

## DOCKETED

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**CMUA Comments on the Revised Proposal, Principles for Governance of a Regional ISO**

*Additional submitted attachment is included below.*

# California Municipal Utilities Association

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## CALIFORNIA ENERGY COMMISSION

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

### CMUA Comments on the Revised Proposal, Principles for Governance of a Regional ISO

The California Municipal Utilities Association (“CMUA”) respectfully submits these Comments on the Revised Proposal, Principles for a Governance of a Regional ISO (July 15, 2016). There has been little time to digest the comments and positions expressed at the Joint Agency Workshop on the Proposed Regionalization of the Independent System Operator, held July 26, 2016. Also, CMUA recognizes that this is a quickly evolving discussion. Nevertheless, CMUA submits these Comments, and looks forward to additional opportunities to delve into more detail on key governance issues.

As expressed in prior Comment submittals, CMUA has emphasized the key issues for the public power community in these Comments, and has not commented on every aspect of the Revised Proposal.

#### General Comments

##### Statutory Requirements

As an initial matter, it is helpful to refer back to the statutory requirements of SB 350, which requires that “bylaws or other corporate documents” be submitted to the Legislature as a foundation for determining whether to make statutory changes that would facilitate regionalization. CMUA notes that no such detailed governance documents have been made public. It is difficult for us, therefore, to envision how any governance proposal would be sequenced for consideration and be the subject of meaningful discussion this legislative year, given that the statutory requirements have not yet been met.

##### The Studies

SB 350 presented a Herculean task to the California ISO to undertake complex and interrelated studies in a very compressed timeframe. Serious concerns and questions regarding the studies produced continue to be presented up through this process, which is to be expected given the scale of the undertaking. Nevertheless, even taking the studies at face value, certain conclusions are unavoidable:

- Near term benefits for the CAISO/PacifiCorp footprint are negligible. The claimed few millions of dollars annually in operational savings is simply not large enough to warrant rushing resolution of key market issues.
- Near term carbon emissions may increase. Whether the short term increase in carbon emissions are statistically insignificant as some believe, nevertheless there is clearly no compelling reason to rush toward regionalization to achieve carbon emission reductions.
- Long term benefits may be offset by understated costs and other assumptions, including portfolios that assume almost no regional renewable build out under current product content category definitions, high proxy prices for certain in-state resources such as solar, transmission expansion costs that appear well understated, and unsubstantiated assumptions that formation of a regional market will increase renewables beyond mandates. Each of these key assumptions tends to increase projected benefits of regionalization. If removed or altered, claimed regional benefits go down even further.

In short, even taking the studies at face value, no near term benefits compel precipitous action. When considering alternative and reasonable study assumptions that would further reduce benefits, there simply is no rush to action.

## **Governance**

### Market Advisory Committee

CMUA is deeply concerned that no movement has been made toward formation of a Market Advisory Committee that interfaces directly with the Board of Governors of any regional ISO. This type of stakeholder structure is a necessary “check and balance” in any sound governance structure, will help create a culture of collaboration and consensus within the ISO, and help inform decision making on many highly technical matters.

The steadfast refusal to commit to a MAC-type structure has not gone unnoticed. Regional public power entities that are considering active market participation with the ISO will weigh heavily the ISO’s refusal to commit to this type of formal stakeholder engagement. It is well known that significant portions of the Western Interconnection are actively considering market options,<sup>1</sup> and that a culture of active stakeholder collaboration is a significant driver of decision making. It is mystifying that the ISO continues to refuse to commit to this relatively minor matter when achievement of the very benefits it is touting as a result of regionalization depends on a diverse electrical footprint, including portions of the eastern side of the Western Interconnection.

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<sup>1</sup> <http://www.transmissionhub.com/articles/2016/05/western-examining-organized-market-options-for-areas-other-than-ugp-region.html>

### Transitional Committee

CMUA has a number of concerns with the current Transitional Committee proposal.

First, as proposed, the composition of the Transitional Committee is unbalanced. The Revised Proposal includes 4 out of 9 proposed sectors that are purely generation developers and marketers, many of whom significantly overlap with each other. This skews representation away from load serving entities or entities with both load service and supply responsibilities. CMUA also notes the oversight of direct representation of large energy consumers within the Transitional Committee, which includes public agency water transporters and purveyors in California. These entities often have differentiated interests and separate representation in state regulatory proceedings.

Second, the proposal that the ISO Board would select from the two candidates each sector puts forward is problematic. This sets up a process that dilutes the self-selection process that led to the composition of the EIM Transitional Committee and puts the ISO in a position of being lobbied by sectors with respect to Transitional Committee formation. While the EIM Transitional Committee did rank candidates, it did not pit individual candidates against each other on a sector by sector basis. Neither were the rankings public. Whether or not that is the ISO's plan is not clear from the Revised Proposal. This overly political process is not in keeping with what must be a collaborative process if the Transitional Committee is going to succeed.

Third, requiring unanimous approval from each affected state provides the states too much power. Each state will have their regulatory approval processes that will be followed to enable new Participating Transmission Owners to join the ISO. If concerns over governance are so strenuous, states may exercise their authorities and withhold applicable regulatory approvals. One state should not be able to stand in the way of a governance proposal agreed to by all others.

Finally, and addressed in more detail below, the proposal still provides an unclear or overly broad scope of duties to the Transitional Committee. For example, the interrelationship between primary policy authorities of the Western States Committee and filing rights of the ISO is a key matter that should be addressed up front rather than delegated to the Transitional Committee.

### Western States Committee

First, CMUA reiterates its position that in order to fully align with the load ratio share of public power within the region, two representatives on the WSC are necessary.

Second, CMUA requests clarification with respect to the condition proposed for the non-voting advisory seat for a public power entity. The Revised Proposal states that advisory members "may not have work responsibilities that are directly related to market transactions." This is a broad concept susceptible to interpretation. For example, for certain public power agencies, even the executive officer may need to approve power purchase or sales agreements. Other executive officers, such as counsel, may also have involvement to negotiate various commercial transactions. Most public power agencies are not so large that commercial

transactions are cabined into small portions of the agency. CMUA views this language as referring to energy traders whose primary responsibility is day-to-day involvement in power markets. CMUA requests that the ISO confirm this understanding.

Additionally, it could be that several additional or large public power systems become Participating Transmission Owners. As such, CMUA recommends a reopener of this provision and a consideration of full representation on the WSC for public power representatives if a threshold trigger is met.

Dated: August 2, 2016

Respectfully submitted,



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