MS. WAGNER: Thank you, Carl.
And in our last few minutes, I just want to provide the panel an opportunity. You have a lot of California decision makers as well as folks in the audience. I'm trying to think through what are next steps and what should be focused on next? Governance, as we know, is a complicated issue. I was happy to hear that, and I agree that within the papers, there's a lot of agreement.

So I'll start with Tom. What ideas -- you have the floor for a couple of minutes just to high level what's your pitch and what's your suggestion for next steps.

MR. DARIN: Well, if I heard it right I think we've got a comment period open on governance for a couple of weeks. So obviously, we've got a chance to read the papers and the different ideas and look out to the MISOS and the SPPs of the world and really look for best practices and get that in. I think continuing the dialogue that I mentioned earlier amongst the six states is critical in building the trust.

And at a high level I've been thinking a lot about Commissioner Florio's -- I got stuck in a good way, Commissioner on one paragraph in your piece. And it talked about the tension between technocrats and maybe a little policy and who's got control over what. And how do we do that? And I'm thinking a lot about that, is that policy is
going to come in at least a couple of different ways.

And the Nominating Committee, and lets think it through the sectors like Carl was talking about, on stakeholder. I've seen it called Nominating Committee and EIM and I think SPP calls it the Member Committee. So that big Committee that's actually going to appoint who's on the Board, make sure that we've got diversity there. We've got expertise and those kinds of things. And there will be sector representation that's critical there. And from the wind and independent power producers prospective we're part of the Nominating Committee. We're one of the eight, Kevin Lynch of Iberdrola, on EIM governance, so things like that we don't want to reinvent the wheel.

I think continuing to look at things like that and how they're working and progressing there continuing that through into the larger governing structure for the ISO. And so within the Nominating Committee, you have people that know a lot about policy. And they're going to be putting a slate of people recommended for the Board. And so right there, you've got policy coming in at that angle, just people who not only have technical expertise, but because of the structure of the Nominating Committee, you're going to get some policy knowledge. And I think that's important to recognize.

And then there's the delineation between the ISO
Board and the role of states in policy. And I think in reviewing one of the papers, I was thinking of this as the 10th Amendment thought, which is anything that's not expressly allocated to the ISO Board and the issue of what it will govern, what it will be in charge of, should perhaps be maybe not enumerated, but left to the states. The states need to retain autonomy on their renewable portfolio standards. The Wyomings and the Utahs and other states and now California moving to IRP, over retail rates. So I'm not sure if I got that across, but I want to think of this as the ISO Board being fundamentally in charge of the transmission operations and the market functions and how those worked and also the efficient generation of dispatch. I mean, the things that are a little bit more technical.

And then really think through where the policy part really lies. And a lot of that again is going to be within the states.

MS. WAGNER: Okay. We're almost running out of time, so everybody who's left gets a -- I'll let you go a little bit longer.

Kevin, highest level pitch of what's important in next steps.

MR. WOODRUFF: Marc Joseph used the word ratchet. Someone else talked about jumping off a cliff. I suggest
we're jumping out of an airplane with a parachute. We want
to make sure we have a soft landing. That's important to
get it right the first time -- as right as we can.

MS. WAGNER: Carl?

MR. ZICHELLA: And just for fun, I'm going to
agree with Kevin. We need to get it right.

I think we have a good road map around us of
what's been done and things that could work. We need to
start sifting those and coming up with what we're calling
best practices here that actually suit our region the best.
We've seen what can be done and the kind of benefits we can
get from around the rest of the country. Now it's time to
tailor and to make that fit our needs as best as possible,
especially given the circumstances that are so diverse
among the states in our region.

MS. WAGNER: Rachel?

MS. GOLD: I agree with a lot of what my
colleagues here have just shared and I would just add what
I think is the next step in this process would be to
understand the process going forward and that we have a lot
of issues flagged and raised at this point. And now we
need to dig deeper and start to put together those
proposals and really look at what is the best fit for a
role of governance proposal. And understanding how that's
going to happen and when it's going to happen is important
to all stakeholders.

MR. JOSEPH: Thank you. We're talking about integrating the systems of some very non-homogeneous states, with diametrically opposed climate policies. We in California obviously want to protect our policies. People in other states are going to want to protect their policies too.

I think the best solution to this is a structure where the states are actually controlling the Board. The states are the Board, with House and Senate voting, so that no one can dominate another. And each is protected from being dominated.

I like the idea that Tom suggested of a 10th Amendment kind of delegation where unless we specifically give the new ISO the authority, than the authority remains with the states.

MS. WAGNER: Dede?

MS. HAPNER: I think the next step as we look at our -- and prepare comments over the next couple of week I think it's important to provide you all on the panel and others who are going to be carrying these decisions forward to different states, and to the California Legislature, to articulate what we have to decide in the first instance. And what kinds of governance decisions are not unimportant by any stretch -- all of these are extremely important --
but some are threshold issues that without them, we won't need to flesh out the rest of them. So be clear on what's important for each state, for each stakeholder group, so that as governance evolves it will have all of that thinking in terms of what needs to happen first, second and third.

MS. WAGNER: Thanks. And finally, last words Smith?

MR. SMITH: The way I work it's much easier to evaluate options when they're drawn for me on a piece of paper.

The different structures that we've talked about today and that have been aired they're really not that different. So we should be able to identify them in a chart and walk state-by-state in saying "What is your preference? What form of governance would work best for Nevada or for Idaho, or for other states?"

And then I think we also need, as some others have said, to try to take a cut of the delineation or maybe more appropriately, the confirmation of states' rights versus federal rights, with an overall theme of federal cooperativism. So I think outreach is the next step. I think we've gathered information. I think a dedicated effort to continue the outreach to get people's preferences is the next step.
MS. WAGNER: Thanks, Mark alternate.

Back to you, Chair Weisenmiller.

CHAIRMAN WEISENMILLER: Yeah, we've got some public comments.

I just want to do a little bit clean-up from what we talked about. So earlier on Kevin talked about the TURN paper and the Supreme Court decision, so we'll put that on our website. There's also an EDF and an NRDC blog on that, which is shall we say a different perspective, which we'll also put on. I think the ISO also has some degree of perspective on it too. So we'll just put it all there.

In terms of one of the things, which I meant to ask Tony since he's in the room, in the Transitional Committee conversation the issue became one of those questions of how does joining the RTO affect relations with FERC? And what he said at that point, as you remember SMUD was in the ISO originally, is now not in the ISO. And I believe at that point they were a client of his. And the conclusion was it really didn't fundamentally change the nature of SMUDs relationship with FERC, being in or out of the ISO.

So I guess some of these things on the regional how's it going to change are pretty specific legal questions that don't make the presumption that being in or out is a huge difference in that sense.
Tony, is that characterized -- come on up for a second -- you had an obviously a much more precise legal statement that I, a scientist am going to do, but --

MR. BRAUN: Yeah. This could be a four-hour long answer. But I mean there's some things that are clear and those are that we've seen cases litigated where when we have municipals become participating transmission owners, and their transmission revenue requirements are folded into the ISO, FERC has an obligation the courts have ruled, to ensure that the overall revenue requirement of the ISO is just and reasonable. And as such they will look at the otherwise non-jurisdictional entities' transmission costs when those are rolled in.

So that really is triggered by the sharing of costs and the current postage stamp rate. And I don't know how that would be affected by license plate. I don't think it would. And then if the market manipulation rules apply. So there's fundamental parts of FERC jurisdiction that apply whether you are a traditional public utility, under the Federal Power Act, or a non-jurisdictional exempt entity.

We also know that FERC can't order refunds. And so usually what happens when this sort of arrangement where you have melded jurisdictional type entities. You're having some sort of tructural [sic] approach to that.
So I think the fundamental issues are if you're in the ISO -- let's say you're Riverside -- you're in the ISO, you're in the VA, there's no history. You comply with the rules of the tariff. That's the basic rule.

CHAIRMAN WEISENMILLER: Thanks. And just those of us who were on the Transitional Committee shorthanded -- in some of the conversation -- wanted to take up issues and just to be a little bit clearer, of some examples.

So the first one, up until the final moment we kept getting comments from Power EX (phonetic) saying, "You really should go back, propose an ISO that's disconnected from California and FERC." And we kept saying, "Well, wait a minute. We decided six months ago that that was a non-starter." But that kept coming up.

The other thing in terms of issues, which we just decided were better for later, we talked about a regulatory agency component. And we just figured the regulators and the ISO management could figure out what that was going to do. We weren't going to spend the next six months trying to weave that through. Or similarly, there's a forum that's going forward with stakeholders again and it's like "God bless, someone else can come up with the details."

But we also had suggestions that somehow we were to come up with the rules on how the ISO would adopt items on a consent calendar or also that we should figure out
what the ISO's outreach program should be throughout the
west in terms of where to do the regional meetings. And
we're going, "God bless, we're gone. We've had enough."

So I'm just saying there are certain levels of
detail, which people kept trying to drag us into and we
kept saying enough is enough. And I think in this
correspondence again there will be things which will have to
be similar to that, which will have to be punted forward at
least from where we collectively came out.

So with that, I was going to take public comment
and then go across the dais for comments on stuff.

So Northwest Energy Coalition, please come up.

MR. HEUTTE: Hi, my name is Fred Heutte from
Northwest Energy Coalition out of Portland, Oregon, if
you'll just bear with me for a moment while I get booted up
here.

Northwest Energy Coalition represents about 120
organizations in the four Pacific Northwest Columbia Basin
states: Montana, Idaho, Washington and Oregon. We
represent a wide range of groups: environmental, consumer,
labor, community and some progressive utilities, including
Portland General Electric, Seattle City Light, Puget Sound
Energy, Emerald PUD.

And we're very involved in the regulatory and
legislative processes in the Northwest, as you might
imagine. I've been very involved in the Northwest Power Pool process looking for quite a long time at a potential EIM and other market constructs. Unfortunately, that situation's kind fallen apart, although I think we learned some very useful lessons there.

And I'm also personally involved with the WECC, a member of the Member Advisory Committee representing Class IV consumers, and also on the Nominating Committee. So I also have some experience in this interaction between advisory bodies and Boards.

For us an optimized low-carbon western grid is a sine qua non for our climate, economic and environmental goals and not just for our own benefit, but it could become a leading example for the country and the world as there's a very important process that we're looking at here.

But yes, the details do matter. And as Commissioner Florio noted there's opportunity and also risk. And as he also said the test of governance is not when consensus is easy, but when it's hard. The functions of a transformed ISO may be more or less the same, but the context would be much different. No other RTO or ISO has transitioned from a single state to a multi-state. The others, Texas and New York, are probably always going to be single state or at least I would expect so, or at least it looks that way now.
So this is something new. It doesn't mean it can't be done, but it does raise some important questions. And I think here, we should be following the wise guidance from Commissioners Florio and also Commissioners Rendahl and Jones from the Washington UTC.

Governance is not just about who sits on the Board and who picks the Board. It's about the better decision we get from wider consultation in making that process efficient, fair, and transparent. We need a strong representative advisory structure from regulator states and stakeholder interests. We got some good advice from Ron Binz. And I think we have some good examples from SPP and others in the East, but we need our own western construct.

The context matters. Outside California our dance cards are all overflowing already: commissions, agencies, Legislatures, advocacy groups like ours alike. Folsom is pretty far away. No matter what the magic is of webinars, these are practical matters we're going to have to be dealing with.

One important thing has not really come up. The Eastern RTOs and ISOs basically all have membership structures. The California ISO does not. I'm not arguing necessarily that we should go in that direction, because membership is a two-edge thing. It provides a defined role, but it also creates a lot of complexity. And we
already heard about how the complex committee structures are a real problem.

We do need to bring in stakeholders as more than just voices from the audience, however. And we need real interchange and to incorporate views from a wide variety of perspectives. The overall principles I think pretty much everybody would agree are transparency, inclusivity and accountability.

And finally what is this really all for? We're trying to create a reliable, clean and affordable Western grid. So I always hear those three things and I think that are two ways to look at that. One is you can say, "Pick two and call me back." Or you can say, "No. This is more like classic three-legged stool. If you don't have all three, you won't get any of them really in the end."

I think the real question before us in the region, and the reason why a lot of us are here visiting you now, is that we need to get beyond the moment -- which I think we're in -- of what's in it for me? To more of a sense of what's in it for us? That'll be a transformative process that will really help us, thanks.

CHAIRMAN WEISENMILLER: Thanks. Thanks for being here. SDG&E?

MR. ARBALLO: Good afternoon, a very robust discussion. I think most of us are in agreement that it's
important to have an equitable Board representation from stakeholders outside of California. So I'll leave it at that. And just to put it back on Dede, let's keep the ball moving forward. Thank you.

CHAIRMAN WEISENMILLER: Thank you.

I don't believe we have anyone else in the room with a comment; anyone on the line?

Okay, so again, in two weeks.

Let's go around the dais. Commissioner Florio, do you have any closing thoughts?

COMMISSIONER FLORIO: Well, just to note on upcoming events, we do have the Western Conference of Public Service Commission meeting coming up in Tahoe, later this month. I think on Sunday there will be a discussion of these issues -- Sunday prior to the formal sessions.

MR. RECHTSCHAFFEN: Well, since Mark kept saying how we're all in agreement, this is not going to be a problem. I was very delighted to hear that, Mark, so thank you. This is going to be very easy, because then again other Marc is saying because we'll have mutually assured destruction and I'm really getting nervous.

I want to thank everybody and underscore that this is an ongoing iterative process. This is -- We're at a very high level. I do agree with the comments that the legislation's likely to be at a pretty high level. I hope
we can get to two-thirds of a page or a page. That's always the best. I don't know if that's possible. But there's a lot of detail that will need to be worked out through on-going processes, but we do have very important principles that need to be in the legislation. But it will be shorter than all those details.

Anyway, this is part of an ongoing iterative process. There are going to be continued discussions within California. The Legislature's convening some of those. People are meeting separately. We're going to have other public processes, whether under the auspices of the Energy Commission or otherwise. And we're engaged in a parallel process that might just reference to meet with other state regulatory bodies and Commissioners, other energy advisors, other governors' offices.

And those all are going to be going back and forth, each process informing the other. So that we know where everyone stands and we're trying to move the "super tankers" together and come to a comfortable, agreeable landing place, going forward.

So please continue to give us your comments, formally, informally, and participate in these processes.

COMMISSIONER DOUGLAS: I wanted to briefly say that I enjoyed today's discussion. It was very helpful to me. And so I appreciate it and look forward to further
discussion developments here.

CHAIRMAN WEISENMILLER: Yeah. Now, I was going to say try to remember the toughest question you gave to anyone else and was going to ask if you had a response to it.

MS. WAGNER: I have nothing.

CHAIRMAN WEISENMILLER: Okay. Thanks again for your help organizing things. I appreciate that.

Again, I would like to thank everyone for being here. And again, certainly encourage everyone for two weeks comments.

And again certainly as we go forward, these conversations will continue throughout the west and in California. I think Mike has supplied the next venue outside of California, hopefully we'll have a chance go get together mid-to-late June, or whenever, to follow up on today's. But I think part of it is trying to see what we get in terms of comments and how we can go along in making sense out of those.

So again, thanks everyone for being here and thanks to the panelists for their conversations.

The meeting is adjourned.

(Whereupon, at 3:02 p.m., the workshop was adjourned)
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I do hereby certify that the testimony in the foregoing hearing was taken at the time and place therein stated; that the testimony of said witnesses were reported by me, a certified electronic court reporter and a disinterested person, and was under my supervision thereafter transcribed into typewriting.

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