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Additional submitted attachment is included below.

In the Matter of:)	Docket No. 16-RGO-01
)	
Regional Grid Operator and Governance)	NOTICE OF JOINT STATE
)	AGENCY WORKSHOP RE:
)	
)	Proposed Regionalization of the
)	Independent System Operator

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 presentations and discussions during the July 26, 2016 Joint State Agency Workshop on the Proposed Regionalization of the Independent System Operator (“the July 26 Workshop”). The Six Cities’ Comments address the two broad topic areas covered in the July 26 Workshop - - (i) the analyses of potential benefits from regionalization of the California Independent System Operator Corporation (“CAISO”) conducted pursuant to the requirements of the Clean Energy and Pollution Reduction Act of 2015, Senate Bill 350 (“SB 350”), and (ii) the Revised Proposal on Principles for Governance of a Regional ISO, dated July 15, 2016 (“the Revised Governance Proposal”).

I. COMMENTS ON THE SB 350 BENEFITS STUDIES

For purposes of these comments, the Six Cities presume that the estimated benefits of regionalization indicated by the SB 350 studies are generally valid in terms of orders of magnitude. This does not mean that the Six Cities endorse the study results or consider the studies to be without significant flaws. To the contrary, the Six Cities are aware that a number of parties have challenged fundamental assumptions underlying the studies, including, for example, the assumption that regionalization is necessary to support increased exports of renewable energy from California. *See* comments on the May 24, 2016 presentations submitted previously by San Diego Gas & Electric Company, the Office of Ratepayer Advocates, and Pacific Gas and Electric Company. With respect to the 2030 Regional 3 scenario, which assumes major new transmission facilities, the Six Cities are concerned that the studies do not reflect reasonable approximations of the costs associated with the new transmission but, rather, have substantially understated those costs, thus overstating the benefits in the 2030 Regional 3 scenario. The Six Cities are disappointed that the CAISO and its consultants did not conduct a sensitivity analysis to evaluate the potential effects of high costs for the new transmission assumed in the 2030 Regional 3 scenario as requested by the Six Cities. Nevertheless, in light of the range of potential benefits estimated under the various 2030 scenarios, the Six Cities believe it is reasonable to draw some general conclusions from the order of magnitude results.

Given the range of estimated benefits under the 2030 analyses, the Six Cities believe that it is reasonable for the CAISO, state agencies for California and for other western states, and market participants to commit significant resources to an effort to develop a carefully crafted, coordinated, and comprehensive framework for a regional ISO (“RISO”) having as broad a footprint as possible as soon as reasonably possible. The objective should be to develop a complete and detailed proposal for regionalization that will attract enough participation to

produce anticipated benefits approaching the 2030 study estimates. Governance should be resolved first. Other major design elements (the regional Transmission Access Charge, or “TAC”, the regional transmission planning process, regional Resource Adequacy requirements and rules, Greenhouse Gas, or “GHG” tracking, and Grid Management Charge responsibility) should be developed in parallel and in detail, and none of these elements should be considered final until all elements have been developed and can be considered as a comprehensive package. Proposals for these elements should not be submitted to the Federal Energy Regulatory Commission (“FERC”) on a piecemeal basis. The timeline for developing these elements should be flexible and allow sufficient time for careful deliberation and coordination. The ultimate goal should be regionalization done right, with equitable and proportional allocation of all costs and benefits among all participants.

The SB 350 study results for the 2020 scenarios also are instructive and demonstrate clearly that there is no justification for rushing to adopt piecemeal, uncoordinated, or “transitional” policies to support integration of the CAISO and PacifiCorp Balancing Authority Areas (“BAAs”) by 2020. The 2020 study results estimate total production cost and diversity benefits for CAISO customers of only \$16 million. *See* Slides 100 and 123 of the July 26 Workshop presentation materials. The 2020 study estimates an additional \$39 million in benefits to CAISO customers in the form of reduced Grid Management Charges (“GMC”) (*see* Slide 102). But the study ignores the fact that PacifiCorp has stated that it is not willing to pay a load ratio share of GMC costs, because it has not identified sufficient benefits to its own customers to justify payment of a proportional share of the CAISO’s costs of operating the grid and administering the markets. Even *with* proportional sharing of GMC costs (which PacifiCorp has indicated it is not willing to do), the 2020 studies estimate that integration of the CAISO and PacifiCorp BAAs would reduce average California retail rates by .1%. *See* Slide 37. The production cost and capacity diversity savings of \$16 million would reduce average California retail rates by less than one-third of the amount indicated on Slide 37, or less than .03%. Moreover, the 2020 study results indicate that integration of the CAISO and PacifiCorp BAAs will not reduce WECC-wide CO₂ emissions but, to the contrary, will result in a slight *increase* in WECC-wide CO₂ emissions. *See* Slide 41. In short, the SB 350 studies for 2020 compel the conclusion that anticipated benefits for California of integrating the CAISO and PacifiCorp BAAs are *de minimis* at best, and PacifiCorp apparently has reached a similar conclusion with regard to benefits to its customers.

In light of the 2020 study results, the possibility of integrating the CAISO and PacifiCorp BAAs by 2020 should no longer be allowed to drive the process and the schedule for regionalization. Integration of the CAISO and PacifiCorp BAAs should not be treated as a separate goal and should be deferred if there are insufficient benefits to both entities to justify going forward in the near term. There certainly should be no departure from equitable application of cost causation principles to induce PacifiCorp to integrate with the CAISO.

Indeed, it will much better serve the ultimate goal of establishing a broad-based RISO by 2030 to build the framework for the expanded RISO in a carefully considered and coordinated fashion with input from all interested stakeholders. Continuing to pursue a rushed effort to throw together “transitional” policies that lack important implementation details is more likely to

prolong the process of building a durable and expansive RISO, may drive potential participants away, and certainly will impose greater resource burdens on the CAISO and market participants.

II. COMMENTS ON THE REVISED GOVERNANCE PROPOSAL

The Six Cities submit the following comments on the Revised Governance Proposal:

Scope of the Governance Proposal - - The Six Cities agree with the determination to remove tracking of GHG emissions from the scope of the governance proposal. Analysis and resolution of GHG issues are critical to successful implementation of a RISO, but these important elements of the regionalization framework reach beyond governance and should be addressed through a separate initiative in parallel with other market design and technical issues such as the TAC structure and regional RA requirements. As discussed above, however, all elements of the RISO design, including tracking and mitigation of GHG emissions, should be developed in coordination with each other.

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.

With these considerations in mind, the Six Cities are concerned that the general description of “binding provisions to protect and preserve state authority” set forth in Principle 1.1 at page 3 of the Revised Governance Proposal could give rise to a set of provisions that may be overly restrictive or under-inclusive, or both. The Six Cities, therefore, neither support nor oppose at this time the general description of provisions designed to preserve state authority but will comment at the appropriate time on specific proposed provisions.

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 procurement 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 (Revised Governance Proposal at 3) that the RISO by-laws require a unanimous affirmative vote of the Western States Committee before the RISO could propose or endorse a mandatory centralized capacity market for the RISO. The Six Cities also recommend that the bylaws require a unanimous affirmative vote of the RISO Board (in addition to the Western States Committee) before the RISO could endorse or propose establishment of a mandatory centralized capacity market.

Transitional Committee - - The Six Cities agree with most of the proposed features of the Transitional Committee as described at pages 5-6 of the Revised Governance Proposal. However, the Six Cities recommend modification of two aspects of the Transitional Committee proposal:

(i) The Six Cities believe that the eligibility criteria for states that can participate in the Transitional Committee are unduly restrictive. The results of the SB 350 studies suggest that broad participation in a RISO is likely to maximize the overall benefits of regionalization. Because the Transitional Committee will be charged with developing the foundational governance documents for the RISO, excluding a state from that development process on grounds that no Transmission Owner within that state has yet entered into an MOU or other agreement expressing interest in joining the RISO could reduce the potential for that state to permit or encourage participation by Transmission Owners within the state at a later time. It would be counter-productive to exclude from the Transitional Committee activities any state that is interested enough in a RISO to participate.

(ii) If, however, broad participation in the Transitional Committee is invited and allowed as the Six Cities recommend, no state or small number of states should have the ability to block adoption of a governance proposal supported by a critical mass of other states that wish to implement a RISO. Accordingly, the Six Cities do not support the proposal at page 6 of the Revised Governance Proposal that the Transitional Committee's governance proposal must be supported unanimously by the state representatives on the Transitional Committee. Support by a super-majority of state representatives on the Transitional Committee (perhaps 75%) would be a more appropriate requirement. States that are strongly opposed to a governance proposal supported by a super-majority of other states would retain authority to decline to allow Transmission Owners subject to their jurisdiction to participate in the RISO, but they could not block a critical mass of other states that wish to proceed with implementing a RISO from doing so. In addition, there should be a requirement for at least simple majority support by sector representatives for a Transitional Committee proposal to be submitted to the CAISO Board to ensure that there is a reasonable level of support for that proposal from market participants other than state representatives.

Western States Committee - - The Six Cities agree with most of the proposed features of the Western States Committee as described at pages 8-10 of the Revised Governance

Proposal. However, the Six Cities provide the following comments and recommendations concerning the following features of the Western States Committee proposal:

(i) Eligibility for Voting Participation - - In contrast to the eligibility criteria for participation in the Transitional Committee, which should be inclusive, as discussed above, participation in the Western States Committee should be limited to states in which Transmission Owners are participating in the RISO. A state in which a Transmission Owner has expressed interest in participating in the RISO through execution of an MOU or other similar form of agreement should be permitted to participate in the Western States Committee in a non-voting role until a Transmission Owner within the state actually begins participating in the RISO.

(ii) Role of Publicly-Owned Utilities - - The Six Cities support the comments on this subject submitted on July 7, 2016 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 Western States Committee 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 Western States Committee 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. The Six Cities support the recommendation at page 9 of the Revised Governance Proposal to allow a representative from a federal power marketing administration to participate in the Western States Committee in a non-voting advisory capacity, but participation by a federal power marketing administration representative would not eliminate the need for and should not preclude non-voting advisory participation by representatives of at least two publicly-owned utilities.

(iii) Two-Tier Voting - - The Six Cities strongly support inclusion of load-weighted voting for the Western States Committee as recommended at page 10 of the Revised Governance Proposal. 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 Western States Committee, 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. Without load-weighted voting, 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.

The Six Cities continue to support the two-tier voting structure proposed at page 5 of the Proposed Principles for Governance of a Regional ISO, dated June 9, 2016 (“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 Western States Committee. 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, but other states could not impose costs on California loads over its objections.

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

(i) **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.

(ii) **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.

Effectiveness of the Governance Plan and Input for Development of Other Elements of the RISO Design - - The RISO Board of Governors and the Western States Committee should not have any controlling authority over CAISO activities unless and until at least one additional

BAA is integrated with the CAISO BAA. However, depending on when the RISO governance structure is approved, the Six Cities believe it may be beneficial for the RISO Board and the Western States Committee to be created and to function on a “shadow” basis prior to actual integration of another BAA with the CAISO BAA for the purpose of providing input into the development and/or implementation of other elements of the RISO framework. Alternatively, once the Transitional Committee completes the development of proposed governance documents, that committee could remain in place as a vehicle for providing guidance concerning other elements of the RISO design until another BAA integrates with the CAISO BAA and the RISO Board and Western States Committee assume formal authority.

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