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**Comments of the California Large Energy Consumers Assoc. on Proposed Principles for Governance of a Regional ISO**

*Additional submitted attachment is included below.*

**BEFORE THE CALIFORNIA ENERGY COMMISSION  
OF THE STATE OF CALIFORNIA**

In the Matter of:  
Regional Grid Operator and Governance

Docket No. 16-RGO-01

**COMMENTS OF THE CALIFORNIA LARGE ENERGY CONSUMERS ASSOCIATION  
ON PROPOSED PRINCIPLES FOR GOVERNANCE OF A REGIONAL ISO**

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**BEFORE THE CALIFORNIA ENERGY COMMISSION  
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**I. INTRODUCTION**

The California Independent System Operator's (CAISO) June 9, 2016 proposal for Proposed Principles for Governance of a Regional ISO (Proposed Governance Principles) is very high-level. The revised proposal to be submitted to the Governor and Legislature will need more detail and its consideration should be informed by details of the still-pending Greenhouse Gas (GHG) accounting methodology. A single revision of the Proposed Governance Principles will be presented at the July 26, 2016 joint agency workshop, presumably with a brief opportunity for public comment on that revision at that workshop. It is unclear when the GHG accounting methodology will be proposed.

Will this one workshop provide sufficient opportunity for stakeholders to:

- (1) fully understand the governance principles,
- (2) grasp their implications and holistically consider those implications with the market structure policy proposals, and
- (3) offer thoughtful feedback on the governance principles?

Will the period after July 26<sup>th</sup> and before the end of August provide sufficient time for the Legislature and stakeholders to consider the governance principles, weigh the analysis

of costs and benefits of regionalization, and develop and finalize legislation? CLECA is concerned that it may not.

Warnings that other ISOs are also seeking to expand their footprint into the WECC have been sounded. The potentially-competing regionalization efforts by other ISOs, however, neither obviate nor outweigh the valid concerns about the real risks of a rush to judgment on regionalization. The complex, intertwined and at-times competing impacts of regionalization with California's energy policy goals pose significant challenges to the achievement of the necessary, delicate balance between California's interests and other states' interests; an overly-compressed schedule intensifies those challenges. The pace of the regionalization efforts must allow for careful deliberation on what protections for the varied state and stakeholder interests are necessary, as well as how to make those protections durable in legislation and workable in practice. There is significant risk to regional expansion if not done right; taking the time needed to get the governance right, and then the market structures right, is warranted.

## **II. GREENHOUSE GAS ACCOUNTING**

The potential for short-term GHG emissions increases from regionalization *and the associated costs to California ratepayers* must be clarified and proposals for mitigation of the increases in emissions and costs included in the CAISO's SB 350 Report. An initial proposal for "a transparent methodology for tracking and accounting" for GHG emissions "attributable to California load and resources located in California and out-of-state resources serving California load"<sup>1</sup> remains pending. CLECA acknowledges the difficulties inherent in developing such a methodology, but the

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<sup>1</sup> Proposed Governance Principles, at 3.

Legislature and stakeholders cannot reasonably or adequately review and evaluate the prospect of regionalization and principles of governance in its absence.

The potential costs to ratepayers of California's carbon policies in a regional market must be included in the calculation of the net benefits per SB 350; if the policy proposal for GHG emissions tracking and accounting is unknown, it is difficult to understand how the potential costs can be reasonably known or quantified. As discussed at an Air Resources Board workshop on June 24, 2016, CLECA understands the potential costs include possible uplift charges allocated to California ratepayers for resources outside of the state serving load outside of the state.<sup>2</sup> It is not clear how the preliminary SB 350 Study results take the costs of these potential incremental uplift charges into consideration; this must be clarified in the SB 350 Report and understood by stakeholders. It should be explained and discussed in detail at the July 26<sup>th</sup> workshop.

### **III. TRANSITIONAL COMMITTEE OF STAKEHOLDERS & INITIAL BOARD AND TRANSITION PERIOD**

CLECA has two preliminary concerns regarding the transitional committee of stakeholders; these concerns should be specifically addressed in the revised proposal. First, the end-use ratepayers – including industrial customers – must have a clear and distinct voice in the transitional committee and afterwards in the Regional ISO. All that an ISO, Participating Transmission Owners (PTOs) and market participants do in wholesale markets is ultimately paid for by the end-use ratepayers, including industrial

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<sup>2</sup> See generally Mandatory GHG Reporting and Cap and Trade Program Workshop, Presentation by ARB and CAISO Staff for June 24, 2016 workshop, at slide (available online at: <http://www.arb.ca.gov/cc/capandtrade/meetings/meetings.htm>)

customers; that fact will not change with an expanded ISO footprint. CLECA is concerned by the potential that the ratepayer voice, again including industrial ratepayers, may be lost in either the transitional committee process or during the transition period and afterwards. CLECA representatives have participated in both the CAISO Board nominating process and the EIM Board nominating process; CLECA strongly prefers the CAISO Board nominating process, which includes an end-use customer sector, over the EIM Board nominating process, which has an “advisory” public interest sector which combines end-use customer representatives and environmental groups, whose interests do not necessarily align. Organizations that advocate for ratepayers should have a structured role in the transitional committee process as well as in the nominating process for the regional board and afterwards in the Regional ISO. That role should not be merely advisory nor should it be diluted by being shared with other at-times competing interests.

Second, CLECA reiterates its support for the concept of including explicit limits in the charter documents; we also repeat that it must be recognized that the development of specific language and the limits themselves will take time. The Proposed Governance Principles provides that the transitional committee “will submit its proposal to the Board within six months of its inception.”<sup>3</sup> Six months may not be enough time, and, if it remains six months, this should be stated as a goal, rather than a requirement; if a deadline is required, 12 months should be given. This proposal will form the base for the regional ISO’s corporate documents; adequate time for the proposal’s full development must be provided.

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<sup>3</sup> Proposed Governance Principles, at 3.

#### IV. STAKEHOLDER PROCESSES AND STAKEHOLDER PARTICIPATION

CLECA has participated in many CAISO stakeholder processes, and offers the following recommendations for changes to the CAISO's current approach in order "to facilitate broad and robust stakeholder participation."<sup>4</sup>

- Once posted on the CAISO's website for comment, staff proposals should remain posted; in no instance should a proposal be removed from the website while the comment due date remains unchanged.
- The CAISO should not accept confidential comments without disclosing to all stakeholders that such comments were submitted and what the confidential comments addressed; ideally, all comments would be posted and available, with appropriate, specific redactions of confidential data.
- A matrix of stakeholder comments and CAISO responses should always accompany revised proposals; if staff has insufficient time to prepare this needed matrix, distribution of a revised proposal should be delayed to allow staff to prepare a matrix of stakeholder comments and CAISO responses. Otherwise, participants do not know whether or how CAISO staff considered their comments and positions or other stakeholders' comments and positions, impeding full and fair stakeholder participation.
- The CAISO should follow its own procedures in terms of its own response times, page limits, font sizes, etc., or inform the stakeholders of one-time deviations to its procedures and allow stakeholders to similarly deviate from the CAISO's procedural rules without prejudice in the process.
- The CAISO should prioritize broad stakeholder support for and agreement with its final proposals and tariff language as outcomes of its stakeholder initiatives; stakeholder support for and agreement with tariff language is a product of and reflects a robust and fair stakeholder process; broad

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<sup>4</sup> Proposed Governance Principles, at 5.

stakeholder opposition to a final proposal brought to a Board vote raises red flags and concerns with the stakeholder process; there may be rare exceptions, but generally, a speedy Board vote should not be prioritized over a full and complete stakeholder process.

These recommendations should be considered by the current CAISO board for its own current stakeholder processes, in addition to being considered by the transitional committee.

#### **V. DEMAND RESPONSE, ENERGY EFFICIENCY AND OTHER DISTRIBUTED ENERGY RESOURCES MUST NOT BE OVERLOOKED**

Concerns have been raised over the tension between FERC's jurisdiction over wholesale markets, wholesale rates and transmission access and state jurisdiction over retail markets, retail rates and transmission and power plant siting; these concerns have focused on renewable energy programs and their impacts on California's carbon goals. California's energy loading order begins with energy efficiency and demand response, but scant attention in the regionalization efforts have been paid to these and other distributed energy resources (DER) thus far. California is developing rules and regulations around DER and is encouraging more and more engagement by DER in wholesale markets; this needs to be taken into account. It is still not clear how California's envisioned distribution marketplace will "play" alongside or even within an expanded, more regional entity's markets. This must be explained at the July 26<sup>th</sup> workshop.

Importantly, demand response incentives help industrial customers alleviate some of the pressure from the high cost of power in California caused by the state's energy and carbon policies. Their availability helps maintain production and

manufacturing facilities in California, where power is cleaner and greener due to state policies, rather than other locales – both international and in other states – with less expensive, more carbon-intensive power. California’s demand response policies and programs that help retain industries, particularly those that are energy-intensive, in California align with the state’s overarching climate goals. Regionalization efforts must consider the need to keep industry in California and guard against emissions leakage.<sup>5</sup> Equally importantly, reliability demand response continues to help protect and maintain the grid in the face of both anticipated and unexpected system contingencies as well as local reliability concerns. As demonstrated in February 2014 during the polar vortex, year-round reliability demand response remains critical for keeping the lights on. Providing specific protection in the governance legislation and in the charter documents for long-standing, proven reliability demand response programs should be considered.

Finally, customers respond to clear price signals. Setting and sending clear price signals through an optional dynamic pricing rate overlying time-of-use retail rates would incentivize California customers to respond to and help mitigate the overgeneration and RPS integration problems driving the regionalization effort. This should be supported by all stakeholders, including the CAISO, and prioritized now by the agencies charged with implementing state energy and climate policies. California ratepayers pay for the RPS power; they should have “first dibs” at consuming that power at reduced costs.

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<sup>5</sup> Introducing an environmental regulation in one jurisdiction can cause production costs and prices in that jurisdiction to increase relative to costs in jurisdictions that do not introduce comparable regulations. This can precipitate a shift in demand away from goods produced in the implementing jurisdiction toward goods produced elsewhere. As a result, the reduction in production and emissions in the implementing jurisdiction is offset by increased production and emissions elsewhere. The offsetting increase in emissions is called *emissions leakage*.

## VI. CONCLUSION

CLECA appreciates the opportunity to comment on the Proposed Governance Principles and looks forward to reviewing a more developed and detailed proposal on regional governance and participating in the workshop on July 26, 2016.

Respectfully submitted,



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July 7, 2016