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Additional submitted attachment is included below.

Xcel Energy Services Comments on Regional Governance Principles Proposal
Docket 16-RGO-01
July 7, 2016

Xcel Energy Services (“XES”) appreciates the opportunity to provide comments on the ISO’s proposal on principles for governance of a Regional ISO (“RSO”). XES believes a balanced RSO governance structure is critical to the success of the ISO’s regional expansion. Participation in the RSO stakeholder process should be open, but governance should be independent of market vested financial interests and with sufficient fiduciary guidance to yield outcomes that maintain good utility practice with respect to reliability, efficiency of markets, and grid access principles that comport with applicable regulation, law, and the public interest.

XES recommends the ISO review the governance structures of the multi-state Regional Transmission Organizations (“RTO”) and leverage those designs to propose a baseline that can then be modified to address the unique characteristics of the West and the RSO. As an example, XES drafted these comments using the bylaws from Southwest Power Pool (“SPP”) as a starting point on many of the recommendations. XES is not promoting SPP’s governance as the best or only design that will work for the RSO, but uses it for shaping these comments because it is an example of a successful structure in a diverse footprint. XES’s operating company, Southwestern Public Service (“SPS”), is a member of SPP and actively participates in its governing process and committees. SPP includes members across fourteen States, including a federal agency (Western Area Power Administration – Upper Great Plains Region), several public power entities, municipalities, and investor owned utilities. Feedback is included on the eight guiding principles from the ISO’s proposal below.

1. Preservation of State Authority

XES agrees with the principle that State authority within an RSO must be preserved and that nothing the RSO does should infringe State regulatory jurisdiction or authority. While most State representatives tend to be concerned about federal regulation, the governance must recognize and protect against interstate infringement as well. Therefore, XES supports a “Senate” model, where no State has priority or seniority over another State on governance issues.

2. Greenhouse Gas Accounting

XES does not consider Greenhouse Gas Accounting to be relevant in the discussion of RSO governance. XES recommends this issue be removed from discussion in this docket.

3. Transmission Owner Withdrawal

Transmission owners of an RSO should have the right to withdrawal voluntarily. XES encourages the ISO to consider establishing exit criteria for withdrawing members to ensure that the remaining RSO members are not unduly burdened as a result of a member’s departure. The exit

criteria should consider the costs the member agreed to pay as part of its administrative services from the RSO, and may include commitments made by the RSO as part of its transmission service provider role on behalf of the withdrawing entity. Fees associated with transmission investment should carry a right or entitlement for the withdrawing party to address the physical materiality of cost obligation. The fees should be defined and readily calculable in order to aid members in evaluating a decision to withdrawal

4. Transitional Committee of Stakeholders

Instead of establishing a formal transitional committee, which may take several months to populate, and several more to produce deliverables, XES recommends the ISO look to its fellow Regional Transmission Organizations (“RTO”) for examples of regional governance. An existing’s RTO’s design may not fit perfectly for the ISO and the West, but it may be considerably more productive for the ISO and its stakeholders to start with a set of bylaws, already written, instead of a clean slate.

Similar to how XES has developed these comments reflecting the SPP approach, we recommend the ISO review the bylaws of its fellow RTOs and recommend one structure to move forward as a straw proposal, with modifications as needed to address RSO-specific issues. Stakeholders can provide feedback to the ISO’s straw proposal, similar to a normal ISO stakeholder initiative, and the ISO can incorporate that feedback into a final proposal. This final proposal should then be sent to the transitional RSO Board and the existing ISO Board for approval.

5. Initial Board and Transition Period

The scope of the TRB will differ considerably from the EIM Transitional Committee. Unlike the EIM Transitional Committee, the TRB will be making decisions to fully replace the ISO governance structure, instead of coming up with an approach to form a parallel system alongside the existing ISO. XES recommends that the existing ISO Board remain intact until the RSO officially expands. In the interim, XES recommends the ISO establish a transitional RSO Board (“TRB”) responsible for approving the new governance structure proposed by the ISO (as vetted through the stakeholders) and for addressing any transitional filings or decisions that need to be made prior to the RSO officially expanding.

The TRB should be a group of expert industry stakeholders representing a cross-section of the participants affected by an expanded ISO and include one member from the current (five member) ISO Board. Using a representative team of the various sectors will protect the balance of interests across the region and including an ISO Board member will help ensure the existing ISO interests are represented in the discussion.

In this approach, State regulators will be able to participate in the process like any other stakeholder. If there is a desire for a more formal process for the State regulators, then establishing a Body of State Regulators (“BSR”) (as described below in item 7) could be developed at the same time as the TRB. The BSR could function as an advisory group to the TRB.

The TRB should be established during the stakeholder vetting of the of RSO governance proposal and be replaced by the RSO Board once FERC, and other applicable regulatory entities, approve the expanded footprint. The RSO Board should be made up of a group of independent experts and a separate membership committee should be established for representing the different sectors of the RSO footprint. The RSO Board would have the voting authority and approval but the membership committee could participate in the discussions alongside the RSO Board to ensure membership interests are represented at the Board level.

6. Composition of Regional ISO Board

XES recommends the RSO Board be comprised of independent, industry experts capable of providing direction on the general business of the RSO. In providing that direction, the Board should be the highest authority on approving recommendations from the RSO on major policy initiatives, large contracts, budgeting, human resources, legal disputes and regulatory filings. XES supports having specialized stakeholder organizational groups reporting to the Board to provide recommendations on these issues and elaborates on a proposed structure below.

7. Establishment of Body of State Regulators

XES supports including a body of State regulators (“BSR”) in the governance structure and recommends the scope of its authority be clearly defined in the bylaws of the RSO. XES recommends the BSR be included as one of the expert committees reporting to the Board and for its scope to be consistent with the authority of State regulators. For example, the BSR should be able to provide input to the Board on regional proposals such as:

- a) Allocation of costs for regional transmission enhancements
- b) Congestion hedging rights allocations for firm transmission customers
- c) Resource adequacy criteria and/or enforcement
- d) No revisions to State CPCN authority without unanimous consent

These topics are appropriate for a BSR to review because each affects the costs that are generally within the scope of review for a State utility commission. As such, the BSR does not need to be involved in approving issues like general market design, reliability coordination, seams coordination, market monitoring, or other operational functions of the RSO. Those items should be managed by committees with expertise on those areas and the oversight should be provided by the independent Board. If a State has specialized interest in a particular topic outside the scope of the BSR, staff representing that State can participate like any other stakeholder at the committees where the topic is discussed.

XES recommends the BSR include one representative from each State that has jurisdiction over an RSO member. Participants in the market, including federal power management agencies (“PMA”) or non-jurisdictional entities, should not be included on the BSR because it would be a conflict of interest and provide an unfair advantage to those entities. A key difference between a

representative from a State regulator and a representative from a PMA is that the State representative is not participating (and competing) alongside RSO participants; it is regulating those RSO participants in the public interest. If a PMA has a seat on the BSR, it will have the ability to unduly influence issues like cost allocation, resource adequacy, and congestion hedging, while being a participant subject to those approved policies. PMAs and other non-jurisdictional entities should be able to provide input to the Board through other committees as stakeholder or members, but not through the BSR.

8. Stakeholder Processes and Stakeholder Participation

Similar to SPP, in addition to the Board and the BSR, XES recommends the RSO establish separate policy committees, to address topics like operations and grid planning, strategic planning, finance, and market monitoring. These committees, like the BSR, would all report to the Board. If one of the committees determines a specialized task force or working group is needed to address a topic, it should be within the scope of the committee to establish that group.

In order to ensure adequate representation on policy initiatives, the operations and grid planning group could be an all-membership committee, giving each RSO member a vote on the policies it approves before moving to the Board. XES is not opposed to weighted-voting based on sector, but encourages the ISO to consider an approach that will ensure that the participants that are directly affected by a policy issue be given the most consideration. Other committees like strategic planning and finance could have smaller representation, perhaps a member from each sector of the RSO to ensure adequate representation.

Finally, XES recommends a market monitoring oversight committee be established that is separate from both the Board and the RSO committees, to ensure adequate independence of market oversight. The RSO can continue to have an internal market monitor but its reporting structure should be transparent in the governance so that it is clear that the market monitor is independent from the RSO.