DOCKETED

Docket Number:	16-RGO-01
Project Title:	Regional Grid Operator and Governance
TN #:	213928
Document Title:	Potential Topics within the Primary Authority of the Western States Committee
Description:	Discussion Paper and Draft Proposal
Filer:	Misa Milliron
Organization:	California ISO
Submitter Role:	Public Agency
Submission Date:	10/7/2016 12:48:24 PM
Docketed Date:	10/7/2016

Potential Topics within the Primary Authority of the Western States Committee

Discussion Paper and Draft Proposal

October 7, 2016

Table of Contents

1. Introduction

On October 7, 2016, the ISO issued its Second Revised Proposal of Principles for Governance of a Regional ISO ("Regional Governance Proposal").[1] The Regional Governance Proposal sets forth eight overarching governance principles that, if adopted, would be used to develop and implement a new regional governance structure for the ISO. The Proposal includes, among other features: (1) a process and structure for establishing a new nine-member regional ISO board that is no longer appointed by the Governor of California and meets all FERC independence requirements; (2) provisions in the ISO governance documents that expressly protect and preserve existing state authority over matters such as procurement policy and resource planning, certificate of public convenience and necessity ("CPCN") and siting approvals for utilities within their jurisdiction, and retail ratemaking; and (3) a proposal to create an independent Western States Committee ("WSC") comprised of public officials from the states within the ISO's regional footprint that would have a role in establishing certain rules and other policies for the Regional System Operator. This paper focuses mostly on one aspect of the Western States Committee – specifically, the types of issues that potentially should be within the WSC's "primary" approval authority as contemplated in the Regional Governance Proposal.

This paper identifies two topics within the broader rubrics of resource adequacy ("RA") and transmission cost allocation that seem appropriate to include within the primary approval authority of the WSC. These topics are:

- Approval of the system-wide Planning Reserve Margin ("PRM") target used to establish system resource adequacy;

- Cost allocation for policy-driven transmission projects supporting the policy mandates of, or providing benefits to, more than one sub-region.

This paper discusses each of those topics and explains at a high-level why they seem appropriate to include within the WSC's primary authority.[2] The ISO is seeking comments on each of these areas and on whether there are other aspects of RA and transmission cost allocation that should be within the primary approval authority of the WSC.

[1] The Regional Governance Proposal is available on the ISO's website at http://www.caiso.com/informed/Pages/RegionalEnergyMarket/BenefitsofaRegionalEnergyMarket.aspx and on the California Energy Commission's website at http://www.energy.ca.gov/sb350/regional_grid/documents/index.html.

[2] This paper focuses on areas of authority for the WSC and does not address the detailed rules that currently exist in these areas or specific proposals to revise those rules in connection with regionalization. For specifics on those issues, the reader should refer to the ISO's ongoing stakeholder proceedings on regional resource adequacy and on transmission access charge options. Materials from these stakeholder proceedings are available on the ISO's website at: http://www.caiso.com/informed/Pages/StakeholderProcesses/RegionalResourceAdequacy.aspx and http://www.caiso.com/informed/Pages/StakeholderProcesses/TransmissionAccessChargeOptions.aspx .

2. Background on the Western States Committee

The Regional Governance Proposal proposes creating a WSC that is separate from the ISO and is comprised of public officials from each state in the regional system operator footprint. The specifics of the composition of this body, its membership and voting rules, and its role in reviewing ISO policy initiatives or other aspects of ISO governance are all topics of discussion in the ongoing regional governance proceeding that the California Energy Commission ("CEC") is facilitating. Although some of the specifics potentially could change, the current proposal would establish a WSC that includes one public official selected by each state within the regional footprint. These individuals, who in most cases would likely be state public utility commissioners or other state officials familiar with utility regulatory or energy policy issues, would be the voting members of the WSC. There would also be two non-voting members selected by publicly-owned utilities within the ISO's regional footprint and one non-voting member representing the interests of the federal power marketing administrations in the West. As with similar organizations for other ISOs/RTOs – such as MISO's Organization of MISO States ("OMS") or SPP's Regional States Committee ("RSC") – the body would a non-profit entity that is separate from the ISO with a modest budget funded through rates collected by the ISO.

The WSC is intended to be a collaborative body where public representatives from across the regional footprint can come together to address, in a consensus-oriented manner, certain matters that are of collective state interest. The body would have several distinct roles. The voting members of the WSC would act as an approval body that "confirms" the members of the regional ISO's board by voting on a slate of nominees developed by a stakeholder-based nominating committee.[3] The WSC also would play a role, together with the regional ISO board, in reviewing new ISO policy initiatives to ensure they would not materially diminish or impair existing state authority over areas such as procurement policy, resource planning, retail rate-making, or CPCN approvals or siting decisions for utilities within their state.[4] The WSC also would provide advice and input to the regional ISO board on all issues of collective state interest and would have "primary" approval authority for policy initiatives on certain specific topics related to transmission cost allocation and resource adequacy.[5]

This last topic – defining the scope of the WSC's primary approval authority – is the focus of this paper. For the topics on which the WSC holds primary approval authority, the ISO would seek WSC for approval of any new policy. The ISO also would not be able to make a Section 205 filing with FERC to change its tariff within such areas without first receiving approval for the change from the WSC, except in certain narrowly-defined circumstances specifically identified in the Regional Governance Proposal. The Regional Governance Proposal seeks to promote a high-degree collaboration and consensus-building among the members of the WSC by requiring that any proposal within the WSC's primary authority will not be approved by the body unless it

[3] For details, see Principle 5 of the Regional Governance Proposal.
[4] For details, see Principle 1 of the Regional Governance Proposal.
[5] For details, see Principle 6 of the Regional Governance Proposal.

receives an affirmative vote of at least 75% of the voting members representing at least 75% of total load.[6]

3. Overarching Principles and Discussion of Proposed Areas of Primary Authority

As noted, the intent is for the WSC to focus on collaboratively addressing matters of broad collective interest to the states. The Regional Governance Proposal identified transmission cost allocation and resource adequacy as general areas where the WSC may exercise primary authority. It did so because there are certain issues within those general areas where state representatives would be well-suited to make policy determinations that address the inherent tension between developing a unified set of rules that is workable and fair across the region while at the same time ensuring that the rules are responsive to the unique policy interests of each state.

There are various factors that should be considered in determining the issues that the WSC should decide. For example, an issue that affects all or most of the regional footprint, involves a general policy matter in which state regulatory officials are already deeply involved, and/or requires a balance among potentially competing state interests, would more likely be appropriate to fall within the primary authority of the WSC than would a topic that does not have one or more of those features. By contrast, issues that are more localized in nature, tend to involve the everyday operational and market functions of the ISO, and/or involve reliability-related matters where the scope of political policy-making discretion is narrowly constrained by prescriptive FERC regulations or mandatory Reliability Standards, would be more likely to remain outside the WSC's primary approval authority.

Although none of these factors in isolation may be determinative, they may provide some general guidance in determining the proper scope of the WSC's primary approval authority. Applying them, the ISO has identified two general topics within the categories of resource adequacy topics and transition cost allocation where the WSC should likely hold a primary approval role, each of which is discussed below.[7]

3.1. Resource Adequacy

The primary goal of an RA program is to ensure that sufficient capacity, with the necessary attributes and in the right locations, is available to enable the ISO to reliably operate the grid. Currently, the ISO receives and validates RA showings from load serving entities ("LSEs") for system, local, and flexible capacity. The ISO works with the various local regulatory authorities ("LRAs") to ensure that sufficient capacity has been procured in both the year-ahead and month-ahead time frame. Resources identified in RA showings as RA resources have a must-offer obligation that requires the resource to be available to the ISO market or be subject to

[6] See Principle 6 of the Regional Governance Proposal.
[7] Whatever scope is established for the WSC's primary approval authority will not in any way limit the WSC's advisory input. The WSC would, in all cases, have discretion to provide advisory input on all issues of collective state interest, including both within and beyond the general topics of resource adequacy and transmission cost allocation.

availability charges. Finally, if there is a deficiency in an RA showing, the ISO would notify the LSE of the deficiency and provide an opportunity to cure the deficiency. At the end of this process, and only if deficiencies remain uncured and other tariff requirements are met, the ISO may consider the need to conduct backstop procurement.

Resource adequacy programs are comprised of a number of moving parts, some of which are quite technical and complex. The ISO identified the core elements of the ISO's RA program in its Third Revised Straw Proposal in the Regional RA stakeholder process, which is available on the ISO website at: http://www.caiso.com/Documents/ThirdRevisedStrawProposal-RegionalResourceAdequacy.pdf. As discussed below, the ISO has identified one such core area – approval of the system-wide planning reserve margin target – as an issue where a primary authority role for the WSC seems appropriate.

3.1.1. System-Wide Planning Reserve Margin Target

Planning reserve margins ensure RA programs have sufficient capacity to serve load, supply all necessary reserves, and address forced outages and potential forecast error. The system-wide PRM target is a key input to the RA assessment at the system level and directly affects the amount of resources each LSE should procure to meet their individual share of overall system RA needs. The ISO proposes to establish the system-wide PRM target using a probabilistic study that uses an established reliability criterion, such as the one-day in ten years Loss of Load Expectation ("LOLE") criterion used in many planning regions. These are commonly called LOLE studies. The ISO will update the system-wide PRM target on a periodic basis, at a minimum, when significant changes to the ISO footprint occur, such as when a new Participating Transmission Owner ("PTO") joins the ISO balancing area.

The ISO envisions that the WSC could have primary approval authority for setting the PRM, both by providing input throughout the study development process and by holding ultimate approval authority for the system-wide PRM target.

Prior to performing an LOLE study, the ISO would convene a stakeholder process to develop the inputs and assumptions that it will use in the study. The ISO envisions that the WSC would provide direct input during this stakeholder process regarding key assumptions and inputs to be used in the study, including on areas of state policy interest such as the treatment of demand response and energy efficiency not reflected in load forecasts. The specific level of reliability the LOLE study should meet would also be an important input consideration needing stakeholder and WSC guidance.[8] In addition, the ISO envisions the WSC would have the opportunity to review the results of the LOLE study to determine if the resulting PRM target is acceptable or if adjustments are needed. The WSC would do this by either approving the resulting system-wide PRM target or directing the ISO to adjust the system-wide PRM target, as approved by the WSC. If the WSC cannot reach a consensus during the study input stage or at

[8] For example, 1-day–in-10 years LOLE, 1 day-in-5 years, or some other LOLE criterion level may be appropriate, depending on the target level of reliability that is deemed appropriate. The ISO is proposing a 1-day-in-10 years measure as the default criterion in the Third Revised Straw Proposal in the Regional RA stakeholder process.

the final approval stage, then the ISO would use the default value produced by the LOLE study as the effective system-wide PRM target.

3.2. Transmission Cost Allocation

Today the ISO conducts an annual transmission planning process ("TPP") for its balancing authority area ("BAA"). The process takes 15 months from specification of planning assumptions and associated study plan to the development of a final comprehensive transmission plan for approval by the ISO Board of Governors, and includes several in-depth meetings with stakeholders and opportunities for public comment. Once the regional system operator is formed, the TPP will extend to encompass the expanded BAA.

The ISO expects that the structure of the expanded TPP will be comparable to that of today's TPP, which has functioned successfully for many years. The current TPP begins with a Phase 1 to specify the unified planning assumptions and study plan for the current TPP cycle. Phase 1 includes identifying the federal, state, municipal, or county public policy mandates or requirements driving needs for transmission that will be addressed in the current TPP cycle.

In Phase 2 of the TPP, the ISO performs the studies specified in the study plan and identifies needed new transmission facilities or upgrades in three steps:

1. First, the ISO performs reliability studies and identifies solutions for anticipated future reliability problems such as criteria violations. Such solutions are categorized as **reliability solutions**.
2. Second, the ISO assumes that the identified reliability solutions are in place and determines the most efficient or cost-effective solutions to meet specified state, municipal, county, or federal public policy requirements. The solutions identified in this step are categorized as **policy solutions**.
3. Third, the ISO assumes that the solutions identified in the first and second steps are in place and considers whether any economic solutions would be appropriate. Solutions identified in this step must be shown to have economic benefits that exceed their costs, in which case they are categorized as **economic solutions**. [9]

In the TAC Options stakeholder proceeding, the ISO is addressing cost allocation rules for each of these types of projects.[10] Although the specifics of the ISO's proposals are properly

[9] In Phase 3 of the TPP, the ISO conducts a competitive solicitation to select an approved project sponsor to construct, own, operate, and maintain each regional transmission solution identified in the annual transmission plan that is not an upgrade to an existing facility. Phase 3 is not relevant for this discussion.

[10] The ISO's 2nd Revised Straw Proposal in the TAC Options initiative was posted on September 30 and is available at: http://www.caiso.com/Documents/SecondRevisedStrawProposal-TransmissionAccessChargeOptions.pdf

addressed in that proceeding, this paper focuses on the role that the WSC could play in approving cost allocation for the projects that are public policy solutions.

3.2.1. Policy Driven Projects that Support Policy Mandates of, or Provide Benefits to, More Than One Sub-Region

Of the foregoing types of transmission solutions, WSC involvement would seem most valuable and appropriate for public policy solutions because they likely will provide different benefits to different states depending on the relevant policy mandates of each state or locality that contribute to the need for the project. In addition, in some cases economic benefits over and above the policy benefits may accrue to states within the regional system operator footprint that may or may not have policy mandates driving the need for the project. Because of the potential complexity of different policy mandates and the need to balance and consider the different benefits associated with each policy solution, the WSC may be the most effective vehicle for determining an appropriate and fair allocation of costs to the states within the regional system operator footprint.

At this juncture, the ISO proposes assigning the WSC primary approval authority for cost allocation determinations applicable to new public policy solutions that support the policy mandates of, or provide benefits to, more than one sub-region within the broader regional system operator footprint. These types of transmission solutions typically will raise broad regional and project-specific equity considerations.[11] The ISO envisions that, consistent with existing FERC requirements, the tariff would contain a set of default cost allocation rules for such projects that would apply absent a determination by the WSC that the project should be subject to a different cost allocation rule. When such a project is approved, the issue of its cost allocation would come to the WSC for a determination. The WSC would decide either to apply the default allocation rule or would establish a different allocation that would apply to the specific project, subject to approval by FERC.

The WSC would also have primary approval authority for any potential changes to the default cost allocation rules in the tariff for public policy solutions that support the policy mandates of, or provide benefits to, more than one sub-region of the regional ISO.

The ISO seeks stakeholder input on the proposal to provide the WSC primary authority over policy solutions that benefit more than one sub-region. In addition, the ISO seeks stakeholder input regarding whether the WSC should have any primary authority regarding other aspects of transmission cost allocation. Even if the WSC does not have primary authority regarding other

[11] The ISO second revised straw proposal proposes that there would be a uniform cost allocation rule for policy projects that benefit only one sub-region that would assign all of the costs of the project to that sub-region. Under this approach, the WSC would not have primary approval authority for cost allocation of such projects.

aspects of transmission cost allocation it presumably would still have an advisory role and provide input to the ISO regarding transmission cost allocation.

4. Other Topics for Discussion

4.1.1. Advisory Role

Similar to regional state entities in other regional transmission organizations, the Revised Governance Proposal contemplates that the WSC would also have an advisory and consultative role on matters that are outside its areas of primary authority.

The WSC, for example, could decide to issue a position statement in the context of a stakeholder proceeding on an ISO policy initiative involving a topic other than RA or transmission cost allocation. The WSC also could potentially intervene or offer comments in agency regulatory proceedings on other topics or in appellate or other judicial proceedings.

In addition, there are areas where the WSC potentially can provide guidance to enhance the processes and practices within the regional footprint. Load forecasting is an example of an area where the WSC potentially might provide such guidance in its advisory role. As identified in the Third Revised Straw Proposal in the Regional Resource Adequacy stakeholder proceeding, the ISO has proposed to provide load serving entities significant flexibility over their load forecasting methods. In light of this flexibility, the WSC could potentially play a valuable role in collaborating to develop a set of best practice guidelines that load serving entities could consider when performing their load forecasts. The ISO contemplates that such guidelines would be advisory and that LSEs could decide whether to apply them at their discretion. If the WSC were to establish non-binding, best practice guidelines, then the WSC's role in this area would properly be viewed as part of the WSC's advisory function rather than as part of its primary approval authority role.

This paper does not discuss or attempt to define the WSC's advisory role with any specificity. The ISO recommends, however, that this role should be broadly defined to ensure that the WSC will have sufficient authority to share its view on matters of collective state interest that may come up over time. This role is important because when such statements represent the view of all or a large majority of the WSC membership, they are likely to be highly influential in the policy development process.

The ISO seeks comment from stakeholders both on whether they agree that the WSC's advisory role should be broadly defined and whether there are any specific areas where the WSC should be encouraged to provide advisory input. The ISO also seeks input from stakeholders about whether there is a role for the WSC to participate in developing guidelines in areas such as load forecasting, and if so, whether it should be an advisory role or a more formal approval role.

4.1.2. States Retain Authority to Take Individual Positions

Finally, the ISO believes that a state's participation in the WSC should not prevent it from advocating its own state-specific policy preferences either in ISO stakeholder proceedings or in federal regulatory or judicial proceedings involving ISO proposals. Each individual state should retain all rights to intervene in and/or comment in such proceedings, either individually or together with other parties. Although this right is perhaps implicit, it may be beneficial to expressly adopt this position in the Principles embodied in the current Regional Governance Proposal. The ISO seeks comments from stakeholders on this topic.

5. Next Steps

The ISO will discuss the topics addressed in this paper at the October 17, 2016 CEC workshop on the Revised Regional Governance Proposal. The CEC has established October 31, 2016 as the deadline for interested parties to submit public comments on both the Revised Regional Governance Proposal and the Western States Committee discussion paper and draft proposal.[12]

[12] Notices and documents for the CEC's proceeding 16-RGO-01 are posted to the CEC website. When new information is posted, an e-mail is sent to those persons on the CEC's Regional Grid Operator and Governance List Serve. Persons interested in receiving notices directly from the CEC are encouraged to sign up for list serve through the CEC website at http://www.energy.ca.gov/sb350/regional_grid/