

## DOCKETED

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*Proposal*

**Proposed Principles for  
Governance of a Regional ISO**

**June 9, 2016**

## Proposed Principles for Governance of a Regional ISO

### Introduction

This proposed set of principles for regional ISO governance is based on many months of consideration of various white papers and testimony by state energy leadership and a broad range of stakeholders from California and across the West. The ISO will present this proposal and seek comment on it at two public workshops that will take place in Sacramento and Denver on June 16 and June 20, respectively. Stakeholders also will have an opportunity to submit written comments on the proposal through an open docket at California Energy Commission ([16-RGO-01](#)), with comments requested by July 7.

A revised proposal will be presented at a joint state agency workshop, and based on further input, prepared for transmittal to the Governor and Legislature, pursuant to Section 13 of [SB 350](#).

The principles in this proposal could be incorporated into state legislation that, if enacted, would also sunset or repeal the provisions of the current ISO governance structure.

Should such a proposal be approved through California legislation, a transitional committee of stakeholders and state regulators would be formed, similar to the one used to develop the EIM governance structure. The transitional committee will integrate these core principles into corporate governance documents that it develops.

### The proposal

#### 1. Preservation of State Authority:

- The ISO's new governance structure will include binding provisions to protect and preserve state authority over matters currently regulated by the states themselves, including procurement policy, resource planning and CPCN approvals for utilities within their jurisdiction, and resource or transmission siting within their state.
- This will include a provision in ISO bylaws or other corporate governing documents that prevents the ISO from adopting any policy that would diminish or impair state or local authority in those areas.
- This also will include a provision that prohibits the ISO from proposing or endorsing any centralized market for forward procurement of electric capacity products.
- The bylaws or other corporate governing documents will require that these provisions relating to state authority cannot be changed absent both unanimous approval by the ISO Board and approval by the new body of state regulators (described below in Section 7).

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### **2. Greenhouse Gas Accounting:**

- While preliminary study results indicate that there will be a reduction of greenhouse gas emissions in California and regionally as result of a western regional ISO in 2030, they also show potential minor GHG emission increases in 2020. We invite comments on how any such short term emission increases could be mitigated.
- To accommodate a regional balancing authority area spanning multiple states, the ISO will need to develop a transparent methodology for tracking and accounting for greenhouse gas emissions, which must include a means to identify such emissions that are attributable to California load and resources located in California and out-of-state resources serving California load.

### **3. Transmission Owner Withdrawal:**

- The regional governance structure shall ensure the right of participating transmission owners to withdraw from the ISO, either voluntarily or in light of an order by their state regulator.

### **4. Transitional Committee of Stakeholders:**

- A transitional committee on governance will be established and charged with implementing the governance design that embodies the requirements set forth below.
- The committee, which will be appointed by the ISO Board and comprised of a representative cross section of stakeholders and state regulators throughout the region, will submit its proposal to the Board within 6 months of its inception. The ISO will support this process as necessary.
- Once the ISO Board accepts the proposal, the committee will oversee drafting of the corporate documents implementing it.<sup>1</sup>

### **5. Initial Board and Transition Period:**

- The initial board will include the five current members of the ISO board and four new members selected by the other states within the expanded regional footprint through a process endorsed by those states.
- The establishment of this initial board will be triggered when the new corporate governance documents are approved by the ISO Board and have become effective.

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<sup>1</sup> Because the ISO's current governance structure is established in California statutes, implementation of such a proposal will depend upon enactment of legislation in California that sunsets or revises the relevant provisions. Implementation may also be contingent on other regulatory review by FERC and potentially the IRS.

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- There will be a transition from this initial board to a board selected through a new nomination and approval structure.
- Members of the initial board will have terms that are staggered in such a way that the California-appointed members will constitute a majority of the state-selected members for the transition period. After the transition period has passed, the board will be comprised entirely of individuals selected by the new nomination and appointment method.

### **6. Composition of Regional ISO Board:**

- The transitional committee will develop a new nomination and approval process that will be used on a going-forward basis, beginning either at the end of the transition period or when the terms of the initial board members with the shortest terms expire.
- This new process will include stakeholder input on board candidates and will focus on establishing a board with professional expertise in relevant areas. It will also include a role for states in the nomination or approval process.
- The regional board (both during the initial phase and after the transition) will consist of nine members, all of whom must meet FERC requirements, including financial independence from market participants.

### **7. Establishment of a Body of State Regulators:**

- The governance will include a body of state regulators to provide policy direction and input on matters of collective state interest.
- The body will be incorporated as a non-profit entity separate from the ISO, with a budget funded by the ISO through a tariff mechanism approved by FERC.
- One regulator from each State in the regional ISO footprint will serve on the body.
- One individual appointed by the publicly-owned utilities within the ISO footprint will also serve on the body in a non-voting, advisory capacity. This individual will participate in all deliberations of the body, providing input on matters of interest to public power entities.
- Once regional governance is in place, the body of state regulators will have primary authority over regional ISO policy initiatives on topics within the general subject areas of transmission cost allocation and aspects of resource adequacy, as defined in more detail by the transitional committee in consultation with state regulators and the ISO.
  - A. Primary authority means the body will play the lead role for its defined areas of authority in directing policy for the regional ISO, and policy approval by

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the regulators body would be a prerequisite to any ISO Section 205 filing with FERC.

- The body will have a voting rule for approval of policies within its primary authority that, at minimum, will require an affirmative vote of a majority of the members of the body, as well as members representing at least a majority of load in the regional footprint.
- For matters within the regulator body's primary authority, the transitional committee will develop provisions that: (1) permit the ISO to file at FERC without regulator body approval, on a temporary basis, when reliability is imminently threatened (but only after giving the regulator body as much notice and opportunity to address the issue as the emergency circumstances may allow); and (2) permit submission of both a proposal approved by the regulator body and an alternative approved by the ISO board if a supermajority of the ISO board concludes that the proposal approved by the regulator body would severely undermine reliable operation of the grid or cause the ISO to violate a mandatory federal reliability standard or other binding FERC requirement.

### **8. Stakeholder Processes and Stakeholder Participation:**

- The transitional committee will consider changes to the ISO's current stakeholder process to facilitate broad and robust stakeholder participation.
- Specific topics the committee will consider in this area include:
  - (1) Whether there are any process improvements that could facilitate broad participation in stakeholder proceedings;
  - (2) Whether any formal stakeholder committees should be established, and if so, the composition of the committee(s) and the role it would play; and
  - (3) Whether there should be a funding mechanism to facilitate the participation by State consumer advocate bodies, and if so, who would qualify for such funding, who would pay for it, and how funds would be allocated.