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CLECA Comments on Revised Princples for Regional Governance

Additional submitted attachment is included below.

BEFORE THE CALIFORNIA ENERGY COMMISSION
OF THE STATE OF CALIFORNIA

In the Matter of: Regional Grid Operator and Governance	Docket 16-RGO-01

COMMENTS OF THE
CALIFORNIA LARGE ENERGY CONSUMERS ASSOCIATION
ON SB 350 STUDY AND REVISED PRINCIPLES
FOR GOVERNANCE OF A REGIONAL ISO

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August 2, 2016

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OF THE STATE OF CALIFORNIA

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I. INTRODUCTION

The California Independent System Operator's (CAISO) Revised Proposal: Principles for Governance of a Regional ISO (Revised Proposal) issued July 15 has significant changes from the initial proposal and it remains a very high-level document. It is not clear what additional changes may be made prior to adoption, or how future changes will be made. More detail – both on process and substance – is needed. The Greenhouse Gas (GHG) accounting methodology remains pending. Consideration of the principles for governance of a regional ISO should be informed by a detailed governance proposal as well as the GHG accounting proposal.

CLECA had posited that presentation of the revisions to the Governance Principles at the Joint Agency Workshop would not provide enough opportunity for the Legislature or stakeholders to fully understand them; CLECA believes a holistic consideration of the implications of governance matters in conjunction with the market structure policy proposals is needed for stakeholders to be able to offer thoughtful feedback. We appreciate this opportunity to provide written comments today. However, between now and the end of August there is not sufficient time for consideration of the principles, or for weighing of the potential benefits and the consequences of regionalization, prior to developing and finalizing legislation. Regional expansion, if not done right, carries significant risk; taking the time needed to first get the governance principles right, and then get the market structures right, is warranted.

II. GREENHOUSE GAS ACCOUNTING

The potential for short-term GHG emissions increases from regionalization *and associated increased costs to California ratepayers* remain a concern; stakeholders have been asked for proposals to mitigate the near-term increases in emissions, but no consensus approach has been reached, nor has the CAISO offered a proposal. While CAISO's own GHG proposal remains pending, the firm commitment made by Stephen Berberich at the Joint Agency Workshop is encouraging; Mr. Berberich stated that, by the end of 2016, the CAISO would be publicly tracking and posting GHG emissions associated with Energy Imbalance Market (EIM) dispatches. Neither the Legislature nor stakeholders can reasonably or adequately evaluate the prospect of regionalization and principles of governance without a policy proposal for GHG emissions tracking and accounting. CLECA looks forward to reviewing the GHG policy proposal and to seeing the impacts of EIM dispatches on GHG emissions.

At the workshop, it was noted by Mary Nichols of the Air Resources Board, the E3 consultants and the Sierra Club that coal plant operations are less impacted by the market than they are by state or regulatory policies. Ms. Nichols commented that, "Old coal plants should not find a new lease on life thru this process- we need to have some assurance or form of commitment or mitigation of that"; Sierra Club echoed that concern. It appears that environmental policies have a central impact on what happens to coal power - far more so than whether a regional market is developed or not. Accordingly, how the regional market structure would ensure compliance with California's carbon policy is critical. There should be no further delay in the initiation of the GHG tracking and accounting initiative.

III. SB 350 STUDY

TURN stated at the Joint Agency Workshop that, according to the CAISO's model, the "fantasy" 5,000 MW of new wind resources would sell into the market, even though for 40% of the hours the locational market price would be negative; despite this, no curtailment was assumed. This appears to mean that the wind resources would pay $11/MWh (negative pricing) to put energy into market. This is not a realistic development scenario for wind; TURN's data and these concerns should be addressed.

It was also stated at the Joint Agency Workshop that the California Investor Owned Utilities (IOUs) are approximately 11% away from meeting their 50% Renewable Portfolio Standard (RPS) goals. How much of the E3 projected $680-$800 million in cost savings from the RPS-portfolio related capital investments (the grey bar on page VII-11 of volume VII) can actually materialize if the IOUs only have about 11% of incremental RPS procurement to go? Critically, up to 10% of the RPS requirement can be met with Renewable Energy Credits. Has the CAISO done any analysis to break out the capital investment associated with expected renewable curtailment as opposed to that capital investment associated to meet the 50% regardless of curtailment? It is difficult to see how a claim that the $680-$800 million in ratepayer benefits from reduced

RPS capital investment costs could be realized, given this reality. Moreover, if the IOUs lose more load (due to departures for Community Choice Aggregation or implementation of Distributed Energy Resources), the IOUs will have even “longer” RPS positions, further calling into question the likelihood of such capital investment cost savings.

Finally, there is no guarantee that the cost savings projected by the model will actually flow to consumers. California electric rates are significantly higher than those of other Western states, and for large industrial customers using a lot of power, high rates lead to high bills. CLECA reiterates its call for an optional dynamic pricing rate overlaying time-of-use retail rates; this would provide an incentive via very low prices for California’s large industrial customers to increase usage in response to low or negative wholesale prices when overgeneration occurs to help mitigate RPS integration problems. This should be supported by all and prioritized now.

IV. TRANSITIONAL COMMITTEE OF STAKEHOLDERS AND STATE REPRESENTATIVES

CLECA has two significant concerns regarding the Transitional Committee of stakeholders. First, the list of nine stakeholder sectors includes at least four distinct sectors for entities that would sell into the market, but only one sector for customers, and that sector is limited to “State-Sanctioned Ratepayer Advocates.”[1] This term “State-Sanctioned Ratepayer Advocates” is not defined; it is unclear what it means. More importantly, the Transitional Committee needs more end-use customer representation: a four-to-one ratio of market sellers to ratepayer buyers is not balanced

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[1] Revised Principles, at 5.

or reasonable. The sectors should be expanded to include another end-use customer sector, and advocates for large end-use ratepayers – including industrial customers – should **not** be excluded.

Second, the sectors can nominate two people as candidates for the Transitional Committee but then the CAISO Board would pick which one of two nominees would serve on the committee.[2] This provides the CAISO Board with undue control over the committee. The sectors should choose their own representatives. The CAISO Board should be allowed to make additional appointments if needed for greater regional diversity for the Transitional Committee as a whole. Section 3.4 should be revised to strike the phrase: "~~will choose between the two candidates put forth by each sector~~". This will still allow the CAISO Board to make additional appointments if necessary to ensure geographic diversity; however, that process should first have additional nominees, if needed, from each sector, and each stakeholder sector should be limited to two total representatives on the Transitional Committee.

It should also be clarified that the Transitional Committee will conduct its meetings in compliance with California's open meetings requirements, allowing for executive sessions as needed. There should be multiple opportunities for stakeholder participation and comments in the process.

CLECA appreciates the revised timeline that gives up to 12 months for the Transitional Committee to complete its work. The Transitional Committee will create the regional ISO's corporate documents; adequate time for considered, careful development must be provided. As previously noted, the development of specific

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[2] Revised Principles, at 6.

language on the limits to be included in the charter will take time. CLECA reiterates its earlier recommendation that the 12-month completion time be a target, not a firm deadline.

V. ESTABLISHMENT OF A WESTERN STATES COMMITTEE

The Revised Principles allow the regional ISO to file with FERC in the areas of primary state authority if there has been "sustained inaction" by the Western States Committee (WSC) to "remedy a market flaw that could materially impact ratepayers."[3] What is a "sustained period of inaction"? What is a material ratepayer impact? CLECA is not necessarily opposed to these provisions, but more detail is needed.

Section 6.4 includes two non-voting representative members of the WSC for Publicly Owned Utilities and federal marketing administrations - because these entities play a significant role in Western grid operations and wholesale markets. CLECA supports inclusion of these non-voting members and also urges inclusion of a non-voting end-use ratepayer representative.

The areas of authority for the WSC appear limited to just the Transmission Access Charge cost allocation and Resource Adequacy per section 6.6.[4] This is too limited and may prove problematic; the language should be broader and the authority should encompass topics traditionally regulated by states.

Regarding the voting rules for the WSC, other states must recognize that California makes up a majority of the load in a CAISO-PacifiCorp regional ISO; a voting rule heavily weighted in favor of California is, in CLECA's view as a representative of

[3] Revised Principles, at 8.
[4] Revised Principles, at 9.

California ratepayers, entirely appropriate. Over time, as the Regional ISO expands and the load share changes, this should adjust automatically.

VI. STAKEHOLDER PROCESSES AND STAKEHOLDER PARTICIPATION

CLECA's July 7 comments offered several recommendations for changes to the CAISO's current approach "to facilitate broad and robust stakeholder participation." Included in the list of recommendations was the need to respond to stakeholder comments. Specifically, CLECA stated:

- A matrix of stakeholder comments and CAISO responses should always accompany revised proposals; if staff has insufficient time to prepare this needed matrix, distribution of a revised proposal should be delayed to allow staff to prepare a matrix of stakeholder comments and CAISO responses. Otherwise, participants do not know whether or how CAISO staff considered their comments and positions or other stakeholders' comments and positions, impeding full and fair stakeholder participation.[5]

CLECA's recommendations, however, were not addressed at either the Joint Agency Workshop or in the Revised Principles. The Revised Principles state, "stakeholders generally support the ISO's current public stakeholder process" while noting that some entities seek a "strong market advisory committee of stakeholder representatives."[6] The Revised Principles punt the question of process improvements entirely to the Transitional Committee, along with questions regarding establishment of stakeholder committees and funding for some stakeholder participants.[7] CLECA's other recommendations are not repeated here, but some indication should be provided in this process that CLECA's process improvement recommendations were read and are being considered.

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[5] Comments of the California Large Energy Consumers Association on Proposed Principles for Governance of a Regional ISO (CLECA July 7 Comments), at 4-6.

[6] Revised Principles, at 10.

[7] Revised Principles, at 11.

VII. INCLUDE DEMAND RESPONSE, ENERGY EFFICIENCY AND OTHER DISTRIBUTED ENERGY RESOURCES

CLECA previously noted that California is developing rules and regulations around DERs and is encouraging more and more engagement by DERs in wholesale markets; this still needs to be taken into account. It remains unclear how the envisioned distribution marketplace will "play" alongside or even within an expanded, more regional entity's markets; this was not explained at the Joint Agency Workshop; it should be addressed.

More importantly, California's current demand response policies and programs help retain industries in the State, particularly those that are energy-intensive; this aligns with the State's overarching climate goals. Regionalization efforts must consider the need to keep industry in California and guard against emissions leakage.[8]

VIII. CONCLUSION

CLECA appreciates this opportunity to comment on the Revised Proposal and looks forward to continued participation in the regionalization discussions. Under SB 350, the studies on the benefits of a more regional ISO do not need to be finalized or provided to the Legislature until the end of next year.[9] Subsequent enactment of any changes to California law is not required by SB 350 to occur this month.[10] Rather,

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8 *See* CLECA July 7 Comments, at 6-7.

9 PU Code §359.5(e)(4) "The Governor transmits to the Legislature the studies described in paragraph (1) and revised bylaws or other corporate governance documents setting forth the proposed modifications to its governance structure, no later than December 31, 2017."

10 Changing State law would occur after the studies and revised governance documents are provided to the Legislature. PU Code §359.5(e)(5) "The Legislature enacts a statue implementing the revised governance changes." This is then followed by the ISO's adoption of its revised governance structure. *See* PU Code §359.5(f).

SB 350 gives the State and stakeholders more time for the consideration of an expanded ISO – to January 1, 2019 if necessary.[11] More time is necessary.

Respectfully submitted,

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August 2, 2016

[11] PU Code §359.5(i) "This article is repealed on January 1, 2019, if a statute implementing the governance modifications has not become effective on or before January 1, 2019."