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Comments fo Seattle City Light on Regional ISO Governance

Please accept the attached comments for docket 16-RGO-01.

Additional submitted attachment is included below.

CALIFORNIA ENERGY COMMISSION

In the matter of:

REGIONAL GRID OPERATOR

AND GOVERNANCE

Docket No. 16-RGO-01

**Seattle City Light Comments on the California ISO's
Proposed Principles for Governance of a Regional ISO
Following the June 2016 California Energy Commission's workshops**

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Seattle City Light (City Light) is the 10th largest public electric utility in the United States. It has some of the lowest cost retail rates of any urban utility, providing reliable, renewable and environmentally responsible power to approximately 750,000 Seattle area residents. City Light has been greenhouse gas neutral since 2005, the first electric utility in the nation to achieve that distinction.

City Light appreciated the opportunity to participate in the June 2016 workshops hosted by the California Energy Commission (CEC) and the opportunity to provide these comments in response to the dialogue that occurred in both Sacramento and Denver. The following comments are provided to help inform the review of the executive and legislative branches of the state of California and their consideration of whether to introduce and pass legislation that would authorize the CAISO to accomplish the goals of SB 350, to wit, accepting PacifiCorp and managing its system in five other Western states as a Participating Transmission Owner (PTO) and thus expanding the geographic area where the CAISO provides both grid management and wholesale energy market services. Seattle City Light believes we can play a key leadership role through the use of our hydroelectric capacity, storage and energy in assisting California and Oregon in reaching their carbon reduction goals, while also protecting and enhancing the economic and environmental foundation of the service we provide our customer-owners.

City Light is not taking a position on the merits of the CAISO's proposed expansion to a regional ISO for the Western United States at this time. If the California legislature authorizes this development, it is in the interests of all potentially affected states, their citizens, and the customers we serve here in the metro Seattle area that the California Legislature and CAISO do so well. These comments are provided in the spirit of cooperation, our mutual commitment to addressing climate change and our customers' interest in seeing a regional ISO be as successful as possible, if it is created. Seattle City Light supports the comments and principles of Public Power which will be filed contemporaneously with our own comments, and provide these comments to clarify Seattle's views on a number of matters.

Seattle City Light believes that the regional ISO's governance structure has significant interaction with major technical and market design elements (Transmission Access Charge, Resource Adequacy, etc.). The outcome of these technical proceedings, and any other relevant agreements, will affect our evaluation of the value of a Regional ISO.

City Light has been and will continue to be a regional leader in addressing the issues attendant to climate change, including how to operationally incorporate the large volumes of renewable, yet variable energy resources that will be required in the Western United States to meet the challenges we face in this century. This commitment is reflected not only in our own planning for climate change¹, but also in our support for the energy sector and the transportation sector

¹ See City Light's 2015 Climate Change Vulnerability Assessment and Adaptation Plan, <http://www.seattle.gov/light/enviro/climatechg.htm>, and our Integrated Resource Plan, <http://www.seattle.gov/light/news/issues/irp/> (2016 pending).

to transform into a twenty-first century economy that is cognizant of the future challenges climate change will present. Consistent with the Pacific Coast Climate Leadership Action Plan supported by the governments of British Columbia, California, Oregon, and Washington, as well as the recently concluded consultation of Canada, the United States and Mexico setting the goal of having 50% of all North American electricity derived from renewable generation by 2025, City Light recognizes the urgent need for California and Oregon to cost-effectively integrate the renewable generation required to meet their state-specific environmental goals.

City Light concurs with the CAISO's preliminary analysis (SB 350 studies) that there is a low probability of successfully integrating a 50% renewable portfolio solely within the state of California, that this approach would be more costly than would otherwise be the case, and would require the curtailment of much of this renewable generation when it exceeds the loads available to be served by it (i.e. the "duck curve"). Many commenters have identified tools ranging from demand response to grid-connected battery storage as a means to assist with this challenge. City Light supports the development of many approaches, including these to support shaping large-scale renewables. We encourage the CAISO and others to consider providing a neutral market opportunity for the most cost-effective solutions to come to the fore. This would include flexible, non-carbon emitting resources and energy storage outside California, and access to loads outside California that can be served by the in-California resources when they are surplus to the in-state loads for which they were built or acquired. To do so effectively, the CAISO's current market design will need to evolve to better serve the wider West.

Finally, and perhaps most challenging - the organizational culture of the CAISO itself will need to change if it is to be successful as a regional ISO. While this is viewed through the lens of a transitional committee and a potential transitional Board of Governor's structure, the changes within the ISO's organizational culture will need to be deep and long-lasting if it is to be successful in meeting the diverse needs of the Western United States.

For clarity and ease of comparison, Seattle City Light has organized its specific comments below consistent with the eight categories used by the CAISO in their Principles document.

1. Preservation of State Authority

Seattle City Light supports the CAISO's commitment that the governance structure of a regional ISO will need to respect and preserve state and local government authority over matters reserved to the states and local governments under existing law. City Light also supports the CAISO's commitment to enshrining these values in the foundational documents of a regional ISO, including but not limited to, its bylaws. We also support a similarly strong limitation on the creation of mandatory forward capacity markets by a regional ISO.

To be successful, a regional ISO will have to respect the diverse public policy positions of the states where it proposes to offer services. To do so, a regional ISO's energy market(s) are going

to have to evolve and change. This evolution will have to include not just governance structures as discussed at the CEC workshops and below, but also the market design itself will need to change. For example, it is in the state of California's best interest to unlock the value of the Northwest hydroelectric systems for supporting the integration of large scale renewables at a lower cost and with a higher degree of reliability than, for example, assuming that five million dispatch-able EVs charging during the day time and unlimited, low-cost battery storage deployed across the state of California will avoid curtailing renewables. Unfortunately, the current ISO market design does not offer an opportunity to participate, let alone be successful, for many entities in the Northwest who would otherwise like to discuss how to make their dispatch-able hydroelectric generation available to California utilities to assist you in achieving California state policy goals.

It is clear that across the West the states have a number of areas of agreement and disagreement regarding significant public policy issues. This dichotomy is most clearly illustrated by the renewable portfolio standards that have been adopted or not adopted by state law across the West. To be successful, a regional ISO will have to not only recognize these differences in policy perspective, but operate in a manner that respects these different policy choices, made by the people and their elected representatives in each state.

2. Greenhouse Gas Accounting

Seattle City Light supports the development of a neutral, and transparent methodology for tracking the greenhouse gas emissions associated with individual generators, regardless of location, such as a rulemaking initiated at the North American Energy Standards Board (NAESB) that would change the e-tag definition to include greenhouse gas reporting by the Generator Operator or Generator Owner. Some approach like this will be required if a regional ISO is going to have the tools necessary to respect differing state policy goals, as outlined above. We believe that there are potential technical solutions to this challenge and would be willing to devote staff resources to addressing it. For these reasons, Seattle City Light believes that GHG accounting mechanisms should not be part of the regional ISO governance discussion, but should be recognized as a necessary, but not sufficient element of a regional ISO's success in the West.

3. Transmission Owner Withdrawal

Consistent with the principles of federalism described above, the Seattle City Light supports the right of Participating Transmission Owners (PTO) to withdraw, whether voluntarily or in light of a state or federal regulatory order. Such withdrawal rights should be carefully conditioned so as to avoid inequitable cost-shifts or other detrimental consequences to non-withdrawing PTOs and other directly affected parties.

4. Transitional Committee of Stakeholders

Seattle City Light strongly supports the creation of, and date certain transition to, a fully independent regional ISO Board of Governors, versus a transitional or hybrid governance structure, if a regional ISO is created in the West.

However, in the event a transitional board structure is created by the California legislature as a precondition of evolving the CAISO to a regional ISO, the transitional period should be of limited and well-defined duration and scope. In this context, any transitional committee of stakeholders that is created must include broad representation of Public Power. Representation from the Northwest, the Intermountain West, and within the state of California by Public Power on a transitional committee will be critical to its success. City Light is willing to participate in the transitional committee, if it is formed.

5. Initial Board and Transition Period

Seattle City Light would prefer a date-certain transition to a fully independent Board of Governors for a Regional ISO from the current CAISO Board of Governors, if one is formed.

However, we recognize that there are a myriad of issues to be resolved in the context of governance, as well as operationally and commercially. City Light has generation resources located within the PacifiCorp Balancing Authority Area (BAA) whose delivery would be affected by the transition of PacifiCorp to a PTO of a Regional ISO. We would expect that a transitional period would be established to permit adjustment or reformation of existing transmission and related commercial arrangements to accommodate the new operational reality of a Regional ISO. From this perspective, we recognize that there may well be an equal need for a transitional period for governance, commensurate with our expectation for an operational and commercial transitional period. This need could well be reinforced in the event additional PTOs seek to obtain services from a regional ISO. In that event Seattle City Light recommends that the initial, limited transition period for governance remain unchanged, with operational and commercial transition periods being established for each subsequent participating PTO.

In the event a transitional board structure is authorized, Seattle City Light believes it must include not just existing representation from within the state of California, but also representation that is reflective of the diversity of the six states. For this reason, a “Six + Five” approach would be preferable over a “Five + Four”, where the initial board of eleven members include six presumptive California representatives and five additional board members who are both independent, and reasonably representative of, the additional five states that are currently presumed to be included in the regional ISO through incorporation of PacifiCorp as a PTO in a regional ISO.

For purposes of the transitional board only, the initial five independent, non-California board of Governors could each be appointed by the Governor of the affected states (Washington, Oregon, Idaho, Utah and Wyoming). After the transitional period is complete, and as the staggered terms of the Board members expire, all regional ISO board members would thereafter be pre-screened to meet FERC independence criteria (Order 2000) prior to appointment and no longer be gubernatorial appointees by any state.

City Light believes any transitional board structure should be of limited, and well-defined duration, such as two to three years after the passage of California legislation authorizing the evolution of the California ISO into a regional ISO. This is a sufficient time period to resolve outstanding issues as of the date the transition begins and provides certainty to those concerned about a transitional or hybrid board being created at all. This transitional period would also provide an opportunity for trust-building to occur within and outside the state of California.

6. Composition of a Regional ISO Board

Seattle City Light concurs with the California ISO that one task of the transitional committee should be the establishment of a neutral, transparent and independent nomination and approval process for a fully independent and diverse Board of Governors for a Regional ISO. As described above, and for purposes of the transitional period only, it may be useful to have the affected states appoint transitional board members. City Light believes this may mitigate some concerns regarding a transitional board structure and in particular, the concerns expressed by the Governors of Wyoming and Utah.

7. Establishment of a Body of State Regulators

Seattle City Light appreciates the California ISO's acknowledgement of the need to have our customers represented on the Board of State Regulators (BOSR) since we are not regulated by the Washington state Utilities and Transportation Commission (WUTC, our public utility commission in Washington). We recommend that this representation be broader than was suggested by the California ISO, specifically – that there be one POU representative from within the state of California and one from outside the state of California, and that they both have a voting role on the BOSR. In addition, strong consideration should be given to representation on the BOSR by the Federal Power Marketing Agencies (PMAs, such as BPA and WAPA) whose transmission systems are likely to be an integral part of any regional solution. Whether those roles are voting or advisory is a subject that deserves careful consideration by a Transitional Committee, if one is formed.

City Light believes that the bylaws and governing documents of a regional ISO should make it clear that consensus at the BOSR (as well as at the MAC) is the goal; and that a regional ISO's

Board of Governors will reasonably expect a regional ISO's management and staff will diligently pursue that goal in advance of bringing any substantive matter before the Board.

8. Stakeholder Process and Stakeholder Participation

Seattle City Light urges the formation of a Member Advisory Committee (MAC) that takes advisory votes prior to a regional ISO's Board of Governor's taking formal votes on matters will be critical to the acceptance and success of a regional ISO across the West. The MAC should be comprised of those with direct operational and financial interest in either grid operations or the wholesale markets operated by a regional ISO. This form of "checks and balances" will help foster a more cooperative and engaged process between the management and staff of a regional ISO, its Board of Governors, and those most directly impacted by the Board's decisions.

Similarly, the City Light support a robust, open and transparent stakeholder process that allows the regional ISO's management and staff, as well as the Board of Governors, to receive feedback on the matters that will come before them. As a consumer-owned utility we recognize the importance of being responsive to our customer-owners in the services we provide. For that reason, we believe consumer issues are best addressed at the local level where those matters most naturally reside, and where state-specific differences in law and approaches to consumer advocacy can best be addressed. Given the diversity of comments at the CEC workshops in June, this is clearly an area that a Transitional Committee will need to address.