

BEFORE THE CALIFORNIA ENERGY COMMISSION

In the matter of:

Regional Grid Operator and Governance

Docket No. 16-RGO-01

**NORTHERN CALIFORNIA POWER AGENCY COMMENTS ON
JUNE 2016 REGIONAL GRID OPERATOR AND GOVERNANCE WORKSHOPS**

The Northern California Power Agency (NCPA)¹ appreciates the opportunity to provide these comments to the California Energy Commission in response to two multi-agency workshops held in June 2016 to address the potential governance structure of an expanded regional grid operator in the West. The workshops are intended to support the efforts to address directives in Senate Bill 350, which calls for “the transformation of the [California] Independent System Operator [CAISO] into a regional organization to promote the development of regional electricity transmission markets in the western states...where it is in the best interests of California and its ratepayers.”²

Without question, fundamental changes will be required to the existing CAISO governance structure for it to become a regional grid operator. Detailed and thoughtful deliberation in this regard is absolutely essential to ensure that such a change is in the best interests of California consumers, as envisioned by Senate Bill 350. The “Proposed Principles for Governance of a Regional ISO” (ISO Proposed Principles) and the June governance workshops hosted by the California Energy Commission offer a sound initial framework for these deliberations. It is important that any final governance proposal give full consideration to stakeholder concerns, not only those expressed at the two workshops, but also to points raised by NCPA and others in written comments.

NCPA remains concerned that the stakeholder processes established to comply with SB350 obligations are moving too fast and NCPA sees no path where informed legislative or regulatory action could be undertaken to accept or approve, this year, the CAISO transformational requirements described in Article 5.5, Section 359.5 of SB 350. As but one

¹ NCPA is a not-for-profit Joint Powers Agency, whose members include the cities of Alameda, Biggs, Gridley, Healdsburg, Lodi, Lompoc, Palo Alto, Redding, Roseville, Santa Clara, and Ukiah, as well as the Bay Area Rapid Transit District, Port of Oakland, and the Truckee Donner Public Utility District, and whose Associate Member is the Plumas-Sierra Rural Electric Cooperative.

² See Public Utilities Code Section 359.5(a).

example, while the benefits of “regionalization” have ostensibly been quantified through the recently released benefits study in the range of 2-3% of retail rates, associated risks have not been anywhere near as thoroughly assessed or quantified, and absent such a symmetrical analysis, continuing to move forward on CAISO’s current “regionalization” schedule exposes consumers to potentially large risks for a relatively small overall level of benefits.

NCPA is further concerned that the estimated benefits identified in the studies are based on assumed outcomes that have not been finalized, including outcomes associated with the subject of these comments on governance. The studies assume outcomes associated with unknown outcomes on the environmental regulations associated with the treatment of GHG and RPS procurement issues, and finally, assume tariff design structures that may never materialize once approved governance and environmental regulations are better developed and understood.

Notwithstanding NCPA’s significant concerns regarding the overall speed and approach to the SB350 mandated CAISO transformational processes, NCPA’s specific comments on governance focus on four key areas: 1) recognizing the need to account for California’s substantial investment in the current CAISO, 2) preservation of state authority, 3) composition of the Body of State Regulators, and 4) ongoing stakeholder participation.

Recognizing the Need to Account for California’s Substantial Investment in CAISO Infrastructure

NCPA supports the concept of efficient markets in the power sector, but those markets must safeguard the ability for California consumers to reliably access environmentally-friendly and affordable power. To that end, NCPA members have made substantial investments in clean energy resources, doing so in a way that allows NCPA members to optimize infrastructure designed to serve the best interests of Californians. Californians have made substantial investments in the design, governance, and infrastructure of the California transmission system, which includes not only the CAISO but also other balancing authorities providing nearly a quarter of the state’s demand for electricity. We caution against creating a regional grid that provides opportunities for other states to capitalize on these investments free of charge. At a minimum, some accommodation should be made to compensate California consumers for these expenditures, possibly in the form of an up-front payment for past investments. In order to ensure appropriate ongoing oversight of these California-funded investments, there should also be additional governance representation for California above and beyond other state/regional representatives on the permanent Board.

NCPA supports the need for a transitional Board and period to determine whether other entities will choose to join and participate in the regional ISO. But, NCPA believes that more details related to triggering events that change the transitional elements be clearly identified as part of any final governance proposal.

Preservation of State Authority

It is absolutely essential that a regional grid operator not be deployed at the expense of California's autonomy and otherwise compromise the ability of the state to continue to promulgate, implement, and advance its energy policies. While compromise and structural changes will be an inherent part of a grid operator that involves multiple states, California policymakers must retain the ability to affect the will of their constituents, including advancing energy and environmental objectives that may not be shared by other states. The ISO Proposed Principles includes *Preservation of State Authority* as the first core principle. However, the practical implications of drafting bylaws and governance documents that effectuate the recommended protections should not be underestimated. Not only must the document themselves clearly reflect the limitations, but there must be an oversight mechanism in place to ensure that the actions taken by the regional ISO indeed adhere to the restrictions. Such a step is necessary to ensure that seemingly minor actions do not create a ripple effect or potentially "slippery slope" that would erode or diminish California's objectives.

NCPA seeks additional details related to this principle in the final governance proposal.

Body of State Regulators

NCPA is pleased that the ISO Proposed Principles acknowledge the need to have an individual appointed to the Body of State Regulators by public power. The individual is expected to participate in all deliberations, ensuring that public power's voice is reflected in policy discussions. While this is an encouraging start, it does not go far enough to appropriately represent public power interests.

NCPA is disappointed that the proposal only provides such involvement in a "non-voting, advisory capacity." State commissions do not represent the interests of public power agencies in any capacity, and there is nothing in the ISO Proposed Principles to suggest that such a pattern would change here. It is inconceivable to assume, for example, that the interests of 40+ consumer-owned utilities in California would be best served by a vote of a single California state

commission representative on the Body of State Regulators. In reality, the proposed arrangement would leave approximately one quarter of all California residents without a representative vote. In addition, if all California public power agencies were to participate in the regional ISO, they would represent greater than one quarter of all California owned transmission. The lack of a representative vote is unacceptable and inappropriate.

There are many alternatives that could be applied to rectify this situation, including the addition of a public power representative(s) that would have a vote on the Body of State Regulators. The final bylaws, as an example, could require the Body to include a certain number of public power representatives, depending on the percentage of load represented in the West. Whatever final approach is used, public power representatives should be provided equal opportunity to fully participate in the Body of State Regulators. NCPA recommends that the final governance principles be modified to allow public power representatives full voting rights.

Stakeholder Participation

NCPA fully supports the development of a process for stakeholder participation and does not believe that “the structure for stakeholder processes and participation” should be left to future deliberations. The “structure and process” should be part of the governance design from the onset. NCPA prefers a transitional committee approach to select the new board, as noted in the ISO Proposed Principles, including “a representative cross section of stakeholders and state regulations throughout the region.” Once the Board is officially seated, NCPA would like to see at least two formalized committees – 1) the body of state/public regulators and 2) a market advisory committee (which could be strictly advisory).

NCPA also believes that the notion of CAISO funding for stakeholder participation should not be part of the process. While stakeholder participation is critically important, establishing a funding mechanisms, funding source, and eligibility for such funds will be a controversial and convoluted process, and would detract from the core function of the transitional committee or other oversight body. NCPA does not support the idea of developing a mechanism within the CAISO to fund stakeholder involvement in stakeholder processes.

NCPA looks forward to continuing to collaborate with the governor’s office, the CEC, CAISO, and stakeholders throughout the state and the region in this process. If you have any questions regarding these comments, please contact Scott Tomashefsky at 916-781-4291 or scott.tomashefsky@ncpa.com.

Dated: July 7, 2016