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Comment Received From: Damon Franz

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ISO Regionalization Governance Issues

Additional submitted attachment is included below.



July 7, 2016

Chair Robert B. Weisenmiller
California Department of Energy
Re: Docket No. 16-RGO-01
Dockets Office, MS-4
1516 Ninth Street
Sacramento, CA 95814-5512

RE: CAISO Regionalization Governance Issues

Dear Chair Weisenmiller,

SolarCity respectfully submits the following comments on regional grid operator governance issues in response to the workshops held on June 16 and June 20, 2016.

Background

SolarCity is a full service solar power provider for homeowners and businesses – a single source for engineering, design, installation, monitoring, and support. As of March 31, 2016, the company had more than 5,000 California employees, based at more than 40 facilities around the state and had installed solar energy systems for over 260,000 customers nationwide.

In addition to rooftop solar, SolarCity develops and deploys other non-solar distributed energy resources (DER) for both residential and commercial applications. Specifically, SolarCity offers smart thermostats, smart electric water heaters, and battery energy storage systems to help customers manage their energy use. Accordingly, SolarCity has a strong interest deploying technologies that help reduce the state's greenhouse gas (GHG) emissions and meet its climate and clean energy goals.

ISO Governance Should Include a Designated Place for DER Providers

As California considers proposals to expand the ISO into a regional organization, it is important to consider for inclusion in governance not only the entities that have historically participated in ISO markets, but also those that are new market entrants.

In particular, companies that provide services at the distribution level – such as demand response, energy efficiency, battery storage and distributed generation – are only beginning to participate in wholesale energy markets. The CPUC's Demand Response Auction Mechanism (DRAM), FERC Order 745, and CAISO's Energy Storage and Distributed Energy Resource (ESDER) initiative are a few examples of recent regulatory changes that allow increased DER participation in wholesale markets.

While still in its early stages, participation of DER providers in wholesale energy markets has the potential to provide significant savings to ratepayers by introducing new competitive pressure, mitigating the market power of incumbent generators, and reducing transmission costs by offering alternatives to traditional wires solutions. In order for DERs to achieve their potential to



fully participate in wholesale markets, however, it is critical that any ISO governance structure include participation by DER providers so that those entities can advocate for and implement tariff changes that allow greater market access to the distributed technologies they provide.

Unlike the current CAISO governance structure, which is similar to that of a state agency, a regional ISO is likely to be governed, at least in part, by a committee of stakeholders or technical experts representing market segments with an interest in the Western wholesale energy market. SolarCity is concerned that because DER providers have not historically been significant participants in wholesale energy markets, they will be excluded from participation in the governance of a regional ISO.

Failure to include DER providers in governance could result in market rules biased toward transmission-connected generators that will stymie future market participation by distributed resources. Because DER providers are relatively new market entrants in a tenuous position relative to the established incumbents, and because significant tariff development is necessary to allow full DER participation, a regional governance structure should include a designated position for distributed resource providers.

ISO Governance and FERC Order 1000

FERC Order 1000 requires planning authorities to evaluate non-transmission alternatives (NTAs), such as energy efficiency, demand response and distributed generation, on a comparable basis with traditional wires investments in regional transmission planning. While Order 1000 offers massive potential to reduce costs by replacing proposed new transmission lines with less-expensive alternatives, implementation of the order requires significant additional work by the ISO to develop rules, processes and standards that would allow NTAs to participate in regional transmission planning.

In particular, the ISO will need to develop a cost allocation and recovery mechanism so that entities offering transmission alternatives can recover the costs of those investments on a comparable basis to transmission providers. Additionally, the ISO will need to protocols for valuing the costs and benefits of NTAs in order to compare them in a fair and accurate manner with traditional transmission investments.

Because of the significant amount of work necessary to implement Order 1000, inclusion of DER providers in regional ISO governance is particularly important. If the bodies set up to govern the expanded ISO do not include representation by distributed energy constituents that might propose NTAs, rules and protocols necessary for implementation of FERC Order 1000 are not likely to be developed. Moreover, if a non-transmission solution was proposed in the regional planning process, lack of DER representation in ISO governance could bias selection in favor of traditional wires investment.

Example of Designated DER Participation ISO Governance

The nine ISOs and Regional Transmission Organizations (RTOs) currently operating in North America have diverse and varied governance structures. While SolarCity does not advocate in



favor of a particular model at this time, we offer the following example of a governance structure that has included robust participation by DER providers.

New England Power Pool (NEPOOL): The ISO New England is governed by a stakeholder group called NEPOOL, which formulates policy for the ISO through committees and working groups. Policy decisions are approved by a vote of the NEPOOL participants committee, which consists of representatives from six sectors: Generation owners, competitive suppliers, transmission owners, municipal power, end-use customers and alternative resources. The “alternative resources” sector exclusively represents providers of renewable energy, energy efficiency, demand response and distributed generation, and it provides those entities a unique voice in policy creation.

The NEPOOL structure establishes a specific place for clean energy providers. In contrast, other ISO governing bodies allow clean energy providers to participate, but only through market segments that are intended for other sectors. For example, in PJM Interconnection, distributed resource providers may participate in one of a number of sectors, including “end-use customers” and “other suppliers.”

SolarCity believes it is important that DER providers have representation via a sector or technical advisory group specifically dedicated to their interests. This is especially true given that DER providers are new market entrants that require significant rule change to fully participate in ISO markets.

Conclusion

SolarCity appreciates the opportunity to offer comments on this important issue. As policymakers pursue the difficult task of formulating an ISO governance structure, we urge you to include not only the entities that have historically participated in wholesale energy markets, but also emerging technology providers that have the potential to offer significant benefits to utility ratepayers through increased competition, mitigation of market power and reduction of transmission investment.

Respectfully submitted,

Damon Franz
Director, Policy and Electricity Markets
SolarCity