

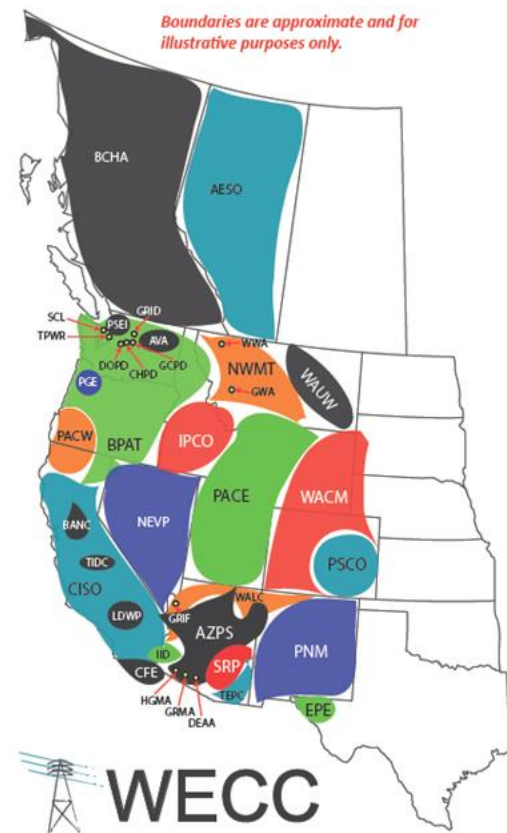
Regionalization: Significant Unanswered Questions



Background: What is the CAISO?

The California Independent System Operator (CAISO) is the largest balancing authority (BA) in California and the West. BAs move high voltage electricity across long-distances, operating the grid by “balancing” electricity supply and demand to ensure that the lights stay on. In the West, there are 38 separate BAs (see illustration below). Within California, there are eight BAs (including the CAISO), many of which serve the state’s largest publicly owned utilities.

CAISO, led by a state-appointed board, delivers power to approximately 80 percent of California, 35% of electric load in the West, and a small part of Nevada’s power grid, serving 30 million customers. Every five minutes, CAISO forecasts electrical demand, accounts for operating reserves, and dispatches the lowest cost power plant unit to meet demand while ensuring enough transmission capacity is available to deliver the power.



Western Interconnection Balancing Authorities (38)

AESO - Alberta Electric System Operator
 AVA - Avista Corporation
 AZPS - Arizona Public Service Company
 BANC - Balancing Authority of Northern California
 BCHA - British Columbia Hydro Authority
 BPAT - Bonneville Power Administration - Transmission
 CFE - Comision Federal de Electricidad
 CHPD - PUD No. 1 of Chelan County
 CISO - California Independent System Operator
 DEAA - Arlington Valley, LLC
 DOPD - PUD No. 1 of Douglas County
 EPE - El Paso Electric Company
 GCPD - PUD No. 2 of Grant County
 GRID - Gridforce
 GRIF - Griffith Energy, LLC
 GRMA - Sun Devil Power Holdings, LLC
 GWA - NaturEner Power Watch, LLC
 HGMA - New Harquahala Generating Company, LLC
 IID - Imperial Irrigation District
 IPCO - Idaho Power Company
 LDWP - Los Angeles Department of Water and Power
 NEVP - Nevada Power Company
 NWMT - NorthWestern Energy
 PACE - PacifiCorp East
 PACW - PacifiCorp West
 PGE - Portland General Electric Company
 PNM - Public Service Company of New Mexico
 PSCO - Public Service Company of Colorado
 PSEI - Puget Sound Energy
 SCL - Seattle City Light
 SRP - Salt River Project
 TEPC - Tucson Electric Power Company
 TIDC - Turlock Irrigation District
 TPWR - City of Tacoma, Department of Public Utilities
 WACM - Western Area Power Administration, Colorado-Missouri Region
 WALC - Western Area Power Administration, Lower Colorado Region
 WAUW - Western Area Power Administration, Upper Great Plains West
 WWA - NaturEner Wind Watch, LLC

Transforming the Western Grid

Senate Bill 350 (de León) was amended on the last day of the 2015 legislative session to include a process for “regionalizing” the western transmission grid. Ongoing discussions since that time regarding how to implement SB 350 and achieve a regional grid while protecting California’s interests have been unsuccessful, despite Governor Brown’s strong support for regionalization.

In the waning days of the 2017 legislative session, Assembly Bills 726 and 813 (Holden) were amended to pave a path for transitioning the CAISO into a regional entity. The bills saw significant opposition due to the lack of public debate regarding the proposed and continuing uncertainties about the potential impacts on Californians.

The amended language in AB 726 and AB 813 repealed current law that prohibits the CAISO from entering into a multistate entity or regional organization without approval from an oversight body established with the energy industry restructuring. AB 726 and AB 813 replaced the repealed language with provisions authorizing the transformation of the CAISO into a regional organization if the CAISO governing board undertakes certain steps and a to-be-established Commission on Regional Grid Transformation makes specified findings by December 31, 2018. Despite the Legislature’s intent outlined in SB 350 to transition the CAISO into a regional organization with the approval of the Legislature, the AB 726 and AB 813 proposal removed the Legislature from the process of evaluating and approving the CAISO restructure. The legislation did not receive a public hearing and the bills were not pursued last year.

However, this year, the author has informally begun stakeholder discussions on new conceptual amendments to address stakeholder concerns. A January 2018 proposal from the author outlines a number of required characteristics for a multi-state ISO or regional transmission organization (“RTO”) that CA entities would join. While the proposal does not address governance at this time, the author’s office intends to present additional language on the transition of the CAISO and an updated regional governance structure if the first part of the proposal is well received. NCPA will continue to engage in informal discussions on the concept, and ultimately on bill language if the legislation moves forward this year as the author plans.

In parallel, the western grid is already expanding without legislation via the CAISO’s Energy Imbalance Market (EIM) — a voluntary regional effort that yields many of the same benefits expected from regionalization. While the EIM has already proven to be effective in optimizing the use of regional transmission resources and providing benefits to Californians and other participants, CAISO is commencing a stakeholder process to consider enhancements to the EIM, such as implementation of a Day-Ahead Market. These actions could significantly increase EIM’s value and benefits to Californians, and will do so without compromising California’s control over governance of the CAISO Board (which is appointed by California’s Governor). Many stakeholders have expressed support for this approach to realizing the benefits of a regionalized market without fundamentally changing the existing governance of the CAISO.

**California
Must Protect
its Consumers**

Any regional expansion must safeguard the ability for California consumers to reliably access environmentally friendly and affordable power. As SB 350 required, the transition of the CAISO into a regional entity should only occur “where it is in the best interests of California and its ratepayers.” To this end, NCPA is concerned that unless designed appropriately and fully vetted by the Legislature, regionalization could lead to the following unintended consequences:

- Increased electricity charges for California consumers;
- Stranded investments in California power generation;
- Ceded authority to other states and the Federal Energy Regulatory Commission despite the potential for less aggressive alternatives (e.g. expansion of the Energy Imbalance Market) that would protect California’s control over the CAISO’s governance;
- Compromised grid reliability;
- Increased greenhouse gas emissions; and,
- No compensation for the substantial investment California ratepayers have made in the CAISO and in the state’s existing transmission infrastructure.

NCPA cannot support legislative regionalization proposals until these outstanding issues are adequately addressed. This should occur through a thorough public process, and not as part of an end-of-session strategy that significantly limits review and debate.

However, NCPA supports current efforts to enhance the EIM to include a Day-Ahead Market, as this is a more measured approach to improving regional resource and transmission efficiencies and still allows our state to maintain a California-focused governance structure that ensures in-state ratepayers are at the forefront of policy and operational decisions.