

## DOCKETED

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**Comments of the Cities of Anaheim, Azusa, Banning, Colton, Pasadena, and Riverside, CA**

*Additional submitted attachment is included below.*

<b>In the Matter of:</b>	)	<b>Docket No. 16-RGO-01</b>
	)	
<b>Regional Grid Operator and Governance</b>	)	<b>NOTICE OF WORKSHOPS RE:</b>
	)	<b>Regional Grid Operator and</b>
	)	<b>Governance</b>

The Cities of Anaheim, Azusa, Banning, Colton, Pasadena, and Riverside, California (collectively referred to as the “Six Cities”) hereby submit the following comments on the Proposed Principles for Governance of a Regional ISO, dated June 9, 2016 (“Proposed Principles”).

**Development of a Regional Governance Framework Is the Necessary First Step in Appropriate Sequencing of Initiatives Related to Regionalization** - -

The Proposed Principles for governance of a Regional ISO (“RISO”) relate to one of several parallel processes concerning regionalization that are under way at this time. In addition to the Proposed Principles for governance of a RISO, the California Independent System Operator Corporation (“CAISO”) also has commenced stakeholder initiatives to develop policy proposals for a regional Transmission Access Charge (“TAC”) methodology and a regional Resource Adequacy (“RA”) framework. Evaluation of another critical policy - - implementation of California’s Greenhouse Gas (“GHG”) reduction program in the context of a RISO - - has not yet begun. The CAISO has pointed to the need for policy direction from the Federal Energy Regulatory Commission (“FERC”) on the regional TAC, regional RA, and governance by the end of this year to facilitate review by PacifiCorp’s state regulators during 2017 so as to support integration of the PacifiCorp BAAs with the CAISO BAA by 2020. To adhere to accelerated schedules for these critical policy developments, the CAISO proposes to defer key elements (for example, the Transmission Planning Process for the regional TAC and the metrics for a methodology to establish a regional Planning Reserve Margin for the regional RA framework). Under the CAISO’s proposed schedules, there will be limited or no time to consider how elements of the various policy determinations may interact with one another. Perhaps most importantly, there will be no ability for the regional governance entity or entities to provide input on the regional TAC and regional RA proposals prior to seeking guidance from FERC on those proposals.

The results of the SB 350 benefits analyses as presented in the CAISO’s May 24-25 meetings do not support a rush to accomplish integration of the CAISO and PacifiCorp BAAs by 2020. The study results show that benefits to California from integrating the PacifiCorp BAAs in 2020 will be approximately \$16 million, a *de minimis* figure in the context of the overall CAISO markets, unless PacifiCorp pays a load ratio share of the Grid Management Charge (“GMC”). But the Six Cities understand that PacifiCorp has stated that it does not see sufficient benefits to its customers in 2020 to justify paying a load ratio share of the GMC. Hasty, incomplete, and uncoordinated development of policies for regional integration creates risks of adverse unintended consequences and waste of CAISO, stakeholder, and regulatory resources that far outweigh any expected benefits in 2020 from integrating the CAISO and PacifiCorp BAAs.

The SB 350 study results for 2030, however, based on expanded regional integration, identify the potential for more significant benefits to California. The Six Cities support further efforts to

accomplish regional integration on a broad basis that will result in equitable sharing of benefits among all participants. To that end, the Six Cities support a sequenced and comprehensive approach to the development of necessary policies, beginning with development and implementation of a governance framework. With input from the regional governing entity or entities, development of complete policies for the regional TAC (including the Transmission Planning Process), regional RA rules (including, among other necessary components, the methodology for determining the regional Planning Reserve Margin), and implementation of California's GHG objectives in the context of a RISO should follow. The goal should be to develop a coordinated and comprehensive proposal for regional integration that will have broad support not only among stakeholders in the CAISO and PacifiCorp BAAs but also among stakeholders in BAAs throughout the western region.

**Preservation of State Authority** - - The Six Cities all own and operate municipal electric systems subject to authority of their respective City Councils and, for some of the Cities, Public Utility Boards. As municipal electric systems subject to their Local Regulatory Authorities ("LRAs"), the Six Cities all support local control over planning and operating policies to the maximum extent possible. At the same time, the Six Cities acknowledge the CAISO's responsibility to operate the CAISO Controlled Grid and the CAISO markets reliably and efficiently. To maintain reliability and efficiency while avoiding cross-subsidization among different market participants, it is necessary to apply consistent rules for critical aspects of market participation, including, for example, RA requirements. Local control sometimes must give way to generally applicable rules to preserve reliability, efficiency, and fairness.

The challenge is drawing the right line between respect for local control and necessary consistency. Moreover, the proper placement of that line may depend on the particular policy issue under consideration. The Six Cities do not consider it feasible to establish in advance a comprehensive, bright line distinction between policies that should remain subject to state or local control and policies that must be applied consistently in order to maintain reliability and efficiency. Navigating the tension between local control and necessary consistency in the first instance should be the job of the Board of Directors of the RISO with formalized opportunities for input from state regulators and stakeholders generally and subject to the oversight of the FERC. In this regard, see the discussion below concerning stakeholder processes.

**Potential for Development of Centralized Capacity Market** - - Although the Six Cities support consistent application of RA requirements, LSEs and their LRAs should retain substantial discretion regarding how to satisfy RA obligations. Existing practices for bilateral procurement of capacity have allowed LRAs to retain a significant measure of control over resource procurement decisions, have supported development of diverse resource alternatives, and have resulted in ample development of new capacity. The Six Cities, therefore, strongly oppose implementation of a mandatory centralized capacity market for the RISO footprint and support the proposal (Proposed Principles at 2) that the RISO by-laws require a unanimous affirmative vote of the RISO Board and the body of state regulators for any filing with FERC by the RISO to establish a mandatory centralized capacity market.

**Body of State Regulators** - - The Six Cities support the establishment of a body of state regulators and further support most of the features for the body of state regulators set forth in the

Proposed Principles. The Six Cities offer the following specific comments on the sub-topics indicated below.

Role of Publicly-Owned Utilities - - The Six Cities support the comments on this subject by the California Municipal Utilities Association (“CMUA”). For the reasons described in the CMUA comments, participation by representatives of publicly-owned utilities in an advisory role in the body of state regulators is appropriate and necessary in light of the facts that publicly-owned utilities serve a substantial percentage of ultimate customers throughout the western region, and such customers are not represented by state regulatory authorities. The Six Cities also specifically agree with CMUA that publicly-owned utilities should have a minimum of two representatives in an advisory role on the body of state regulators given the geographical disbursement of publicly-owned systems, the large numbers of customers they serve, and the differences among them in terms of size and resource portfolios.

Two-Tier Voting - - The Six Cities strongly support the two-tier voting process for the body of state regulators recommended at page 5 of the Proposed Principles, requiring a majority vote of the number of state representatives and of representatives for a majority of the load served by the RISO for approval of any action by the body of state regulators. Some participants in the June 20, 2016 workshop on the Proposed Principles criticized the two-tier voting structure on the grounds that it would give the representative for California the effective ability to veto any proposed action by the body of state regulators, at least for a substantial period of time. Including a load-weighted voting provision is entirely appropriate if, as the Six Cities anticipate, many of the costs for the RISO will be recovered based on proportional load. If California load would pay the majority of costs relating to a measure being considered by the body of state regulators, it is reasonable that such costs not be imposed on California over the objections of its representative by representatives of other states covering less than half of the load served by the RISO. Under the two-tier approach recommended in the Proposed Principles, California could not compel an action that would impose costs on other states without a majority of the total number of representatives supporting that action. Without a load-weighted voting tier, however, representatives of states that would pay less than half of the costs relating to an action - - potentially far less than half - - could impose the bulk of the costs on ratepayers in California and possibly other objecting states. Such an outcome would not be justified.

**Stakeholder Processes and Stakeholder Participation** - - The Six Cities have the following comments on the sub-topics identified below:

Retention of the Existing CAISO Stakeholder Initiative Framework - - The Six Cities do not oppose consideration of formal stakeholder committees, such as, for example, a stakeholder advisory committee. However, the Cities are opposed to abandonment or significant alteration of the CAISO’s existing framework for stakeholder initiatives. Under the CAISO’s stakeholder initiatives process, the CAISO identifies issues relating to market design features and, either in the initial paper or a subsequent “straw proposal,” recommends solutions to the identified issues. All interested stakeholders typically have

the opportunity to comment on the CAISO's proposals, both verbally in stakeholder meetings and in written comments. The CAISO considers and responds to stakeholder comments in a revised straw proposal or a draft final proposal. Stakeholder initiatives that involve complex or extensive revisions to the CAISO Tariff or market design features often involve multiple rounds of proposals followed by an opportunity for stakeholder comments. Although this iterative process does not always lead to complete consensus, it allows stakeholders the ability to request additional information and facilitates full airing of differing views. Moreover, the process often results in narrowing any disagreements among stakeholders and the CAISO before proposed tariff amendments are submitted to the FERC, thereby reducing the burden of regulatory proceedings for the CAISO, stakeholders, and FERC. A stakeholder advisory committee that meets on a periodic basis may provide a valuable forum for consideration of broad issues that affect multiple market design elements, but it would not be an adequate substitute for the type of iterative, detailed exploration of issues that occurs through the CAISO's existing stakeholder initiatives process.

Funding for State or Other Consumer Advocates - - The Six Cities oppose RISO-wide funding for consumer advocate bodies. The RISO governance framework should leave it up to individual states to decide whether to fund participation by consumer advocate groups in RISO processes and which groups to fund, if any. A state that wishes to fund one or more consumer advocate groups should be responsible for raising the funds to be provided through whatever mechanism it sees fit to adopt. A RISO-wide funding mechanism for consumer advocate groups could create a clear possibility for anomalous and unjust outcomes. For example, if RISO-wide funding were collected in proportion to load, California ratepayers could be charged in order to fund consumer advocates in other states arguing that more costs should be allocated to California. Or ratepayers in a state could be charged to support an advocacy group pressing for actions considered contrary to the interests and/or policies of the state compelled to help support those activities. The decision whether and how to fund consumer advocates and the responsibility for raising any such funds are quintessentially matters of state policy that can and should be left to state authorities and should not be addressed in the RISO governance framework.