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Additional submitted attachment is included below.

COMMENTS TO THE CALIFORNIA ENERGY COMMISSION

In the matter of:
Regional Grid Operator and Governance
Docket No. 16-RGO-01

Comments of Commissioner Philip B. Jones, Washington State

Introduction

I file these comments on the California Independent System Operator's (CAISO) Proposed Principles for Governance of a Regional ISO to present my own views as a Commissioner who has been actively engaged in discussions over the past year on the topic of formation of a regional ISO. These comments are my own, and are not necessarily the views of my colleagues in Washington or other states, or the UTC itself. These are intended to reflect my best judgment of how to strike the appropriate balance among a diverse group of states, and the many comments and views expressed in meetings with my colleagues and stakeholders over the past year or so.

I have drafted several discussion papers on the subject of ISO governance, some jointly with Commissioner Mike Florio of the California Public Utilities Commission (CPUC), to provide guidance for Commissioners among the six states (CA, WA, OR, WY, ID, and UT) affected by PacifiCorp's interest in joining the CAISO as a Participating Transmission Owner, or PTO. Moreover, I have facilitated several discussions among state commissioners, commission staff, CAISO, utilities, transmission owners, consumer advocates, environmental groups, and other stakeholders to explore in more depth some of the challenges of governance. Other states with utilities presently participating, or planning in the near future to participate in, the CAISO energy imbalance market (EIM) also engaged in this dialogue. Through this dialogue and constructive engagement, the stakeholders have advanced their knowledge of the operations and oversight of markets operated by Independent System Operators (ISO's), issues of FERC relative to state jurisdiction, and how regional state committees (RSC) such as the Organization of MISO States (OMS) for the Midwest Independent System Operator (MISO) and the RSC for the Southwest Power Pool (SPP) have operated in practice.

General Comments

I file these comments as an attempt to distill our collective dialogue on key points of governance. These comments are not intended to serve as a "consensus document" that would aggregate the views of the six states as one whole. Doing so would represent perhaps the lowest common denominator for governance. Difficult trade-offs and decisions will have to be made in the next few months and years if a truly regional ISO is going to move forward. My comments focus on key issues to assist California parties as they assess whether and how to "let go" of the current state-based governance of the CAISO for the benefit of California and the larger Western region.

First, the proposed principles are a good first step for the CAISO to put in writing, and for the California Energy Commission (CEC) to vet in a public comment process. They represent a great deal of hard work and a good faith effort to reach out to stakeholders, including the five affected states in the geographical footprint of PacifiCorp. But they are only a first step and only draft principles, and as I outline in these comments, do not hit the mark on some key points for several of the non-California states.

Second, as CAISO makes recommendations to the California Governor for changes to the current governance statutes, the principles should stay at a relatively high level. Perhaps the recommendations should include a bit more “flesh on the bones”, but the hard and detailed work of drafting corporate governance documents, including new articles of incorporation and bylaws for a regional ISO, should be delegated to the proposed Transitional Committee, or TC. I recognize that California Public Utilities Code Section 359.5 requires that the “regionalization or transformation of the ISO of California” should be accompanied by corporate governance and bylaws in a submission to the legislature, there is no practical way to accomplish this in the short period of time before the state legislature adjourns. It is important to take time to get it right. Inevitably, if the California Legislature acts to modify the current governance statute, it will need to give a certain amount of trust to a Transitional Committee, building upon the hard work and discussion leading up to the CAISO Draft Principles. If the Legislature only grants conditional approval of a governance proposal and requires further affirmative action after the work of a TC or similar body, it will be very difficult for the non-California states to negotiate in good faith and reach decisions to support a regional ISO.

Third, most of the six state commissions in the expanded footprint appear to have sufficient statutory authority, and precedent based on their transfer of property statutes and other statutes relating to establishing just and reasonable rates in the public interest. Therefore, although I know state Commissions may want to assess legal authorities, I believe that Commissioners can address the regional ISO issues without seeking legislative, including a new governance structure. Moreover, due to the primary authority of FERC to regulate interstate wholesale sales of electricity managed by a regional ISO, state commissions are engaged with FERC and are best positioned to deal with any regulatory challenge or gap that may arise. Also, if and when PacifiCorp files applications to join a regional ISO and transfer operational control of its transmission assets, each state Commission will have the authority to establish conditions to such an approval. Based on other regional ISO’s experiences, a common set of conditions is likely to emerge during the adjudicative process in each state that will establish obligations both for PacifiCorp and the ISO.

Finally, it is vital to keep the respective state Governor’s offices and legislatures informed on a regular basis during the months ahead if a Transitional Committee is formed and the detailed corporate governance and bylaws are discussed and developed. Some type of regular consultation mechanism should be considered whereby the key legislative committees in each state, including California, are briefed and apprised of the progress of the TC on governance.

Detailed comments, by Section:

My comments focus on those issues that appear to be the most critical to the states and the state commissions, highlighting those important to Washington State. These are discussed below in order of their importance, with the most important first.

Preservation of state authority (Section 1)

The Proposal does a good job in reflecting the broad principles discussed in the recent stakeholder discussions. States outside of California have enacted different statutes and have different energy policy priorities than those in California. All states, including California, feel strongly about preserving their sovereign authority to pursue energy policy objectives through state legislation, activities of Governors and state energy officials and the independent authorities of their respective public utilities commissions.

My comments on this Section are closely related to the activities of a Regional State Committee (RSC), or Body of State Regulators (described in Section 7), in that the latter body's interaction and oversight of a regional ISO will "give effect" to the implementation of these high-level principles. Based on the experience of similar RSC bodies for other multi-state ISO's, conflicts and disagreements will inevitably arise between the ISO and the affected states. Therefore, it is important both to state the principles of state authority as accurately and broadly as possible, but also to establish a robust mechanism that will ensure that these principles are actually put in practice in a fair way in the operations and management of the ISO.

Regarding the second bullet, a revised proposal should clarify that there could be multiple provisions (plural instead of singular) that would prohibit the ISO from "adopting any policy that would diminish or impair state or local authority in those areas." In addition to the ISO bylaws, the text should include reference to the Transmission Owners Agreement (TOA), which includes corporate governance provisions, as well as filings with FERC related to corporate governance. The following additional language related to the RSC should be added:

"If the ISO believes that some specific policy change may impair state authority, it will first consult with the Regional State Committee for its review and approval."

Regarding the third bullet, some stakeholders have argued that perhaps the language is drafted too strictly and would not allow voluntary products related to capacity to be developed by a regional ISO in the future. I understand the intent of this principle is to prevent a regional ISO from proposing and developing complex auction mechanisms for long-term capacity, such as those developed by PJM and ISO-NE. Many Commissioners and stakeholders believe those capacity markets, even with recent modifications, have failed in providing a sustainable, long-term price signal for new generation capacity. However, I argue that more flexibility is warranted on this topic, and propose to replace the language with the following:

"This will also include a provision that prohibits the ISO from proposing or endorsing any mandatory centralized market for forward procurement, by means of an auction of one or

more years forward, of electricity capacity for anticipated needs, while at the same time allowing flexible ramping products and ancillary services.”

Insert a new 4th bullet, regarding Greenhouse Gas Accounting mechanism:

“The regional ISO should develop a methodology and tracking and accounting for greenhouse gas emissions for exports and imports of wholesale electricity across the entire geographic footprint of the market. Such a methodology shall be developed transparently and shall be neutral from a technology and public policy perspective. Reflecting traditional cost causation principles, the incremental costs of developing and implementing this accounting shall be borne by those states that are required to do so by statute or regulation.

In our meetings, we have discussed the inclusion of Section 2 (Greenhouse Gas Accounting) in several our meetings, and whether or not it is truly a governance principle, or instead an operations or public policy issue. While I believe the nature of this issue is more the latter, I think there is no harm in including this section as a Principle, in Section 1, and perhaps delete Section 2 since I believe that there will be many comments submitted on this particular issue. In fact, each of the PacifiCorp states are accustomed to tracking and modelling GHG emission scenarios in its system-wide Integrated Resource Plan (IRP) every two years and discussing these in the IRP stakeholder process. Some states, like California and Oregon, currently impose and will impose in the future a carbon adder or cost on imported electricity. So, on balance, I believe there is a regional interest for the ISO – but not necessarily the state Commission – to develop an accounting methodology so that we have appropriate data and a tool to ensure that differing state policies on GHG treatment are properly accounted for by the regional ISO. . However, such as methodology should be neutral to any public policy preference, and should be driven by data and modelling. And the incremental costs should be borne by those states who require such an accounting methodology and data for compliance purposes in that state.

Regional State Committee (RSC), or Body of State Regulators (Section 7)

This is one of the most important sections in the proposal. As discussed above, other multi-state ISOs and RTOs have a state regulators committee to ensure that individual states have a role in decision making, either in an advisory or participatory capacity. The state regulator committees for MISO and SPP have specific authority to propose action on cost allocation of transmission projects to the individual states, and how to set the resource adequacy requirements for the ISO. Such specific decision making or advisory authority preserves state sovereignty over areas that are currently within the states’ role. Further, the governance structure for the CAISO Energy Imbalance Market includes a similar committee, the Body of State Regulators (BOSR), which has acted as a forum for education and outreach activities.

Many state commissions and staff have been busy monitoring and responding to the current CAISO stakeholder processes related to formation of a regional ISO on important issues such as the TAC (transmission access charge), resource adequacy (RA) and the Grid Management Charge (GMC). These are all indispensable stakeholder processes that require a great deal of time, effort, and attention. Unfortunately, states cannot act with a collective voice now on these important issues, since they do not have a formally established RSC, with a charter, leadership,

and adequate funding. To the extent states have the resources and staff, they are submitting comments on an individual state basis.

Although the Proposal makes a sincere effort at trying to reach the right “balance”, it falls short in several areas which I highlight below, by bullet point. It also lacks several important points that should be included in the Principles.

- 2nd bullet: instead of a tariff mechanism for funding (such as PJM), it is preferable that funding be included in the overall annual budget of the ISO that is approved by its Board and submitted to FERC (see below regarding a provision on the funding agreement for the RSC). This is similar to the budgeting process in OMS and the RSC-SPP. Also, the proposal should include language stating that the RSC be incorporated and chartered in a state outside of California (e.g., Utah or Oregon) as a non-profit entity with federal 501(c)3 status to reflect its multi-state nature.
- Insert a new bullet, regarding funding of the RSC:

“The ISO shall negotiate as soon as possible a “Funding Agreement” with the RSC, similar to those for other regional bodies such as OMS and RSC-SPP, that provides, among others, for funding of travel and necessary expenses related to members of the RSC to conduct its business and oversight of the regional ISO. The independence of the RSC will be a fundamental principle of such agreement, and the RSC members will retain exclusive control of its activities and allocated annual budget.”

- 3rd bullet: this paragraph should be replaced with the following:

“One public utilities Commissioner, selected through a process by each Commission, will serve on the RSC; if not a Commissioner, the state will select a state energy official familiar with utility regulatory and energy policy issues to represent the state.”

Certain states have made clear that, either due to an appearance of fairness or pre-judgement issue or due to the importance of these regional ISO issues to the state, they would prefer to have a non-Commissioner represent the state on the RSC.

- 4th bullet: The language in this bullet should be replaced with language reflecting the following (no specific text here, just the structure of the ex-officio public power and PMA entities)
 - In addition to the initial six state primary members, with voting rights, the RSC would include the following members, ex-officio not with voting rights:
 - One public owned utility (POU) representative from a utility outside of California. If a market participant, this would not be current employee of the utility involved in regional market activities, but instead could be a retired utility executive from the utility but should be familiar with transmission related issues;
 - One POU representative from a POU utility within California. Again, the same qualifications and limitations;
 - A representative of the Bonneville Power Administration, again ex-officio

- Insert a new bullet, regarding other potential RSC participants:
 - Consumer-advocates: one consumer-advocate should be nominated among the Western states to serve on the RSC, in an ex-officio capacity. This could be called an Associate Member. All consumer advocates can participate in other stakeholder processes and the RSC, but it would be more efficient to have one member selected to represent consumer-advocate views on the RSC. In addition, the ISO should provide a certain amount of funding for consumer advocates, to be included in the annual ISO budget but separate from the RSC budget, so consumer advocates may participate in the stakeholder processes of the regional ISO;
 - Other state agency officials (such as state energy offices, energy facility siting agencies, department of public utilities, and so on): The proposal should allow participation in the RSC as an Associate Member as well, and attend its meetings and offer views and opinions, in an ex-officio capacity.

- 5th bullet: I concur that the Transitional Committee can work out more of the details of these specific issues with the ISO;
- I recommend inserting a new bullet, regarding the charter and organization of the RSC:
 - Insert several more high-level principles about the RSC:
 - The Voting Members shall elect its leadership – President, Vice President and Treasurer – for a two-year term, and will hold one annual meeting open to its Members and the public;
 - The charter of the RSC will define the scope and authority of the RSC in regulatory and policy matters at FERC and in the states;
 - The bylaws of the RSC will ensure that minority views of states will be respected in any filings at FERC or elsewhere;

- 6th bullet: The language in this bullet should be replaced with the following, regarding voting:
 - The RSC will, in principle, follow the principle of one vote per state represented on the Committee (not the weighted voting model, or WIRAB model);
 - For Section 205 filings at FERC, 80 percent of the Voting Members will be required to make such a filing (e.g., if 6 states represented, 5 are required. If 8 states are represented, 6 are required);
 - Change in the bylaws: unanimous approval of all Members is required.
 - Provide that minority views will be represented, and shared with the ISO Board, if one of the voting Members disagrees with the majority vote;
 - Upon establishment and its charter, state that the RSC may develop other procedures relating to voting, based on the above principles.

A one vote per state voting process is more fair and inclusive to all states, including California, for the committee that is designed to represent all Western states in its interaction with the regional ISO. It is also similar to the voting procedures in OMS and RSC-SPP. States outside of California have made clear their concerns about potentially relinquishing fundamental state sovereignty over important decisions

involving the transmission grid. This process should ensure both the appearance of fairness to each state outside of California, and encourage a process that leads to consensus and fair outcomes. If the RSC cannot achieve consensus through voting and a dissenting member feels strongly about the issue, that state will have the opportunity to file its alternative views to the ISO Board, FERC, stakeholders, and the general public.

- 7th bullet
This provision appears to be a “reliability safety valve” for a regional ISO so that it can act in emergency situations, on a temporary basis, to file at FERC necessary tariff revisions to ensure the reliable operation of the high-voltage grid in the region. I have no objection to including such a provision in the proposed principles, as I do not believe that any state official or stakeholder wishes to undermine the reliability of the grid through a governance structure. A regional ISO should have the ability to act quickly and nimbly when unusual circumstances arise and reliability of the bulk electric grid is threatened.

At the same time, however, the language of this bullet is too long and detailed for a high-level principle. Brevity may be called for in this area at this time. Indeed, this could be viewed as more of an operational issue involving reliable operation of the bulk electric grid, and meeting the ISO’s compliance obligations with standards imposed by NERC, WECC, and the Peak Reliability Coordinator in the Western states. Transmission owners and load, and other stakeholders, need to be involved in the discussion of such a “reliability safety valve” in the area of primary state authority, such as the rules for resource adequacy. Therefore, it seems more sensible to discuss the details of this issue in the TC.

Transitional Committee (TC) (Section 4):

The section of the proposal describing the Transitional Committee should include more details, since this committee will be the key body to flesh out and write the detailed corporate bylaws and corporate governance documents for the regional ISO. The EIM Transitional Committee on Governance did exemplary work and provided a solid foundation for the work of the EIM Governing Body. Yet the scope and significance of a regional ISO is much greater, not just for the potential application of PacifiCorp and the six states in which it operates, but for other transmission owners in the future. In addition, states other than California have expressed concerns about the control and accountability of this committee. Therefore, it makes sense to ensure that the committee is as inclusive and representative of all interests of the Western states at its inception, while maintaining some level of efficiency to “get the job done” on governance within a set timeframe. Ensuring this balance will be critical to the success of the regional ISO effort.

My comments do not provide suggested text for the principles here, but provide further details on how to make this committee work more effectively. As language and terms matter, this committee not be given the term “stakeholders committee”, but simply call it “transitional Committee” or “Transitional Committee on regional ISO Governance”. State commissions or

officials do not regard themselves as just a “stakeholder” in the process of governance, instead as officials of a sovereign state engaging in a multi-state ISO governance discussion. As well, the transmission owners and many other stakeholders regard themselves as an essential part of making this governance process work since they have to make these principles work effectively from a market operations and commercial perspective.

- Number and composition of the committee:
 - A number in the range of 15 members would be optimal – lesser would not be representative of all interested states and stakeholders, while more would make the committee too large and unwieldy, consisting of:
 - 6 state members: as with the proposal for the RSC (which is not officially chartered and established yet), the default would be one commissioner from each of the affected states; if not, an energy official with suitable experience and background;
 - 1 consumer advocate: to be chosen by the western states in the National Association of Utility Consumer Advocates.
 - Bonneville Power Administration (a federal power marketing administration, or PMA)
 - 2 public power (publicly-owned utilities): one from California, one from either the PAC-East control area or the PAC-West control area;
 - 2 transmission owners: one from a large TO in the state of California, and one from outside of California, including potentially PAC
 - 1 transmission-dependent utility
 - 1 representative of load (e.g., industrial or large commercial load)
 - 1 or 2 representatives from public interest groups, such as an environmental NGO’s involving in transmission issues;
 - 1 Independent power producer (e.g., representative of IPP association in the West)
 - 1 representative of renewable energy interests
 - Experience and qualifications: a similar vetting procedure should be used as for the EIM TC, for assessing the appropriate professional background, experience, and knowledge of the Western Interconnection of candidates for the TC;
- Term of the committee:
 - Given the scope and complexity of this work, six months from inception to final recommendations is too short. Instead, 9-12 months should be provided for this work. Accordingly, the final recommendations of the committee should be due in late 2nd Quarter or early 3rd Quarter, 2017;
- Leadership and organization:
 - The chair of the committee should come from outside of California, with the Vice-Chair coming from California;
 - Task forces or committees on specific subjects should be organized, as necessary and appropriate, with technical staffing from the CAISO
- Accountability and control:
 - Concerns have been expressed that the vital work of the TC will be subject exclusively to the control of the ISO Board and staff, and ultimately to the

interests of California. This perception needs to be addressed squarely, and the recommendation below is means to do so;

- The committee will formally and organizationally be a committee of the CAISO, and will primarily be staffed by CAISO during its deliberations. However, it will not be run as a “traditional CAISO stakeholder process.”
- Accountability for key appointments and recommendations should be shared with a broader group of Western state interests. It is proposed that this be done through the Western Governors Association, or WGA.;
- For the initial scope of TC candidates and scope of work, the CAISO will propose a slate of candidates after consulting with each state commission or energy office individually, and propose this to the WGA for its approval;
- Under this proposal, the WGA shall review the list through its Member and committee structure, or through a proposed subcommittee which includes each state potentially included in a regional ISO, and, if necessary, respond within 15 days. If approved (a letter from the Chair of the WGA or its Executive Director to the Chair of CAISO will suffice), the committee can officially commence its work.
- The same process will apply for the committee’s final recommendations in 2017, although it is not expected to perform a detailed, in-depth of assessment of the bylaws and corporate governance documents, but instead a high-level review to ensure consistency with the Principles.
- In addition, WGA and perhaps CREPC-WIEB may explore funding alternatives, perhaps from USDOE, to assist the state commissioners or state representatives in their work on the committee, drawing on experience from other regions, in order that the staffing and technical expertise is not coming solely from the CAISO staff;
- During the process and deliberations of the committee, it will keep each of the states, including key legislative Committees and Governor’s Offices, apprised of its work on a regular basis, which will probably vary for each state.
- Relationship to other PacifiCorp-related stakeholder processes of CAISO:
 - A good deal of work has already gone in to the Transmission Access Charge (TAC), Resource Adequacy (RA), Grid Management Charge (GMC), and other processes. While several draft proposals have been published and many good comments have been solicited, much more technical work needs to be done in consultation with stakeholders in the region. Moreover, substantial parts of the final recommendations will depend on the committee’s work;
 - The timeline of the committee’s work will drive in part the work of these stakeholder processes.
 - If the final committee recommendations are due in late 2nd Quarter or early 3rd Quarter 2017, the work of these stakeholder processes should be slowed down and sequenced appropriately.

Initial Board and Transition Period (Section 5):

Several commenters have suggested that the governance structure can proceed to a final, independent Board in a flash-cut-type process without a several year transition period, if strong

state authorities are preserved and a strong RSC is established. Yet, after discussion and listening to comments in the public comment sessions, I am convinced that an appropriate transitional period, with a transitional committee, is both prudent and necessary for several reasons.

First, the work of the committee will be critical in setting forth the detailed governance process in the bylaws of the new ISO, together with the work of transmission owners and preparing for filings at FERC. All of this takes time and resources, and especially for a first-of-a-kind effort like this for multiple Western states.

Second, a large number of existing bilateral (point-to-point) contracts will have to be modified if a regional ISO is developed. The negotiations among transmission owners and transmission-dependent utilities are not necessarily easy, and will take time to negotiate and resolve. The transmission owners and other stakeholders will undoubtedly wish to seek the advice of the new regional ISO, FERC, and state commissions as these arrangements evolve.

Third, while the drafting of new ISO bylaws and corporate governance documents may be straightforward, the implementation of these provisions may not be as straightforward and will undoubtedly face challenges in the initial stages. The Western Interconnection is a very complex system with a diverse group of utilities, transmission owners, and load-serving entities across a wide spectrum of governance throughout the region. A suitable transition period would assist in the initial implementation of the new rules and operating procedures of the regional ISO.

Finally, and perhaps most importantly, a transition period will hopefully allow trust and credibility to be created among six diverse states and their regulated utilities, together with the evolving CAISO Board of Governors. This was certainly the case for the EIM Transitional Committee on Governance, which worked hard to develop common positions and consensus positions for the EIM Governing Body. The work of this committee will be harder and more challenging, but by no means different in the sense of state officials and stakeholders working together in good-faith to implement a governance structure for the benefit of each state as well as for the region. Accordingly, given that we are considering a structure for the bulk grid for the next several decades, a period of two or three years in which to develop trust among key partners is a reasonable period of time.

My specific comments are as follows:

- 1st bullet (a so-called 5-4 Board structure for a total of nine): Considering the recent discussions and public comments, the proposed board structure does not work in a political or practical sense and must be modified. First, it allows representation of only four non California states, not all five. This puts the states in a difficult position of having five states negotiate to select four nominees, which is not necessary and can be remedied. Second, it is not clear, in Footnote 1, when and how the establishment of the Initial Board, and the retirement of existing CAISO Board Members, fits in with the existing California statutes and the new statutes that the California Legislature will have to pass. As stated above, it is clear that the California Legislature needs to take action to pass a measure on the new governance structure, and then allow the transitional

committee to do the work on the detailed bylaws and corporate governance documents – but only once. The committee and the Initial Board must be provided with a good deal of deference to develop the details of governance, consistent with high-level principles, but the work should not be subject to another affirmative vote of the California Legislature – not to mention any other state Legislature;

- I understand the desire of California to have “California-appointed members ... constitute a majority of the state-selected members for the transition period.” First, the preservation of state authority in Section 1, with some modifications, provides some strong protections for the non-California states in principles. Second, in order to ensure the implementation of those principles in practice, I advocate for a strong RSC with sufficient authority to represent state interests with the regional ISO and at FERC, and provided with one vote per state. Third, there is value in the continuity and experience of the current CAISO Board members who have served for several years, and can interact and share information with the new board members from the non-California states. Finally, the transition period should be relatively short –three years – and given the large amount and complex nature of the work of the Board that needs to be done in the initial transition period, this is not an insurmountable issue if some of the above elements are adopted.
- However, I would suggest two alternatives if my colleagues in other states strenuously object to the California majority voting (5-4) in the initial period.
- First alternative: expand the size of the board to 11 members in the initial period, with six from California and five from the non-California states. This would allow each of the non-California states (WY, UT, ID, OR, and WA) to select a suitable board member in a manner of their choosing, instead of eliminating one state’s interests directly on the board. Adding an additional board member from California may conflict with the current governance statute in California, but language could be added in the bill submitted to the Legislature to provide for an additional California board member, subject to the normal nomination and confirmation process, to serve on a temporary basis and only on the initial board during the transition period.
- Second alternative: maintain the current five CAISO Board members, and allow each State to nominate a board member through its process, as above. That would constitute ten board members. After being selected, the ten members will deliberate about an 11th Board member, and similar to an arbitration type process, will choose that person from a person nominated by each side through consensus. That final board member will be vetted by the CAISO legal staff in the normal manner that all members are vetted.
- If either of these alternatives are chosen, the initial board will consist of 11 members but only during the period of the transition, reduced to nine for the Final Board
- 4th bullet: staggered terms for the Initial Board members from outside California are a good idea, and should be supported. In addition, the expiration of the terms of the current CAISO Board Members are staggered as well, and subject of course to confirmation by the California State Senate. Two of the terms expire at the end of December, 2016, which gives the Governor and Legislature an opportunity to send a signal about the transition period and final composition of the Board of a regional ISO;
- 3rd bullet: the proposal of a new nomination and approval structure is a good one, and should be supported, with the TC working out the details. The Nominating Committee of the EIM Governing Body provides a good example of reaching decisions by consensus.

Their work could be emulated here but on a Board with more Members and larger scope and significance.

Composition of the final Regional ISO Board (Section 6):

Overall, this section is drafted well and provides a good framework for a selection of the final regional ISO board in the future. As the proposal states, the members of the transitional committee will assess this situation in detail, and develop recommendations on a new nomination and approval process that will be used in the future. I agree, as cited in the third bullet, that the final number of board members should be nine.

Furthermore, it is important that the final board members meet the various requirements FERC has cited in its approvals of governance structures for other multi-state ISO's. Financial independence from market participants is a bedrock principle that has been interpreted in various FERC Orders. In addition, together with the overall structure of governance, FERC has enunciated a number of principles that these independent board members should take into account as they make their final decisions, such as inclusiveness of all views in the region, responsiveness to concerns of all stakeholders, and ensuring the minority views are represented. The selection of independent board members who both understand the concepts enunciated by FERC, and can oversee and implement these principles in practice should be key attributes of the new regional ISO board members.

Transmission Owner Withdrawal (Section 3):

I support this high-level principle as drafted here. Based on discussion and research, however, the potential withdrawal of a transmission operator from a regional ISO would be a complex, difficult, and perhaps litigious process, and that FERC would assert its jurisdiction over the terms of such a withdrawal. There also could be large economic consequences for either the departing transmission owner, or the remaining members in the system depending on a number of factors, including the specific cost allocation methodology that was used for a transmission project. The committee should seriously examine these issues as it develops its recommendations, as well as the transmission owners of the regional ISO as they negotiate new agreements with the state commissions and FERC. In general, the more detailed work that is done at the front end will create a fair structure and methods for cost allocation, and thereby avoid costly decisions or unintended consequences at the back end.

Market Advisory Committee (new):

Finally, although the proposal does not include it, a strong Market Advisory Committee should be a part of the governance structure, as advocated in the Public Power Position Statement on the Western Regional ISO. As the paper states, this committee "would consist primarily of market participants that have direct financial interests in the market operation through ownership of electric power or transmission assets, or load serving responsibilities." Although this committee would not have decisional authority, it would provide advice and counsel to the independent ISO board members, and would vote on important policy and tariff-related issues prior to formal board action. It is important for the utilities closest to the operation of the markets – both the

transmission operators and the load serving entities – to have a strong committee that provides advice to the board, along with the RSC and other committees. I support the views on this issue expressed by Seattle City Light.

The scope of this committee’s authority and the voting process should be addressed by the transitional committee in its deliberations and ultimate recommendations. Comments filed previously together with Commissioner Florio discussed the strengths and weaknesses of the approach that SPP takes with its strong Members Committee, compared to the approach that MISO takes with its Advisory Committee. In general, the SPP model leans more toward an “operational board” and appears to be involved strongly with its Members Committee, the RSC, and other committees. It appears to be more “hands-on” with the stakeholders in SPP and the SPP staff. On the other hand, the MISO Board appears to be more of a “management board” and takes the advice and views of the Advisory Committee, the OMS, and other committees but at a more general management level while preserving the appearance of independence. There is no consensus yet around which model may work better for the Western States, but it is fair to say that we can learn from both models and adapt the specific terms that meet our needs in the West. And, in my view, at least in the initial stages of the first three or five years, a more “hands-on” approach of the independent board may be appropriate given the complex nature of balancing authorities, public power and investor-owned utilities, and the role of federal power marketing agencies and other federal government agencies in transmission siting and electric power delivery to its preference customers.

If such a Committee structure is adopted, I would suggest several detailed points, although these are issues for the TC to discuss:

- Any voting by such a committee should occur separately before the independent board members meet, and such a vote should be transparent and recorded, with any minority views. The leadership of the committee should subsequently present its recommendations to the ISO board, including any minority views, and explain its rationale for such a recommendation, which could include a broader discussion if the Board would provide for it;
- The voting of the full ISO board should be transparent and recorded as well, on any recommendation that comes from a major committee, such as the Members Advisory Committee, the RSC, or others;
- The most appropriate place for a consumer advocate representative is on both the transitional committee as a member, and on the RSC as an associate member. Consumer advocates should be allowed to observe and participate in stakeholder meetings related to issues of the Market Advisory Committee, but a stronger and more suitable place for them to serve is on the RSC;
- For federal Power Marketing Agencies, such as BPA and WAPA, this may be a suitable place for them to participate even though they may choose not to join the regional ISO as initial members, and therefore would serve in an ex-officio capacity. More inclusiveness on this committee is best, at least at the outset, and these PMAs are responsible for delivering federally produced power to their load across wide areas of a prospective regional ISO.