

DOCKETED

Docket Number:	16-RGO-01
Project Title:	Regional Grid Operator and Governance
TN #:	212175
Document Title:	Bonneville Power Administration Comments on Regional Grid Operator and Governance
Description:	N/A
Filer:	System
Organization:	Department of Energy, Bonneville Power Administration
Submitter Role:	Public Agency
Submission Date:	7/7/2016 3:53:38 PM
Docketed Date:	7/7/2016

Comment Received From: Rebekah Pettinger

Submitted On: 7/7/2016

Docket Number: 16-RGO-01

Comments of Bonneville Power Administration on 16-RGO-01

Additional submitted attachment is included below.



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POWER SERVICES

July 7, 2016

In reply refer to: P-6

California Energy Commission
Docket Unit, MS-4
RE: Docket No. 16-RGO-01
1516 Ninth Street
Sacramento, CA 95814-5512

**RE: Docket No.: 16-RGO-01
Regional Grid Operator and Governance**

The Bonneville Power Administration (Bonneville) appreciates the opportunity to submit this comment on the June 9, 2016, "Proposed Principles for Governance of a Regional ISO" (Proposal) in the California Energy Commission's (CEC) "Regional Grid Operator and Governance" proceeding.

Background

Bonneville is a federal power marketing agency within the United States of America, Department of Energy, which markets electric power from 31 federal hydroelectric projects and some non-federal projects in the Pacific Northwest. Whenever requested, Bonneville is statutorily obligated to sell at wholesale firm power to meet the retail load requirements of certain utility customers in the Pacific Northwest. 16 U.S.C. § 832c (2014); 16 U.S.C. § 839c(b) (2014). Bonneville also owns and operates nearly 75 percent of the high voltage transmission system in the Pacific Northwest. The Pacific Northwest is defined as the states of Washington, Oregon, Idaho, and Montana west of the Continental Divide, and parts of Wyoming and California. Bonneville is governed by and must operate according to various federal statutes, including the Bonneville Project Act, 16 U.S.C. §§ 832-832l (2014), the Pacific Northwest Consumer Power Preference Act, 16 U.S.C. §§ 837-837h (2014), the Pacific Northwest Electric Power Planning and Conservation Act, 16 U.S.C. §§ 839-839h (2014), and the Federal Columbia River Transmission System Act of 1974, 16 U.S.C. §§ 838-838k (2014), among others.

Why A Role for Bonneville?

During the June 20, 2016, public meeting in Denver, the question was asked what, if any, role Bonneville should play in the governance of the regional ISO. This question follows from Bonneville's position that it has no plans of joining the ISO as a Participating Transmission Owner (PTO) nor as an Energy Imbalance Market (EIM) Entity. Governance issues are already complex, involving multiple states and interests. Why, then, should the ISO, California Energy Commission (CEC), and other stakeholders consider Bonneville as it develops the region-wide ISO governance proposal?

Bonneville acknowledges that making a place in the ISO governance to accommodate a non-participating federal presence is a unique request. To assist in understanding the need for such a place, Bonneville provides below an overview of the unique position Bonneville holds, and has held, for many decades in the Pacific Northwest. This role will generally not change if the ISO includes new entities. Fundamentally, Bonneville must ensure that its statutory duties and federal responsibilities are protected in the context of an expanding regional ISO. Just as the CEC, ISO, state regulators, and other entities are considering their constituents in the structure and composition of the new regional entity, Bonneville will similarly be considering the implications that arise from an expanding ISO and its impact on Bonneville and its regional customers as it engages in discussions about a new regional body. Bonneville understands the California Independent System Operator's (CAISO) interests in expanding to a western regional ISO and wants to ensure that the market is established on a good footing that can benefit the region. Bonneville believes that the most constructive approach for achieving its goals is one of active engagement, where Bonneville and the regional ISO pursue a policy of cooperation, where Bonneville's views are heard and considered at the policy level, and where Bonneville and the ISO actively seek to propose solutions to seams and other issues. Maintaining such a mutual relationship prospectively requires that Bonneville's voice and position be recognized in the ISO governance.

Bonneville as Transmission Provider for Utilities in the Pacific Northwest

Bonneville operates over 15,000 miles of high-voltage transmission lines in the Pacific Northwest and is a co-owner of, and the path operator for, the Pacific Northwest AC Intertie. Bonneville operates 75 percent of the high voltage transmission system in the Northwest. This integrated transmission system interconnects to the transmission systems of most of the utilities in the region, including almost 100 public power (preference) customers, as well as the systems of PacifiCorp, PGE, Puget Sound Energy, Idaho Power, Avista, NV Energy, Seattle City Light, the Mid-Columbia utilities, and Northwestern Energy. For decades, the federal transmission

system has served as the highway for integrating and accessing the resources used to serve load in the Pacific Northwest.

Access to and across Bonneville's transmission system will be essential for a regional ISO to function, in particular for PacifiCorp's western balancing authority. Indeed, Bonneville is unaware of any other regional market that has integrated a balancing authority such as PacifiCorp West, which relies significantly on transmission rights on another entity's transmission system. The technical, operational, and contractual coordination that must accompany such an integration will be extensive and unprecedented.

The existing working relationship that Bonneville, the ISO, and PacifiCorp have developed through the implementation of the EIM has demonstrated that close coordination and communication between the transmission operators is essential for coordinated and reliable regional operations. But, as the region's operation and integration evolves, so too must the governing structure used to manage that system. The EIM governance contained no official role for Bonneville, and consequently, Bonneville's existing interaction with the ISO and PacifiCorp has largely been developed on an *ad hoc* basis with little structure. Although Bonneville and the ISO have worked collaboratively and effectively thus far, it is not a sustainable model for implementing a regional ISO that will rely on significant use of Bonneville's federal transmission for its operation. Additional structure will be needed, and that structure will need to be addressed in the governance proposal.

Bonneville as Regional Power Supplier to Preference Customers

Bonneville markets almost 9,000 average MWs of electric power from 31 federal hydroelectric projects and some non-federal projects in the Pacific Northwest. Bonneville's federal statutes require it to serve its regional customers' firm power supply needs "whenever requested." For most of Bonneville's 134 preference customers, Bonneville is the primary supplier of electric power, and has served this role for almost 80 years. The majority of Bonneville's power customers are public body and electric cooperative utilities that have preference to the federal power marketed by Bonneville.

The region-wide ISO will place new demands on Bonneville as both a transmission and power supplier for these customers. As a transmission provider, Bonneville will need to consider how the transmission rights held by PTO utilities on Bonneville's transmission system affect traditional usage of the federal system. Ensuring these services stay within their contractual bounds and within the operating limits of the federal system to ensure load service to Bonneville's customers will be a central component of Bonneville's engagement.

As a power supplier, Bonneville will have to ensure its core power supply obligations are met, including service to its customers located on the transmission system of other users. In that regard, Bonneville has a statutory obligation to serve 19 preference customers with load located inside the PacifiCorp balancing authority, with an average load of 600 MW. Bonneville has historically planned for and acquired adequate transmission service to serve these customers over the PacifiCorp transmission system. Bonneville has established adequacy standards and serves these customers' requirements in the PacifiCorp BAAs together with all of Bonneville's other regional loads and obligations. Should other transmission owners in the Northwest choose to become participants in a regional ISO, Bonneville's power customer loads in the ISO footprint could increase to 1,200 MW of annual average load. The governance and market rules of a future regional ISO will have a significant impact on the service Bonneville acquires to serve these customers.

Bonneville as Marketer of Federal Surplus Power

The federal multi-purpose hydro projects from which Bonneville markets federal power are subject to many different, and sometimes competing, uses that limit the flexibility of their electric generation capability. The U.S. Army Corps of Engineers and the U.S. Bureau of Reclamation are the owners and operators of the federal hydro projects in the Pacific Northwest. Aside from power generation the projects meet flood control, navigation, and irrigation purposes, and are operated to comply with U.S.—Canada Treaty obligations and Endangered Species Act fish requirements and other operational objectives. After meeting these obligations, the federal hydroelectric system capability is marketed by Bonneville under its regional firm power sales contracts and to support its transmission products and services and reliability obligations. Any surplus generation that remains available is only then offered for sale, first, to buyers in the Pacific Northwest, and second, to buyers outside the region. Historically, the Federal system's surplus capability has been used to provide significant benefits between the Pacific Northwest and the California—Southwest through regional power exchanges. Bonneville sells surplus power to California to help with California's energy needs. Prospectively, this capability should continue to play an important role; for example, in integrating variable renewables by providing zero carbon ramping capability and may help manage oversupply in California and the broader west.

General Comments

In light of the unique position Bonneville holds in the Pacific Northwest, it is essential that the ISO governance rely on collaboration and seek consensus-driven outcomes with full consideration of the interests of neighboring system operators and western stakeholders. Historically, Bonneville, in collaboration with other regional entities, has been able to provide reliable, cost-effective wholesale power and transmission service that meets the needs of millions of retail consumers. That partnership should continue and be preserved in the governance principles for the ISO.

The proposed principles incorporate a role for western state authorities in the creation of a regional ISO. However, the proposed principles do not include appropriate roles for federal PMAs such as Bonneville. Bonneville is governed by different authorities and statutes than the states, and none of the entities that will have a role under the proposed governance structure can represent Bonneville and its unique federal statutory requirements. Bonneville plays a central role in the Western Interconnection and therefore the success of a regional ISO depends on coordinated operation with Bonneville. If Bonneville is going to be able to operate in coordination with the regional ISO, Bonneville must have a voice in developing the structure and rules of an expanded ISO. As described further below, Bonneville proposes that it be a member of any transitional committee and that Bonneville be a member on an advisory body to the permanent ISO Board, along with states and possibly others. This role on an advisory committee that can work directly with the ISO board is essential to ensure that over time, seams issues are managed to ensure that the ISO market functions reliably. From Bonneville's perspective, having an advisory role will ensure that Bonneville can meet its core missions of maintaining a reliable transmission system, serving its preference customers' loads, and meeting its Endangered Species Act requirements and other obligations on the Columbia River system.

The current governance proposal includes a "Transitional Committee of Stakeholders," which would be appointed by the current ISO Board and would establish a governance design and oversee drafting of corporate documents and implementation of that structure. The Transitional Committee would establish an "Initial Board" that is essentially a temporary board composed of five representatives from California and four representatives from other states. The Initial Board members will have staggered terms. They will develop an appointment process for the permanent board, called the "Regional ISO Board".

Based on comments expressed during the June 16, 2016 and June 20, 2016, public meetings, it appears that non-California entities do not find the proposed governance structure acceptable. In an effort to find a solution that might be more palatable to a wider range of states and

stakeholders, Bonneville suggests an alternative to the transitional board approach be considered. The proposed process unnecessarily extends the time that a temporary non-independent body would be governing the expanded ISO. Bonneville suggests an alternative be considered that would eliminate the period under which the ISO is governed by a temporary body. Under this alternative the current CAISO board could be in place until the effective date the ISO expands (i.e. the date PacifiCorp joins the ISO). Concurrent with the existing CAISO Board being in place, the transition committee would determine how to appoint the permanent independent ISO Board. The permanent ISO Board would be selected and seated according to the process established by the transitional committee.

At that point two separate boards would exist concurrently. The current CAISO Board would be governing all CAISO operations until the effective date the ISO expands, and the new permanent ISO Board would be working on developing rules and structure for the expanded ISO. On the date the ISO expands (i.e. PacifiCorp joins the ISO), the new permanent ISO Board would take over governance of the ISO, and the CAISO Board would terminate. This alternative is what Bonneville calls the “direct cut over.” Bonneville thinks the direct cut over approach would be more widely acceptable than the current proposal because it allows a permanent board of the expanded ISO to be established as soon as possible and allows the permanent ISO Board to be responsible for establishing the rules, operations, and tariff provisions of the expanded regional ISO. If the permanent board is established and in charge of making the rules that will govern the regional ISO, a wider range of states and stakeholders will be likely to trust that their views and positions will be represented in developing the rules of regional ISO operation. This alternative governance structure also works well if there is no effective date of ISO expansion because the new permanent ISO Board could be readily dissolved and the current CAISO Board could continue to function.

In addition, FERC policy requires an independent board and the proposed transitional board may not be acceptable to the Commission. The other advantage of establishing an independent board well before the initiation of the new ISO is the fact that multiple interests are involved in bringing five additional states within the footprint of the new ISO and this approach would likely be an acceptable plan for addressing these interests.

Additionally, Bonneville seeks clarification on whether and how the EIM Board and the Regional ISO Board will work together. The EIM Board was recently established and it is unclear what the role of the EIM Board will be if the CAISO expands to a regional ISO. Will the EIM Board terminate, or will it continue with limited responsibilities and coexist with the Regional ISO Board? If the two boards will coexist, how will the various responsibilities be divided between the two? The governance proposal did not speak to this issue.

Specific Comments

The CAISO's June 9, 2016, document, "Proposed Principles for Governance of a Regional ISO," contains eight overarching principles. Bonneville has the following comments on the proposed principles.

1. Preservation of State Authority

Bonneville supports the states having roles in advising the independent board on specific issue areas that have traditionally been under state jurisdiction. At the same time, as a federal entity, Bonneville has specific federal authorities and unique statutory obligations. The principles should recognize those federal authorities as governing for Bonneville and distinct from, state authorities. Bonneville recommends the regional ISO governance structure include a body of state and federal representatives or some other such advisory group on matters specific to their enumerated authorities, as discussed further in section 7. The governance structure should require the Regional ISO Board to seek consensus support from this state and federal advisory group before it makes FERC filings or policy changes impacting these specific issues, which in Bonneville's view includes processes – resource adequacy and transmission access charge for example – that the existing CAISO staff have underway now to support an expanded ISO.

The proposal states that ISO bylaws will include a provision that "prohibits the ISO from proposing or endorsing any centralized market for forward procurement of electric capacity products." (Proposal at p. 2). Bonneville understands the concern regarding long-term capacity markets, but Bonneville thinks the prohibition is too broad given shorter-term needs to reliably meet the net load of the western grid. The language regarding capacity markets should be modified to allow consideration of short-term forward capacity and ancillary service markets. These types of markets have been proven to be successful tools for managing uncertainty on the grid and may offer the best options for meeting future ramping requirements.

2. Greenhouse Gas Accounting

Bonneville would have suggestions for revisions to greenhouse gas accounting provisions should the opportunity arise.

3. Transmission Owner Withdrawal

Withdrawal would be complicated. The governance proposal needs to allow for a reasonable amount of time to unwind the market structure and allow the withdrawing transmission owner

time to return to OATT service. Bonneville expects its historic transmission rights to continue to be honored if a PTO withdraws from the ISO, just as Bonneville would expect to continue to honor the historic transmission rights of a PTO on the federal transmission system should it choose to withdraw from the ISO. In addition, withdrawal provisions need to consider stranded cost implications.

4. Transitional Committee of Stakeholders

The proposal includes a transitional committee that would be instrumental in establishing rules for the future of the regional ISO. This transitional committee would oversee drafting of corporate documents and implementation of that structure. First the transitional committee should focus on the process for determining how to select the independent ISO Board. It may be advantageous to have the transitional committee work with the independent board for some period of time to determine the final detail of the governance structure.

The transitional committee should include a wide diversity of stakeholder interests, including Bonneville. It should be tasked with building a governance proposal that is centered on collaborative process and that strives for consensus solutions.

5. Initial Board and Transition Period

As explained in the General Comments section above, Bonneville thinks the governance proposal may be acceptable to a wider range of states and stakeholders if the transition board structure is adjusted. The proposed process and establishment of an Initial Transitional Board unnecessarily extends the time that a temporary body would be governing the expanded ISO. Bonneville suggests an alternative be considered in which an Initial Transitional Board would not be established. Rather, the transitional committee would provide for selection of the permanent ISO Board as soon as possible.

Under this alternative there would be a “direct cut over” to an independent, permanent board that is empowered to make decisions on the important market structure rules for an expanded western ISO. Concurrent with the existing CAISO Board being in place, a transition committee would determine how to appoint the permanent ISO Board. The permanent ISO Board would be selected and seated according to the process established by the transitional committee. At that point two separate boards would exist concurrently. The current CAISO Board would be governing all CAISO operations until the effective date the ISO expands, and the new permanent ISO Board would be working on developing rules and structure for the expanded ISO. On the effective date the ISO expands (i.e. PacifiCorp joins the ISO), currently anticipated to be in

January 2019, the new permanent ISO Board would take over governance of the ISO, and the CAISO Board would terminate. Bonneville thinks the “direct cut over” approach may be more acceptable to a wider range of states and stakeholders than the current proposal because it allows a permanent board of the expanded ISO to be established as soon as possible and allows the permanent ISO Board to be responsible for establishing the rules, operations, and tariff provisions of the expanded regional ISO.

6. Composition of Regional ISO Board

Bonneville believes the Regional ISO Board should be composed of individuals that are financially independent from market participants and who are knowledgeable about regional utility issues and market operation. Bonneville believes this permanent ISO Board should be responsible for establishing the operating rules and tariff provisions for the expanded regional ISO. To be clear, Bonneville does not seek a role on the permanent ISO Board.

7. Establishment of a Body of State Regulators

Bonneville supports the concept of establishing a body representing state authorities to sit with and advise the Regional ISO Board on enumerated issues within their jurisdictions. In addition, Bonneville should be given an advisory role either as a federal entity on the body of state regulators or on some other advisory body that will communicate directly with the Regional ISO Board. Such advisory body should have a strong voice and the Regional ISO Board should seek consensus with the state and federal representatives.

In addition, the principles should provide for incorporating the essential concerns of non-jurisdictional publicly owned transmission operators who are not subject to state regulation or most FERC market authorities. Addressing these concerns requires the engagement of federal transmission operators even if they do not currently intend to join as participants.

8. Stakeholder Processes and Stakeholder Participation

Bonneville supports a design of an ISO stakeholder process that provides extensive collaboration by and among divergent regional interests. Bonneville would like to see a stakeholder process where stakeholders are not simply asked to comment on a proposal, but where stakeholders are involved in the formulation of the policy and proposal itself. This could be accomplished in many different ways. One that Bonneville supports is the creation of a limited number of committees that are made up of sectors from the ISO’s footprint. This will give the ISO the opportunity to hear directly from entities representing the major sectors in the ISO in one place.

What role these committees would play can be determined later, but at the very least they should provide a forum where major entities can advise the ISO on what is working, what is not, and what can be done better. The use of multiple advisory committees would be consistent with the collaborative governance model used by the Southwest Power Pool.

Conclusion

Bonneville again appreciates the opportunity to submit comments in this proceeding and looks forward to the further development of the governance structure for the regional ISO.

Sincerely,



Mark O. Gendron
Senior Vice President, Power Services