

## DOCKETED

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**PG&E Comments -- Regional Grid Operator and Governance Proposal**

*Additional submitted attachment is included below.*

July 7, 2016

**POSTED ELECTRONICALLY TO  
DOCKET 16-RGO-01**California Energy Commission  
Dockets Office, MS-4  
Docket No. 16-RGO-01  
1516 Ninth Street  
Sacramento, CA 95814-5512Re: Docket 16-RGO-01: Pacific Gas and Electric Company Comments on the Proposed Principles for Governance of a Regional ISO

Pacific Gas and Electric Company (PG&E) appreciates this opportunity to comment on the Regional Grid Operator and Governance (16-RGO-01) Proposal (“Proposed Principles for Governance of a Regional ISO”, issued June 9, 2016, and discussed in the Workshops held June 13 in Sacramento, California and June 20, 2016 in Denver, Colorado).

As the results of the EIM already demonstrate, a bigger footprint offers benefits to both California and the broader Western region from a multi-state ISO. PG&E recommends focusing on getting the governance model in place as soon as practicable to handle all the issues that will need to be addressed later or in separate processes. Therefore, for issues not directly related to Governance, PG&E would encourage the parties to address them either on separate tracks now or defer them until the governance model is in place.

Governance is a critical, threshold issue in the proposed transformation of the current California Independent System Operator (ISO) into a new regional multi-state ISO. It is essential to get this framework right before we can fill in the many other important details. PG&E thanks the ISO for its recognition of the primacy of the governance issue in the recent scheduling changes made in its initiative processes.

There is a great diversity of perspectives and interests within the West and not every entity will be equally pleased with every decision a regional ISO will make. Ultimately, it is the trust we create in the institution and the checks and balances woven into its rules and procedures that will determine the long term sustainability and success of the Regional ISO (RISO) to the satisfaction of all parties.

PG&E highlights three key tenets of our approach to the proposed governance principles:

- *Independence* – The RISO Board must be composed of members who are independent from any financial or personal tie to any market entity. This principle also precludes a governing board composed (in part or as a whole) of political appointees of the member states (as elaborated further under Principles 5 and 6 below).

- *Transparency* – Decision-making processes<sup>1</sup> of the ISO, including the Transition Committee and Board, must be conducted in public and in compliance with all applicable open meeting laws.
- *Expeditious transition* – In order to maintain momentum and show benefits to stakeholders as quickly as possible, the passage from a “transitional” governance model to a fully functioning, fully independent Board should take place as quickly as possible, ideally in less than a year from the seating of a Transitional Committee.

The Proposal’s principles largely reflect the tenets above. We provide specific comments on each enumerated principle in the following sections. As a final general comment, PG&E notes that the set of governance principles contained in the Proposal is only a high-level framework. As such, the process should defer to the proposed Transitional Committee and ultimately the RISO Board to develop and adopt specific governing documents (Charter, Bylaws, etc.) to address specific technical issues.

### **1) Preservation of State Authority**

PG&E does not agree that it is necessary in the governance principles to bind a future board’s ability to make decisions on how best to maintain reliability or ensure market and procurement efficiency. The board should have the flexibility to address issues as they evolve over time in an open process. For example, we recommend the governance principles not include a permanent prohibition on a centralized capacity market. By creating an independent board working with a body of state regulators, as proposed, states’ interests should be fully represented as issues arise.

### **2) Greenhouse Gas Accounting**

PG&E does not see GHG accounting as a governance issue and it seems out of place in this context.

GHG accounting is a necessary component of shared market participation in a Regional ISO. Resource owners and load serving entities who may not reside in the same state may wish to make transparent, binding transactional commitments across state lines for resources with differing levels of GHG content. An effective accounting paradigm does not dictate what procurement rules states may wish to adopt for clean energy (if any) with regard to their jurisdictional load serving entities.

### **3) Transmission Owner Withdrawal**

Regional Transmission Organizations are voluntary. The RISO will need to have clear rules in its tariffs detailing how a Participating Transmission Owner (PTO) would exit in an orderly fashion. The specific details of the terms of withdrawal should be fleshed out in the governing documents (Charter, Bylaws and other tariffs and agreements) of the new RISO. These should include the criteria for termination, notice period, required state and FERC approvals, the venue for determination of cost allocation and any appropriate exit fees, as well as systems issues, such as the transition period for safe and reliable cut-over for IT and relinquishment of operational control of assets back to the departing PTO.

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<sup>1</sup> PG&E here refers to decision-making processes affecting external stakeholder interests, which should be taken in full view of the public. In accordance with standard corporate governance practices, PG&E understands that the Transitional Committee and RISO Board, much like today’s ISO Board, may need to conduct certain business matters via private executive session, such as to handle confidential and internal administrative and personnel matters. Furthermore, these bodies may from time to time form sub-committees and the meetings and actions of sub-committees may take place in private, so long as they are not decisional in nature.

#### **4) Transitional Committee of Stakeholders**

PG&E supports the creation of a Transitional Committee of Stakeholders along the lines of the EIM Transitional Committee, which has worked well. Since the transitional committee is not independent, it may not be the appropriate place to address “weightier” policy issues – such as the roles and responsibilities of the RISO Board vis-à-vis the Body of State Regulators. However, members of the Transitional Committee should be tasked to represent the goals of the Transitional Committee rather than simply representing the interests of their respective organizations. It is critical that the Transitional Committee include representation from both the broad stakeholder community and state regulators throughout the region. In addition, since the Transitional Committee may not be able to address the weightier issues, they will be motivated to select a RISO Board expeditiously.

The rules for nomination and selection of the Transitional Committee membership, while not necessarily a governance “principle”, may be important to increasing trust by all stakeholders in the process. These details should be spelled out as part of the revised Proposal (or some other document) for comment and review.

PG&E supports the formation of a Transitional Nominating Committee, along the lines of the just-completed EIM Nominating Committee, with stakeholder-selected representation from regional stakeholder interest sectors (including state regulators and/or state energy advisors as an interest sector).

The Nominating Committee would prepare and present a full slate of candidates for approval to the current CAISO Board for an up or down vote. We recommend the size of the Transitional Committee be limited to 15 members so they can reasonably work together and facilitate consensus. Once approved, the Transitional Committee would co-exist with the still-active and necessary CAISO Board, and would have primary responsibility for planning and implementing the transition to a RISO Board. The Transitional Committee would serve as the primary venue for development of all governing documents, agreements with prospective PTOs, and pursuit of the necessary state and federal approvals, governing the regional expansion project. As its work nears completion, the Transitional Committee would ideally orchestrate a single transition date, agreed to by all parties, for a smooth transition and transfer of authority from the CAISO Board and Transitional Committee to the newly established RISO Board, at which point (or after a brief hand-off interval), the CAISO Board and Transitional Committee would both be permanently disbanded.

#### **5) Initial Board and Transition Period**

PG&E advocates a transition to a fully independent RISO Board in as expeditious a manner as possible. If feasible, PG&E supports omitting the separate step of an “initial” Board, especially since its composition and terms for its transition are likely to be as contentious as the make-up of the final Board.

Nevertheless, PG&E understands that an initial, transitional RISO Board may be necessary, for example, in order to facilitate the necessary filings at FERC to create the new RISO Board and to delineate the responsibilities of the Board vis-à-vis the Body of State Regulators.

Given the balance of interests that needs to be achieved, incorporating some or all members of the current California ISO Board into an initial RISO Board during the transition period may raise concerns for prospective new member states. Such a transitional board configuration should be for an explicit and limited duration only.

Given that existing multi-state ISO/RTO Boards are independent, it is unlikely that FERC would approve such a transitional structure if it did not include specific and firm terms for its dissolution.

#### **6) Composition of RISO Board**

The RISO Board should be fully independent from financial interests of any market participant and independent of political appointment by any one member state. This is a prerequisite and a FERC expectation under Order 2000.<sup>2</sup>

#### **7) Establishment of a Body of State Regulators**

PG&E supports the concept of an independent Body of State Regulators and encourages the participants to do more work in this area to describe the responsibility of the members on that body to the RISO and all its participants. In addition, it is critical that the voting rules strike the correct balance, as the Proposal does, between ensuring all state regulators are represented (by giving each an equal vote) and also ensuring that the perspective of the majority of load is reflected (by ensuring that the voting members approving a proposal also represent a majority of the load).

However, PG&E disagrees with the definition of “primary authority” as contained in sub-bullet A (Proposal Principle 7, bullet 5, Page 4). PG&E understands that the role of the Body of State Regulators is to provide an independent review of the policy dimensions of RISO decision-making and to advise the RISO Board in areas such as transmission cost allocation and aspects of resource adequacy that have important connections to state policy.

PG&E does not agree that the Body of State Regulators’ policy approval should be “a prerequisite to any ISO Section 205 filing with FERC.” Such pre-emption of the RISO Board’s jurisdictional filing authority would significantly constrain the independence of the RISO Board and would likely be unacceptable to FERC.

#### **8) Stakeholder Processes and Stakeholder Participation**

PG&E supports the transitional committee’s review of the ISO’s current stakeholder processes to determine whether improvements can be added to facilitate broad and robust participation and provide accountability to participants and the states. Review of how other RTO’s structure their processes might help inform this review.

The ISO is not set up to be, nor should it become, a regulatory body, with formal evidentiary rules. It is a technical body, with processes that allow information sharing and development of a consensus among market participants and other stakeholders. Substantive decisions are subject to FERC review

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<sup>2</sup> “Once an RTO becomes operational, it appears that most states believe that it would be inappropriate for a state official, whether a state commission representative or some other state employee, to serve as a voting member of an RTO board.... First, it would create a conflict between the state official's duties as an RTO board member and his or her regulatory or legal responsibilities at the state level. Second, in the case of a multi-state RTO, it would be difficult for an official of one state to represent the interests of others states if the state interests are in conflict. Third, the solution of allowing each state to have its own voting member on the RTO board could lead to large and unwieldy boards for multi-state RTOs.” FERC RM99-2-000, pp. 231–2.

and approval. FERC is the appropriate regulatory venue for formal procedure and legally-binding settlement or adjudication.