

DOCKETED

Docket Number:	16-RGO-01
Project Title:	Regional Grid Operator and Governance
TN #:	212176
Document Title:	American Wind Energy Association Comments on the CAISO's Proposed Principles for Regional Governance
Description:	N/A
Filer:	System
Organization:	The American Wind Energy Association
Submitter Role:	Public
Submission Date:	7/7/2016 3:55:41 PM
Docketed Date:	7/7/2016

Comment Received From: Tom Darin

Submitted On: 7/7/2016

Docket Number: 16-RGO-01

AWEA Comments on the CAISO's Proposed Principles for Regional Governance

Additional submitted attachment is included below.

AWEA COMMENTS ON THE CAISO'S PROPOSED PRINCIPLES FOR REGIONAL GOVERNANCE

The American Wind Energy Association (AWEA) appreciates the opportunity to offer comments on the California Independent System Operator's (CAISO or ISO) proposal on *Proposed Principles for Governance of a Regional ISO* ("ISO's proposal" or "proposal"). AWEA is supportive of a transition to a regional grid operator, as a regional market structure will capture the benefits and overall efficiencies gained from the consolidation of balancing authorities and market functions, as well as allowing California, and other western states, to more readily access some of the highest quality wind in the country to efficiently and cost-effectively achieve renewable portfolio standards and clean-energy goals.

AWEA appreciates that many concepts it supported in prior comments in this docket were incorporated into the ISO's June 9, 2016, proposal. However, AWEA remains concerned that the ISO's proposal continues to rely too heavily on the current CAISO Board (through the appointment of the Transitional Committee of Stakeholders, approval of final governance details, and the CAISO Board's role in an Initial or Transitional Board), fails to limit the Transition Period/Initial (Transitional) Board to a reasonable timespan, and will not be amenable to other states outside of California due to the continued reliance on the ISO Board in orchestrating and overseeing the transition to a regional ISO. Therefore, in the following comments, AWEA offers specific comments on areas that it believes require modification and also offers alternate proposals which it believes better balance the diverse needs of states and stakeholders across the West.

1. Preservation of State Authority

AWEA continues to support, a strong role for state regulators in a regional ISO. In previous comments, AWEA indicated its support for a meaningful role for a body of state regulators and urged that the governance proposal include assurances that states would retain authority over retail rates, resource mix requirements, generation resource planning, and, where applicable, transmission siting. AWEA is pleased to see these principles incorporated in the ISO's proposal and believes the ISO's proposal should help to address many individual state concerns about loss of jurisdiction.

Though AWEA supports strong state authority, the proposed provision to prevent the ISO from adopting "any policy that would diminish or impair state or local authority" in the areas of procurement policy, resource planning and CPCN approval for utilities, and resource or transmission siting within the state could be problematic and prevent the regional ISO from conducting its business effectively. Of course, the Transitional Committee of Stakeholders will need to develop more details around how this principle will be implemented, but the overly broad nature of this restriction has the potential to affect virtually any policy brought before a regional ISO. Using the current language, the ISO could be prevented from adopting policies in the public interest that might have a negligible impact on state or local authority. Therefore, AWEA advises including some potential boundaries around this provision. For example, the governance proposal may state that the ISO is prevented from adopting any policy that would materially diminish or impair state or local authority. This change should not affect the intent of the ISO's language, but could help ensure that a regional ISO is not unnecessarily prevented from making decisions well within its authority.

2. Greenhouse Gas (GHG) Accounting

AWEA recognizes that provisions for tracking and accounting GHG emissions are not fundamentally related to the governance structure of a regional ISO. However, under a regional ISO, a transparent GHG tracking and accounting mechanism will be required for a variety of reasons, and it is important to provide clarity here that the remit for the transitional and long-term governing bodies addresses this requirement. States with GHG statutory requirements (California, Oregon, and Washington, at present) must be able to validate that their GHG policy goals are met. Conversely, states that do not have GHG policy goals should not have GHG policies imposed on them and

should not be required to pay compliance costs of those jurisdictions that have GHG regulations. A transparent methodology for tracking and accounting for GHG emissions in the regional ISO is necessary to achieve all of these objectives.

To illustrate these points, it may be helpful to consider GHG accounting and tracking in a regional ISO in the context of the California Air Resource Board's (CARB) Cap-and-Trade program. CARB's Cap-and-Trade program imposes GHG costs on electricity generated within the state of California and on electricity that is imported to California to help achieve California's GHG reduction goals. The program operates today and would likely continue in roughly the same manner under a regional ISO. However, under a regional ISO, a transparent GHG tracking and accounting system would enable CARB to better determine the generation source, and underlying emissions, from electricity that is produced to serve California load. While today CARB relies on manual declarations and system average emissions factors to determine GHG emissions for electricity that is imported into California, a transparent GHG accounting mechanism would allow California to automatically, and more accurately, determine which imported resources were used to serve California's electrical needs. Therefore, the GHG tracking system should enable states such as California to verify that their policy objectives are met.

But, in doing so, a transparent GHG tracking and accounting system should also ensure GHG costs associated with state GHG requirements are not passed on to electric consumers of states that do not have GHG compliance requirements. By including a GHG accounting and tracking mechanism, the regional ISO will be better equipped to design a market mechanism that ensures costs associated with GHG emissions are appropriately paid by the states whose policy goals require these costs. In the absence of a GHG tracking and accounting mechanism, it will be much more difficult to track the generation that was used to serve California load. Consequently, it may be more difficult to design a market mechanism that appropriately prices electricity based on whether or not GHG costs are imposed. Implementation of an accurate GHG accounting and tracking system will equip the regional ISO with better information to ensure GHG costs in certain states do not result in market distortions for electricity prices in other states.

Correct accounting and tracking of GHG emissions should be desirable to all stakeholders, whether they seek to verify their GHG policy goals are achieved, impose costs on GHG emissions, or to prevent inappropriate cost-sharing between states. AWEA expects that the costs of implementing a GHG tracking and accounting mechanism should be negligible. For these reasons, AWEA supports the inclusion of a GHG accounting and tracking system in a regional ISO.

3. Transmission Owner Withdrawal

AWEA supports a governance structure that ensures participating transmission owners are provided rights to withdraw. The more detailed provisions for withdrawal will need to balance a number of interests, including ensuring reliable system operations and respecting the potential need for transmission owners to exit.

4. Transitional Committee of Stakeholders

AWEA supports the concept of a Transitional Committee of Stakeholders to develop many of the key details for governance of a regional ISO. This concept is very similar to the Energy Imbalance Market (EIM) Transitional Committee, which was highly successful and is similar to the concept that AWEA supported in earlier comments in this docket. It will be critical to ensure that all stakeholders are adequately represented on the Transitional Committee of Stakeholders and are given a "voting interest." This may require slightly increasing the size of this Transitional Committee of Stakeholders from the size of the EIM Transitional Committee.

AWEA believes additional thought and detail should be provided on the composition of the Transitional Committee of Stakeholders. While the composition of the EIM Transitional Committee may be a reasonable foundation, there are likely additional stakeholder sectors that would require representation in the Transitional Committee of Stakeholders and additional details on the participation of state regulators should be provided. For instance, AWEA recommends considering new stakeholder sectors for large commercial and industrial customers, along with consumer advocates. Additionally, in order to adequately represent state regulatory interests from across the

potential market footprint, it may be necessary to have three seats for state agencies (with one from California, one from the PacifiCorp-East area, and one from the PacifiCorp-West area).

Although AWEA supports the concept of a Transitional Committee of Stakeholders, AWEA has concerns with the approach outlined in the ISO's proposal for appointing members and approving key governance details from the Transitional Committee of Stakeholders. While handing off key governance details to be developed by a Transitional Committee of Stakeholders is a great first step in transitioning the CAISO into a regional organization, AWEA is concerned that the current proposal may provide the CAISO Board too much control over the approval of the work of the Transitional Committee of Stakeholders which may undermine the buy-in from the other states which is necessary to a successful transition and fully independent ISO Board. Specifically, AWEA is concerned with the continued reliance on the current CAISO Board in appointing the Transitional Committee of Stakeholders and approving the Transitional Committee of Stakeholders' proposal.

The ISO's proposal would charge the current ISO Board with appointing the members of the Transitional Committee of Stakeholders. The ISO Board would also be tasked with approving the detailed governance proposal developed by the Transitional Committee of Stakeholders. AWEA is concerned that this level of oversight by the current ISO Board will be problematic to other states, especially when coupled with the proposed composition of the Initial (Transitional) Board (which is discussed in the next section).

In order to address some of these concerns, the members of the Transitional Committee of Stakeholders could be identified by stakeholders, in a manner similar to the EIM Transitional Committee. Ultimately, it will be imperative that the Transitional Committee of Stakeholders is appointed in a manner that ensures equitable representation of various interests across the expanded footprint. AWEA also encourages providing the Transitional Committee of Stakeholders more authority in final approval of the governance details. The ISO's proposal should specify that the ISO Board must accept in whole or reject in whole the Transitional Committee of Stakeholders' proposal; if the current ISO Board were to have the authority to modify the Transitional Committee of Stakeholders' proposal, it may be problematic in ensuring support from states outside of California.

Additionally, AWEA recommends requiring approval of the Transitional Committee of Stakeholders' proposal not only by the ISO Board but by representatives from the utility regulatory commissions in the various states which will join. This could be accomplished through requiring the presumptive body of state regulators to vote affirmatively in favor of the governance details before they can be implemented. Ultimately, without broad support for the governance details, the regional expansion of the ISO will not be successful. Therefore, this additional layer of approval should not serve to derail regional expansion, but rather will demonstrate that state regulators support the governance details that are developed.

5. Initial Board and Transition Period

The Transition Period and composition of the Initial (Transitional) Board are the most problematic pieces of the ISO's governance proposal and will require revision before they are amenable to other states. The current proposal provides for an unspecified time period during which the "transition" to a fully independent board would occur. During the transition period, an Initial (Transitional) Board would exist. The ISO has proposed that California-appointed Board members would continue to constitute the majority of the state-appointed Board members during the Initial (Transitional) Board. AWEA is concerned that, as constituted, this proposal would not be acceptable to other Western states. The Initial (Transitional) Board will presumably be responsible for approving and implementing most, if not all, of the key changes required to transition the ISO into a regional organization. Therefore, it will be critical for other states to know that California will not dominate the Initial (Transitional) Board and, subsequently, the critical policy decisions of the regional ISO.

To help resolve these concerns, AWEA recommends one of the following approaches (or a combination of the approaches):

- Eliminate (or drastically shorten) the Transition Period and the Initial (Transitional) Board and move directly to an Independent Board.

- Under this proposal, the new governance details would need to be approved by the current ISO board and a presumptive body of state regulators. The approval of those details would trigger the implementation of a fully Independent Board nominated through the process laid out by the Transitional Committee of Stakeholders.
- Increase the size of the Initial (Transitional) Board to 11 members. Allow the full CAISO Board to remain, allow non-California states to select five Board members through the process further defined by the Transitional Committee of Stakeholders, and allow the 10 selected Board members to jointly select the eleventh member (requiring a supermajority for approval of the eleventh member).
 - This proposal better aligns with the possibility of PacifiCorp joining the ISO, as it would provide more equitable representation: five states with five Board seats. It eliminates the “California-dominance” that is present in the ISO’s current proposal but continues to provide California with a strong voice on the ISO’s Board during the Initial (Transitional) Board.
 - After one year, one California state-appointed member and one non-California, state-appointed member would roll off of the Board and would not be replaced. In each of the following two years, two California-appointed and two non-California-appointed members would roll off and would be replaced by independent Board members.

6. Composition of Regional ISO Board

AWEA generally supports this component of the ISO’s proposal.

7. Establishment of a Body of State Regulators

AWEA generally supports the ISO’s proposal for a body of state regulators, including the voting thresholds identified in the proposal. Under a scenario where PacifiCorp joins the regional ISO, the proposed voting thresholds would provide a “veto” option for California (as half of the load), and a veto option for three states (which could, for instance, provide Utah, Wyoming, and Idaho with a similar “veto” right). This seems to be a fair balance, which may move the parties towards consensus on issues that come before it.

The ISO’s current proposal would require approval from the body of state regulators in order for the ISO to file matters that are within the body’s primary authority. The proposal provides very narrow options for the ISO to file at the Federal Energy Regulatory Commission (FERC) without approval from the body of state regulators. AWEA supports the option for the ISO to file a temporary proposal when reliability is imminently threatened. AWEA also supports the provision to allow the ISO to file an alternative proposal in certain instances. However, it may be necessary to provide the ISO with some enhanced ability to file alternative proposals, especially if the body of state regulators does not function as well as envisioned.

Therefore, AWEA would support slightly loosening the language that allows the ISO to file an alternative proposal. Currently, the ISO may only file an alternative proposal if a supermajority of the ISO board concludes that the proposal approved by the regulatory body would “*severely undermine reliability of the grid or cause the ISO to violate mandatory reliability standard or other binding FERC requirement.*” If the body of state regulators put forward a proposal that only a simple majority of the Board concluded would meet these criteria, the ISO should be allowed to file an alternative proposal. AWEA also suggests that the ISO also be allowed to file an alternative proposal in the event that a supermajority of the ISO Board approves of an alternative proposal. This will provide the ISO Board with additional flexibility in filing at FERC, while preserving the states’ authority.

8. Stakeholder Process and Stakeholder Participation

AWEA generally supports the CAISO’s current stakeholder process, which allows all interested parties to participate and have their voices heard, but understands some seek a more formal stakeholder or committee structure. AWEA hopes that as changes are considered, the future stakeholder process will continue to allow broad participation from a large cross section of the industry. AWEA supports allowing the Transitional Committee of Stakeholders to address various aspects of the stakeholder participation process, including the potential for compensation.

Conclusion

In conclusion, AWEA generally supports the principles the ISO proposed for a future governance structure. The most significant change that AWEA believes is necessary for this proposal to be successful is a modification to the role of the current CAISO Board, which, at a minimum needs to be augmented with approval from other bodies (i.e., stakeholders or body of state regulators). Additionally, the CAISO Board's role during the Initial (Transitional) Board requires modification in order for the governance structure to be accepted outside the state of California.