

## DOCKETED

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**Bonneville Power Administration Comments on Second Revised Governance Principles**

*Additional submitted attachment is included below.*



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**Bonneville Power Administration Comments**  
**Regional Grid Operator and Governance**  
**Docket No.: 16-RGO-01**  
**October 31, 2016**

The Bonneville Power Administration (Bonneville) appreciates the opportunity to submit these comments on the October 7, 2016, "Second Revised Proposal: Principles for Governance of a Regional ISO" (Second Revised Proposal) in the California Energy Commission's (CEC) "Regional Grid Operator and Governance" proceeding.

**Background**

Bonneville is a federal power marketing administration within the United States of America, Department of Energy, and markets electric power from 31 federal hydroelectric projects and some non-federal projects in the Pacific Northwest. Whenever requested, Bonneville is statutorily obligated to sell at wholesale firm power to meet the net load requirements of certain utility customers in the Pacific Northwest. 16 U.S.C. § 832c; 16 U.S.C. § 839c(b). Bonneville serves the wholesale power requirements of many publicly-owned utilities located in PacifiCorp's East and West Balancing Authority Areas (BAAs). Bonneville's customer loads in the PacifiCorp East and West BAAs amount to about 650 megawatts (MW) of annual average load. Bonneville holds various transmission contracts to serve these customers over the PacifiCorp transmission system. In addition, Bonneville operates over 15,000 miles of high-voltage transmission lines in the Pacific Northwest and is a co-owner of, and path operator for, the PacifiCorp Northwest AC Intertie. Bonneville's transmission system connects with every major utility in the Pacific Northwest, including Canada, as well as with California. As such, the outcome of this proceeding is of direct importance to Bonneville, its public utility customers, and transmission customers. Because a regional ISO will have significant interaction with Bonneville on many levels, Bonneville has participated in the development of the regional ISO governance proposal and Bonneville appreciates the fact that the principles recognize a role for the power marketing administrations as the development of the governance proposal moves forward.

**Comments**

***Capacity Market Prohibition:***

The Second Revised Proposal contains a broad restriction on capacity markets. Section 1.1.a states that:

the ISO will be prohibited from proposing or endorsing a centralized market for the forward procurement of electric capacity that would (1) require capacity to clear at a market clearing price in order to count for resource adequacy purposes absent the unanimous authorization of the Western States Committee or (2) allow the participation of load-serving utilities from a state without the authorization of the applicable state regulator or local regulatory authority.

This broad restrictive language could apply to both long-term and short-term capacity markets. Bonneville sees potential benefit in a voluntary short-term capacity market because this could provide a useful tool to promote reliability and address shorter term capacity needs that may have been unanticipated in a long-term planning horizon. Therefore, Bonneville recommends the prohibition on capacity markets be limited to longer-term markets, and leave open the possibility that an up to a month-ahead capacity market could be created.

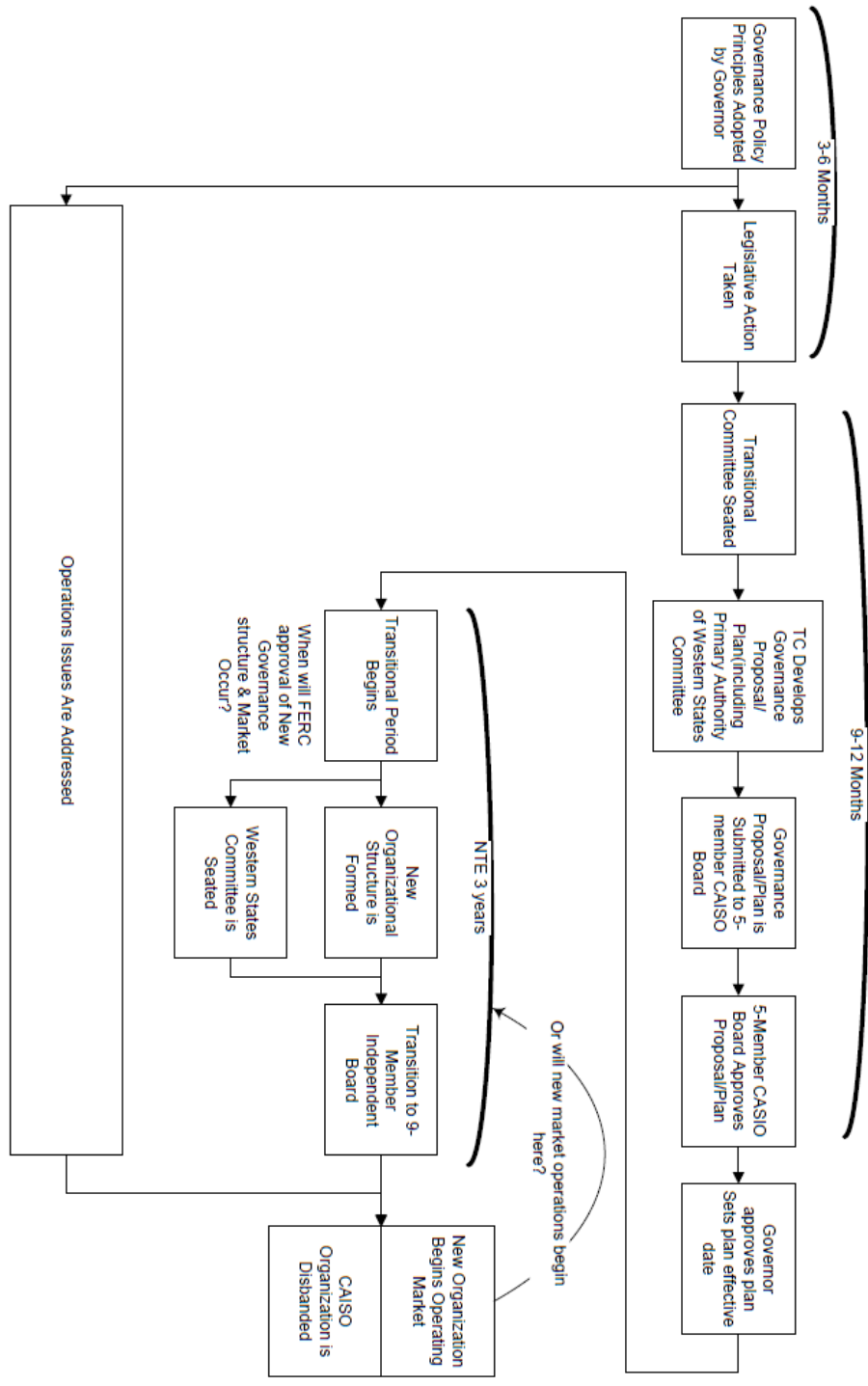
### *Chronology of Governance Events Needs Clarification:*

Overall, Bonneville believes the governance principles have moved in a positive direction from the original governance proposal, and Bonneville supports several of the adjustments that have been made. However, the principles are somewhat difficult to follow from a chronological perspective. In a foundational document of a large, region-wide organization, such as these Governance Principles, it is essential that all participants clearly understand the sequence of events that will occur in establishing the final structure of the organization.

Viewed in isolation, the principles provide a coherent description of the main features and milestones for forming the regional ISO. However, it is unclear how the actions called for in the various principles fit together based on the descriptions in the Governance Principles. Bonneville attempted to develop a timeline that connected the main actions of the ISO Board and various committees with the sequence outlined in the principles. This exercise revealed a number of timing and sequencing questions that should be addressed in the next version of governance proposal. For example:

- 1) Principle 4 discusses a 36 month Transition Period following a plan effective date which appears to occur after Principle 8, when the Governor approves the plan put forth by the Transitional Committee. Does this mean that the new ISO board will begin to function at the beginning of the Transition Period, with four new board members added to the existing CAISO board?
- 2) In order to seat new board members, the WSC must approve the selections made by the Nominating Committee, Principle 5. This principle, thus, appears to presume that the WSC will be formed at the beginning of the Transition Period. Will the WSC be formed at the beginning of the Transition Period?
- 3) When is the regional ISO expected to begin commercial operations? At the beginning of the Transition Period? During the Transition Period? At the end of the Transition Period or potentially after the Transition Period?
- 4) How will approvals from other states fold into the process outlined in the principles, i.e. will other states be going through their approval process during the Transition Period?
- 5) The timing of when the ISO expects to seek (and receive) FERC approval of the Governance Principles should also be included in the timeline. For instance, will the ISO file the Governance Principles with FERC prior to the Transition Period such that FERC approval of the governance structure would occur coincident with the beginning of the Transition Period?

Bonneville suggests a clear timeline be added to the Governance Principles to illustrate the chronology of events that will occur during the shift from the existing ISO Board, through the Transition Period, to the new nine-member Regional ISO Board. Bonneville's understanding of the Second Revised Proposal's sequence of events is depicted in the diagram below. If the sequence of events provided in the diagram is not what the CAISO intends, Bonneville requests that the CAISO provide clarification - and its own timeline - so that stakeholders have an opportunity to comment on how the CAISO envisions the principles working together.



Additionally, Bonneville suggests that the principles be re-ordered so that they follow chronological sequence of events. For example, the final principle, Principle 8, discusses that the regional governance plan becomes effective after it is approved by the ISO Board and then approved by the Governor of California. This must happen before the “Transition Period” (Principle 4) begins, during which the new board members are selected over a 36 month period. It makes sense that Principle 8 should be moved so that it precedes Principle 4.

In comments on the first set of principles, Bonneville suggested that one possible approach would be to not have the existing five members of the CAISO board serve on the new Regional ISO Board, but rather the new nine member board be appointed in a hard cut over. Bonneville believes that the Transition Period described in the Second Revised Proposal is an improvement over the initial proposal, but a closer evaluation of the roles and responsibilities of the five CAISO board members during the Transition Period may raise question as to how well they can serve their duties as CAISO board members for the ongoing operation of the CAISO, while also serving on the Regional ISO Board during the Transition Period.

#### ***Ratification of Bylaws by Permanent Board:***

The Second Revised Proposal states that the Governance Plan will be approved by the Governor of California. Bonneville understands that the Governor’s approval is a necessary step in order to authorize the CAISO to expand from a California entity into a regional entity. However, it is important that once the Regional ISO Board is fully established at the end of the 36 month Transition Period, the Regional ISO Board have an opportunity to approve and/or adjust the bylaws under which the regional ISO will operate. Accordingly, Bonneville suggests that ratification (or amendment) of the bylaws by the Regional ISO Board be required once the Regional ISO Board is fully seated, and that this action be included in the sequence of events described in the timeline.

#### ***Entities Allowed to Participate in Nominating Committee:***

The stakeholder-based Nominating Committee, discussed in Section 5.2, is comprised of up to nine sectors. The current language states that “Each sector will be limited to entities that operate within the ISO’s regional footprint or, in the case of public interest/consumer advocacy groups, are actively involved in energy issues within the ISO’s regional footprint.” Bonneville believes this language could be read too narrow and should be expanded to include neighbors to the ISO’s regional footprint and other parties that are interconnected to or may be impacted by the Regional ISO operation.

#### ***Edits for Clarity:***

**Section 1.2** – The language in section 1.2 is unclear as to what “these provisions” is referring to. Bonneville recommends inserting a reference to section 1.1 as follows: “The bylaws or other corporate governing documents will preclude amendments to these provisions relating to the state authority described in section 1.1 above absent unanimous approval by both the ISO Board and the Western States Committee.”

**Section 1.3** –The last sentence of section 1.3 needs clarification to specify the purpose of the further policy development. Bonneville recommends the last sentence of section 1.3 be edited to state: “Absent such approval, the matter will go back to ISO staff for further policy development that will address concerns raised by the Western States Committee.”

#### ***Support:***

**Section 6.4.a** –In the Second Revised Proposal, CAISO changed the number of publicly-owned utility representatives on the Western States Committee from one to two individuals. Bonneville strongly supports this change.

**Section 7** –Bonneville supports CAISO’s commitment to working with all stakeholders and the Transitional Committee to consider options to revise the stakeholder process. Given that the Transitional Committee will include individuals that have experience in participating in the CAISO stakeholder processes in the role of stakeholder, they may have valuable suggestions that could improve the stakeholder process. This review of stakeholder process should potentially include a proposal for the formation of a market advisory committee that could interact with the Regional ISO Board and the WSC.

**Conclusion**

Bonneville appreciates the opportunity to submit comments in this proceeding and looks forward to further discussion of the governance structure for the proposed regional ISO.