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RSO Governance Comments of WRA, NRDC, Renewable NW, UCE, & NW Energy Coalition

Additional submitted attachment is included below.

Optional Stakeholder Comments Template

Second Revised Proposal: *Principles for Governance of a Regional ISO*

Submitted by	Organization	Date Submitted
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Stakeholders are encouraged to use this template to provide comments on the Second Revised Proposal: *Principles for Governance of a Regional ISO* posted on October 7, 2016.

All documents for the Regional Grid Operator and Governance Proceeding are available at:
http://www.energy.ca.gov/sb350/regional_grid/documents/index.html

Submit comments to the California Energy Commission Docket 16-RGO-01:
<https://efiling.energy.ca.gov/Ecomment/Ecomment.aspx?docketnumber=16-RGO-01> or
docket@energy.ca.gov

Comments should be submitted by October 31, 2016.

The Second Revised Proposal retained the eight principles from the prior draft and refined them in ways that seek to address many of the issues raised by stakeholders in their comments. Please provide comments for further refinement of these principles, which will be used to establish a final proposal that can serve as the framework for the governance of a regional Independent System Operator.

1. Preservation of State Authority

The Second Revised Proposal proposes revisions to section 1.3 to establish a process for determining whether a proposed new ISO policy initiative would materially diminish or impair the state or local authority. Please comment on this change or any other aspect of preservation of state authority.

COMMENTS

PROCESS FOR DETERMINING WHETHER A NEW RSO INITIATIVE DIMINISHES STATE AUTHORITY

As provided in our earlier comments, Public Interest Organizations (PIOs) strongly support the preservation of state authority under an RSO.¹ PIOs seek clarity on the process CAISO is considering for determining whether a proposed new RSO policy initiative would materially diminish or impair state or local authority. It appears that CAISO is proposing to establish a process for making these determinations, taking into account input from the Western States Committee as well as the CAISO Board. It is not clear whether such an approach would continue once the new RSO Board is seated and, if so, how it might change. It is similarly unclear what would qualify as a “new policy initiative” (that could potentially diminish state authority) that would be subject to this new process.

2. Transmission Owner Withdrawal

The Second Revised Proposal proposes no changes to this principle. Please provide feedback on this principle.

No comments.

3. Transitional Committee of Stakeholders and State Representatives

The Second Revised Proposal makes revisions to the sectors that will serve on the Transitional Committee, requires the sectors to self-select one candidate to serve on the Transitional Committee, narrows the scope of issues that the Transitional Committee will consider, and provides additional detail with regard to the processes to be used by the Transitional Committee to vote on and submit its proposal to the ISO Board, as well as the process the ISO Board will use in reviewing the proposal. Please provide feedback on these changes and any other aspect of this principle.

COMMENTS

TRANSITIONAL COMMITTEE OF STAKEHOLDERS

As reflected in our July 7 and August 2 comments, PIOs support the use of a transition period and the formation of a Transitional Committee of Stakeholders to enable the CAISO to transition to an RSO, following the model of both the EIM’s Transitional Committee and Nominating Committee.

¹ Public Interest Organizations submitted prior comments regarding Regional System Operator governance on: [May 20, 2016](#), [July 7, 2016](#), and [August 2, 2016](#).

PIOs are pleased that earlier provisions have been removed that required any final governance proposal developed by the Transitional Committee to first receive unanimous approval of the states on the committee before such proposal could be forwarded to the CAISO Board for final approval. PIOs reiterate that a final governance proposal developed by the Transitional Committee should not require unanimous approval of the state members of that committee. In fact, no single sector should be permitted to dominate the work and decision-making of the Transitional Committee. Rather, the work of this body should be consensus-based and should be representative of all stakeholder interests.

Additionally, PIOs support CAISO's decision to remove earlier language that required the sectors to choose two potential candidates, only one of whom would be selected by the current CAISO Board to serve on the Transitional Committee. PIOs support each sector having sole authority to determine their representative on the Transitional Committee of Stakeholders. Finally, PIOs also support CAISO's decision to separate the Public Interest Groups sector from the End-Use Consumer Advocate Groups sector, appropriately recognizing the diverse viewpoints held by each of these stakeholder groups.

AUTHORITY OF THE TRANSITIONAL COMMITTEE OF STAKEHOLDERS

Generally, PIOs support CAISO's decision to narrow the scope of issues that the Transitional Committee will consider, as this helps to clarify the scope of work of the Transitional Committee and what role that work will play during the transition period. However, PIOs seek clarity on the exact authority of the Transitional Committee of Stakeholders as currently conceived by CAISO and recommend that the next iteration of the governance proposal be explicitly clear regarding what, exactly, the Transitional Committee will have the authority to decide.

For example, according to CAISO's latest governance proposal, it appears that the Transitional Committee has authority over the following:

1. *Certain appointment and operating procedures of the Nominating Committee*
 - a. Determining membership sectors of the Nominating Committee, including voting and non-voting members, using the guidelines established by CAISO's latest governance proposal (i.e., up to nine total voting sector representatives, with up to seven sectors representing the various types of entities that participate in the RSO's markets and up to two sectors representing public interest groups and consumer advocates).
2. *Stakeholder process for the RSO Board*
 - a. Determining whether a formal stakeholder process should be implemented for the new RSO Board.
 - b. If a formal stakeholder process is chosen, determining the framework for that process.
 - c. If a formal stakeholder process is chosen, determining whether consumer advocates will be compensated for their participation.

3. *Preservation of state authority under the RSO model*

- a. Identifying specific language for governing documents of the RSO to include binding provisions to protect and preserve state authority over matters regulated by the states themselves.

Similarly, according to CAISO’s latest governance proposal, it appears that the Transitional Committee no longer has authority over the following (rather, these items are to be fully vetted during the current governance stakeholder process):

1. *Western States Committee*

- a. Identifying in more detail the specific topics within the categories of resource adequacy and transmission cost allocation that should fall within the primary authority of the WSC.
- b. Determining a weighted voting model for the WSC.

PIOs recommend that CAISO clarify the Transitional Committee’s precise role and responsibilities in the next version of its governance proposal. PIOs also seek clarity regarding what type of documentation the Transitional Committee will be expected to produce for approval by the CAISO Board of Directors and the California Governor (i.e., will the final product merely be a more detailed version of CAISO’s existing governance proposal, or will it also include a charter or other similar governance-related documentation?).² PIOs further recommend that either the Transitional Committee or the Western States Committee be charged with finalizing the weighted voting model for the WSC – please refer to our comments under Section 6 – “Establishment of a Western States Committee” – for more information.

4. **Transition Period**

The Second Revised Proposal eliminates the deadline for starting the transition to a regional board and instead establishes a deadline of three years to complete the transition. It also provides flexibility within this defined three-year period to seat new Board members, including sitting Board members (if they are selected to do so through the new nomination and approval process established in the principles), without attempting to prescribe all of the details of the process. Please provide comment on this revision or any other aspect related to this principle.

COMMENTS

TRANSITION PERIOD

PIOs request clarification from CAISO on the timeline of the transition period. In CAISO’s latest governance proposal, the deadline for starting the transition is eliminated and instead, a deadline of three years for completing the transition is established. Specifically, PIOs request clarity on when this three-year “clock” begins running and what approvals will be required during that three-year timeframe.

² For example, the following language regarding the Transitional Committee’s authority has been removed in CAISO’s latest governance proposal: “[t]he committee will oversee drafting of the corporate documents implementing its plan.” This leaves open the question of what governance document(s), specifically, the Transitional Committee is expected to produce.

It is PIOs' understanding that the Transitional Committee cannot be seated until California legislation is finalized that enables the CAISO to begin transitioning to an RSO. Once the Transitional Committee is seated, it will be charged with developing governance documents that are subject to approval by the CAISO Board, the California legislature (if applicable), FERC, and the IRS (if applicable). However, the governance documents would not become *effective* until they are approved by the Governor of California. At this point, it is PIOs' understanding that the three-year transition period clock would then begin to run, enabling time for existing CAISO Board members to transition off the CAISO Board and for the Nominating Committee to identify a slate of nine independent candidates for the new RSO Board of Directors. PIOs seek clarification on how existing CAISO Board members would "cycle off" the CAISO Board while the Nominating Committee begins appointing new RSO Board members during this three-year transition period.³

PIOs recommend that CAISO include a visual diagram in its next governance proposal outlining exactly what CAISO envisions for the transition period, including when key decisions must be made (and by whom). This visual should also include the timing not only for internal CAISO and California-focused decisions, but also for external decisions (e.g., decisions by FERC, the IRS and other state regulatory bodies). This will assist stakeholders in better understanding what critical steps must take place in order to complete the transition from CAISO to an RSO.

5. Composition and Selection of Regional ISO Board

The Second Revised Proposal provides more detail regarding the key components of the process used to identify and select the membership of the regional ISO Board, which would then be further developed by the Transitional Committee. Revisions also establish a set of parameters that rely on the Transitional Committee process to develop certain further specifics relating to the make-up of a stakeholder-based Nominating Committee. Additionally, the Second Revised Proposal includes supermajority provisions for voting rules that will be used by the Nominating Committee for establishing a slate of nominees and by the Approval Committee for confirmation of nominees. The proposal also establishes a set of guidelines that the Transitional Committee would follow in developing the (up to nine) total voting sector representatives who would serve on the Nominating Committee. Finally, the ISO offers information regarding why the proposal recommends having nine members serve on the regional ISO governing Board. Please comment on these clarifications and revisions, or any other aspect related to this principle.

³ Specifically, in Section 4 of CAISO's latest governance proposal, CAISO notes the following: "There will be a transition from the current board selection process to a regional ISO board selected entirely through a new nominating and approval process. This transition will commence on the date when the regional governance plan becomes effective and will be completed within 36 months of that date. After the transition is complete, the regional ISO board will be comprised of nine members, all of whom will have been selected by the new nomination and appointment method."

COMMENTS

NOMINATING COMMITTEE

CAISO's latest governance proposal leaves certain details of the Nominating Committee up to the Transitional Committee to finalize. While PIOs support deferring the exact membership structure of the Nominating Committee to the Transitional Committee, PIOs seek clarification that two of the nine voting members on the Nominating Committee will represent public interest organizations *and* consumer advocates. PIOs reiterate our earlier comments that the interests of public interest organizations and consumer advocates are not sufficiently aligned to justify combining these two sectors into one – rather, they should always be separated so as to ensure that their respective positions are adequately represented. Additionally, PIOs are pleased with CAISO's clarification that public interest organizations are to be provided with a voting role on the Nominating Committee.

Finally, while PIOs continue to support voting based on consensus for the Nominating Committee, consensus may not always be possible. For this reason, PIOs support a voting requirement for the Nominating Committee that requires at least a supermajority (i.e., 75%) of the voting members of the Nominating Committee. However, PIOs recommend that CAISO clarify in its next governance proposal that the Nominating Committee strive to reach decisions through consensus and only when consensus cannot be reached would the 75% voting requirement be applied.

6. Establishment of a Western States Committee

The Second Revised Proposal relaxes the provision that limited the types of individuals that may serve as POU/PMA representatives to the WSC and removes language that created a misimpression that the proposal intended to limit the scope of issues on which the POU/PMA members may provide input, or that staff from such entities may not be permitted to attend or participate in meetings of the WSC. The revisions clarify that the WSC will generally perform its work in open session and that all members of the public, including such staff, will be invited to attend and participate. It also increases the number of POU representatives from one to two. Importantly, the ISO further develops the proposed voting rule that the WSC members would use when considering matters that are subject to their primary authority, and defines the term "sustained period of inaction". As a point of clarification, the ISO notes that it does not intend for this load-based weighted voting rule to apply to other matters involving the day-to-day administration of the WSC or to decisions by the WSC on whether to provide advisory input on topics outside its primary authority. These details can be decided at a later juncture, preferably by the representatives of the states that are charged with starting up the WSC. Finally, the ISO has decided to work on addressing this "scope of authority" for the WSC issue now, rather than deferring it to the Transitional Committee, and has subsequently developed a discussion paper and draft proposal that will make suggestions for topics within these areas that should be subject to the WSC's primary authority. Please comment on these revisions to the revised Principles for Governance in relation to the WSC, and provide any additional feedback on this principle.

COMMENTS

MEMBERSHIP OF THE WSC

PIOs continue to support the addition of non-voting members to the WSC – specifically, two representatives from publicly-owned utilities and one representative from a federal Power Marketing Administration.

Additionally, PIOs seek clarification on whether each participating state in the expanded RSO footprint will be selecting a *state representative* or *public official* – both terms appear to be used interchangeably throughout CAISO’s governance proposal, yet may connote different meanings.

WEIGHTED VOTING ON THE WSC

PIOs’ Voting Proposal for the WSC

PIOs believe that specific voting rules and requirements for the WSC should not be included in California legislation, as this level of detail should not be necessary to develop the final legislation that enables CAISO to transition to an RSO. Instead, these types of details can be left to the work of the proposed Transitional Committee of Stakeholders (or to the internal negotiations of the WSC). However, if requiring some type of weighted voting for the WSC upfront continues to be a requirement in California, PIOs encourage CAISO to not mandate the specifics of that voting model at this early juncture.

To enable efficient decision-making by the WSC, PIOs recommend a simple voting model be used whenever possible.⁴ As an overarching principle, each member of the WSC should have one vote and should always try to reach decisions through consensus. For decisions within the primary authority of the WSC, and only where consensus voting is not possible, the WSC may choose to implement *some form of* weighted voting based on load.⁵ Again, PIOs recommend that CAISO *not* mandate a particular weighted voting model now, but rather, leave those details up to the Transitional Committee or the Western States Committee.

Ultimately, PIOs believe that a weighted voting model can be used for certain types of decisions of the WSC that not only gives California a more heavily weighted vote to recognize its load dominance in the expanded RSO footprint, but that also does not give California veto power over the WSC – thereby respecting the positions of the RSO’s other participating states. While PIOs choose not to support one particular voting model at this time, we recognize that at least two stakeholders have proposed alternative weighted voting models that attempt to strike a balance between the interests of California

⁴ For example, with most state advisory bodies in other parts of the country, state members have one vote each and from there, a clear voting pattern emerges: (1) the election of officers requires a plurality vote, (2) changes in the bylaws requires a 2/3 majority vote, and (3) all other matters are determined by a simple majority vote.

⁵ Note that this is the same approach used by New England States Committee on Electricity (NESCOE) – the equivalent of the WSC in ISO-NE. NESCOE requires voting based on consensus and reverts to weighted voting based on load if (and only if) consensus cannot be reached. For more information on NESCOE’s voting rules, see: [2015 Annual Report to New England Governors](#).

and other Western states.⁶ Additionally, PIOs seek clarity from CAISO regarding CAISO’s proposed definition of “load” – whether CAISO intends “load” to mean “net energy for load” or an alternative interpretation.

Analysis of CAISO’s Weighted Voting Proposal for the WSC

In the latest iteration of the CAISO’s governance proposal, CAISO requires a very specific weighted voting model based on load for the WSC. For issues within the primary authority of the WSC, CAISO’s proposed voting model requires affirmative votes from 75% of the states *plus* 75% of the load in the expanded RSO footprint. As currently conceived, this footprint would include the CAISO participating states of California and Nevada⁷, as well as the PacifiCorp states of Oregon, Washington, Idaho, Wyoming and Utah. Using “net energy for load” (NEL) data from the North American Electric Reliability Corporation and the U.S. Energy Information Administration, load percentages are provided in the below table for this expanded RSO footprint.

Table 1: RSO Footprint – NEL Percentages by State

<i>California</i>	81%
<i>Utah</i>	8.4%
<i>Oregon</i>	4.6%
<i>Wyoming</i>	3.3%
<i>Washington</i>	1.4%
<i>Idaho</i>	1.2%
<i>Nevada</i>	<1%
TOTAL	100%

Using these load percentages as inputs to CAISO’s proposed voting model, California will hold veto power over the WSC in the sense that nothing will “pass” unless it receives approval from California. Even if every other state on the WSC voted “yes,” if California votes “no,” the decision will not hold given California’s very clear load dominance in the expanded RSO footprint. However, other states also wield power in the sense that California cannot pass anything on behalf of the WSC on its own. If California

⁶ Western Resource Advocates has proposed an alternative weighted voting model that begins with the premise that decisions of the WSC should be made through consensus wherever possible. It uses a simply methodology and applies a weight of “two votes” for any state carrying 50% or more of the load, while any state with less than 50% of the load receives one vote. It then applies different types of voting rules based on the type of decisions being made – e.g., plurality voting for officer elections. See: [WRA Voting Considerations for the Western States Committee](#). Similarly, Seattle City Light has suggested a weighted voting model that using a “soft cap” to ensure that California’s load dominance is appropriately recognized but that California would not have veto power over the WSC. Seattle City Light’s comments are available here: [Seattle City Light August 1 Governance Comments](#). An example of this soft cap weighted voting is currently used by Columbia Grid to ensure that Bonneville Power Administration (with clear load dominance in that footprint) does not have veto power over its fellow members: [Columbia Grid Bylaws](#).

⁷ Valley Electric in Nevada is a current CAISO market participant.

votes “yes,” it would still need five other states to also vote “yes” in order for the decision to hold.⁸ In this sense, CAISO’s proposed voting model does encourage consensus-building among members of the WSC. Unfortunately, it still permits one state to outvote every other state and its two-part approval requirement (75% of load *plus* 75% of the states) may create the risk of deadlock on the WSC. This example shows why the specifics of weighted voting based on load can be challenging (as well as controversial) and why PIOs believe that this particular decision should be deferred to the future negotiations of the Transitional Committee or the Western States Committee.

7. Stakeholder Processes and Stakeholder Participation

The ISO has not proposed any further changes to this principle at this juncture; however, the ISO commits to working with all stakeholders and with the Transitional Committee as it considers the full set of options to revise the current stakeholder process. Please provide any additional feedback on this principle.

COMMENTS

FORMAL RSO STAKEHOLDER PROCESS

As reflected in our earlier comments, PIOs caution against leaving the decision on formal stakeholder participation to a future Transitional Committee and encourage the CAISO to instead make clear at the outset that a formal stakeholder process will be established for the RSO to enable stakeholders to provide direct input to the RSO board. This clarity would help to support both RSO formation and expansion by encouraging broad-based consideration and consensus about RSO issues – most importantly, its economic costs and benefits. CAISO’s revised governance proposal continues to defer decisions about the form of future RSO stakeholder participation to the Transitional Committee, while noting that many stakeholders recommended the formation of a Member Advisory Committee, or MAC, to offer formal stakeholder advisory input to the RSO board. PIOs prefer a Member Advisory Committee over a Market Advisory Committee, as it permits diverse and robust stakeholder participation that is not limited to RSO market participants.

While the exact details of such a formal stakeholder process should be left to the work of the Transitional Committee, PIOs see value in requiring a formal stakeholder process upfront for the future RSO. As reflected in our July 7 and August 2 comments, an RSO will owe multifaceted obligations to a diverse set of stakeholders. To ensure that the RSO is viewed as transparent, trustworthy and accountable, the RSO board must be able to effectively engage with stakeholders in a meaningful way so that stakeholders feel ownership and can derive a keen understanding about their possibilities to derive benefits from RSO formation, expansion, and operations. This important end goal can be accomplished through the use of two stakeholder processes for the future RSO: (1) replicating CAISO’s current issues-focused, informal stakeholder process whereby stakeholder input is organized around specific issues that require changes (e.g., Governance, Transmission Access Charge, Resource Adequacy, etc.); and (2) a new more formal stakeholder advisory role through the formation of a MAC, enabling ongoing and direct stakeholder input to the RSO’s board on any issue pertaining to the RSO’s operations.

⁸ This is because the proposed voting model requires 75% of the load *plus* 75% of the states. This threshold necessarily requires six of the seven states voting “yes” (with one of the “yes” states being California).

8. Requirements for Plan to Become Effective, including Governor’s Certification

The Second Revised Proposal made conforming revisions to this principle, modifying the proposed development of a regional governance plan by the Transitional Committee then approved by the ISO Board, and replacing it with both the development of and approval of a regional governance plan by ISO Board. Coupled with the development of governance documents and any necessary regulatory approvals, the governance plan will become effective only after it is approved by the Governor of California. Please provide any additional feedback on this principle.

COMMENTS

APPROVAL OF GOVERNANCE PLAN

Please see above comments under Section 4 – “Transition Period” – that seek clarity regarding the transition period and the role of the California Governor’s certification of the governance documents during that transition period.