

Preamble: This is a draft “Principles and Key Issues” paper for the States considering the prospect of a western regional ISO. Its use would be by the commissioners of the six states as they educate their Governor’s policy advisors, state energy offices, and other stakeholders. This is not necessarily a policy-makers’ document. It is meant to be a document primarily for State Commissions, meaning that this tries to balance the policy-making imperatives of Governors and Legislators, with the concerns of affordability, reliability, and reasoned outcomes that Commissioners try to ensure as they fulfill their mission to serve the public interest in setting just and reasonable rates and ensuring consistency with their state policies.

PRINCIPLES AND ISSUES FOR A WESTERN REGIONAL ISO

Guiding Principles

- A regional ISO in the West will focus on the efficient operation ~~and dispatch~~ of the electric power system over a broad region of the Western states, thereby increasing efficiency in the use of both renewable and traditional baseload resources in daily, hourly and sub-hourly markets. This is achieved primarily through the greater use of Security-Constrained Economic Dispatch, or SCED, and the technology platform and services that the California ISO (CAISO) has developed over the past decade or two.
- A regional ISO must be based on mutual respect and cooperation among, and self-determination by, the participating states, and it must respect the sovereign power of each state to determine its energy resource mix and policy preferences.
- A regional ISO must be neutral, to provide impartial service to all participants in its footprint. CAISO is a creature of California statutes and is responsible to the California Governor and Legislature. The ISO cannot operate as an independent regional body and maintain its current relationship with the State of California. Therefore, the establishing documents for CAISO, pursuant to California law, need a “re-start” perhaps with a revised charter and bylaws with regional oversight mechanisms.
- The governance, policies, and procedures of a regional ISO should be negotiated regionally among participating states, CAISO, participating utilities and interested stakeholders. The current process requires several key decisions, including governance, to be made by the current CAISO Board and the California Legislature before new participants can join the ISO. This approach may compromise the appearance, if not the fact, of a neutral and independent regional ISO.

Commented [A1]: [JS] The prime benefits are from more efficient unit commitment (day-ahead scheduling) and benefits that derive from the broader, coordinated footprint – peak capacity savings, improved management of overgeneration, and lower cost development of renewable resources (e.g. access to cheaper renewables for California). The gains from regional coordination should be stressed as much as the gains from computerized commitment and dispatch.

Commented [A2]: [JS] I would also note that the preliminary work by E3 indicates that consumers could potentially save billions from this arrangement. We should note that our client is end-use customers and what’s in their best interests.

Commented [A3]: [JS] “self-determination”, “sovereign power” “mutual respect” Feel like we’re fending off the huns.

Commented [A4]: [JS] If this all falls apart and the benefits are large, one option to explore is Pacific joining the existing ISO but with easy entry and exit conditions – like the EIM. With easy exit, if the ISO fails to produce benefits, the utility can get out.

Commented [A5]: [NRDC] In light of the origin of the entity, there is a set reality that the CA legislature will have to take the first step. Perhaps the last sentence should be replaced with “While necessary, these approvals must ratify consensus/agreements that arise from regional efforts”?

Commented [A6]: [JS] So, are we challenging the process they’re using to develop a governance proposal? Do we have an alternative process approach – other than say it should be done regionally? How should it be done regionally? The reality is the CAISO board and California legislature must approve this. And, if we don’t like it, we can say no.

- The regional ISO’s focus will be on offering benefits to consumers and end-users in each of the States, with respect to both costs and policy preferences. Any Western state utility wishing to participate in this ISO will be required to show significant demonstrable net benefits to their State Commission(s) or other governing authorities to justify its status as a PTO (participating transmission owner). Such studies should be comprehensive, coordinated, and thoroughly vetted by stakeholders in the State, and other regional bodies.
- A regional ISO is intended to encourage the flow of electricity across state borders at appropriate times, to lower costs to consumers and ensure that neither over-generation nor unanticipated shortages or interruptions cause harm to other entities or ratepayers in those states. A regional ISO will make full use of the existing transmission system thereby avoiding added cost to consumers from the construction of unnecessary new transmission.
- A regional ISO should protect the reliability of the Bulk Electric System, which is regulated by FERC and NERC, while at the same time helping to ensure that distribution level service regulated by State Commissions continues to be reliable and affordable.
- A regional ISO should be a Good Neighbor among the balancing authorities in the Western states and pursue cooperative efforts with entities that choose not to join the ISO, including cooperate to the maximum extent possible with entities like BPA, and WAPA, as well as public power utilities and other IOUs that choose not to join this ISO, to address WECC-wide interconnection issues, seams issues, market power issues, and wide-area situational awareness in this dynamic environment.
- Decision-making authority should be “bottoms-up,” meaning that individual States continue to set their own policies wherever possible. Areas requiring uniformity across the expanded footprint, such as transmission expansion, transmission cost allocation and resource adequacy rules, should be decided by a Regional/State Committee of regulators. Only those matters that must be decided at the ISO level should be province of the governing board of the regional ISO, and those decisions should respect state policy priorities of each sovereign state to the greatest extent possible.

Commented [A7]: [NRDC] “Significant” is subjective and could be interpreted as building in a veto right for other reasons.

Commented [A8]: [JS] Oregon’s public interest standard just requires a showing of net benefits.

Commented [A9]: [NRDC] The intent of the ISO is to optimally dispatch electricity across the system while respecting transmission constraints and outages in real-time, reducing costs and enhancing reliability. Regional dispatch by definition will avoid over-generation and shortages/interruptions more effectively than the status quo.

Commented [A10]: Getting rid of contract paths will free up unused transmission.

Commented [A11]: [NRDC] Would add “market power”

Commented [A12]: [NRDC] There are existing entities that currently play convening roles across the region (e.g., WECC, PEAK). No need for the ISO to take on redundant role. Will definitely have to address seams issues, however.

Commented [A13]: [JS] I wouldn’t describe this as “bottoms-up” approach but rather decisions should reside with the appropriate entity to make those decisions - in some cases with the PUCs, in some cases with a joint committee, in some cases with the board, and in other cases jointly between the board and a committee.

Commented [A14]: [JS] I’m of a few minds on this statement (and I added transmission expansion, which is my big concern).

1. I’m beginning to believe that transmission expansion should be left to the PUCs. Let the ISO with state input do the planning but leave building up to utility and states as is done now.
2. If transmission expansion is not left with the utilities and the PUCs, then it will probably have to be a joint decision-making process with the board given FERC.
3. FERC may have jurisdiction over cost-allocation so I assume the Regional/State Committee would have to work with the ISO on that.
4. Parts of the resource adequacy rules – such as planning margins – could be left up to the state as is done today with a rebuttable presumption the state is right (and allowing the ISO to demonstrate that the state’s decision allows a utility to lean on the system.)

Commented [A15]: [NRDC] There are legal and practical realities that should be considered before proposing the role that the RSC can play. Under the Federal Power Act and Order 1000, transmission owners/operators (i.e., the utilities and RTOs) are responsible for determining cost allocation. It is possible to provide a heightened role for an RSC, and of course the RSC can file in any docket in which CAISO/the TOs submit a cost allocation proposal, but they can’t have their 205 rights in this regard (this comment applies in other places in this document as well.)

In addition, transmission owners, generation owners, consumer advocates, other public interest advocates, and other stakeholders cannot be excluded from decisions on cost allocation, regional planning, or market design, per the Federal Power Act and orders interpreting it.

Governance Priorities

Under a regional ISO structure, there are at least three potential levels for decision-making – at the ISO level, at the regional level through a Regional/State Committee with representation from each of the states, or at the individual state level. Careful attention must be given to the allocation of responsibility for various issues among these three levels, as indicated by the list of issues set forth above. As a general principle, decision-making authority should reside at the state level wherever possible (resource planning, resource mix and retail ratemaking, for example), at the Regional/State Committee level for those matters that require uniformity across all of the states (such as transmission cost allocation, planning reserve margin and associated “counting” rules), and at the ISO level for market operations and technical matters. To the greatest extent possible, governance should be structured to avoid preemption of state laws, as has occurred recently in New Jersey and Maryland (*Hughes v. Talen* case now pending at U.S. Supreme Court).

- Independence of the Board of the ISO: Board members should have no direct financial interest in any of the transmission organizations or utilities that participate in the regional ISO. The composition of the Board should largely rely on Order 2000 for the details of what constitutes “independence” of the board, direct financial interests and passive ownership, and definition of a market participant. No single state should dominate governance.
- Composition and number of regional ISO Board members: this should not be resolved now, but instead be determined by a collaborative process between CAISO, a Regional/State Committee, utilities wishing to become a PTO, and other stakeholders. Undoubtedly, this will be a larger board than the current five members appointed by the Governor of California, subject to California Senate confirmation. There may be a two-step process in which the Board is larger in a “transition or hybrid phase” to the six Western States, until it settles into a more routine process later with a smaller board. Could be anywhere between 5 and 13 members.
- Transparency and Due Process: the proceedings and deliberations of the ISO should be open to the public and consistent with the open meetings and public records or freedom of information acts (as much consistency as possible) in each of the six States.
- Inclusive process: given the diversity of utilities and stakeholder interests in the Western states, all parties should be included as much as possible in the process leading to decisions by the decision-making body of a regional ISO. A robust advisory and stakeholder process should be established to ensure that all groups are included in this process, including not just the existing CAISO stakeholder process, but existing processes in the other 5 States as well.

Commented [A16]: [JS] Again, I wouldn't be definitive on this. I'd like to explore leaving some of these decisions up to the state (such as planning margin today).

Commented [A17]: [NRDC] See comment #5. Also, on Hughes, the key issue is not what the RTO does but how the states structure procurement programs. To the extent that it is in the hands of the RTO, the focus is on market design more than governance – specifically, how any minimum offer price rules are applied to the types of resources that the states are procuring.

Commented [A18]: [JS] I would consider a WIRAB-like approach (which is load-weighted) where the board can't act if California objects or if a super-majority of non-California states object.

Commented [A19]: [JS] Doesn't this need to be resolved soon if the California legislature needs to act?

Commented [A20]: [NRDC] The EIM transitional committee approach is a good model and might be a good approach to get past the CA legislative hurdle/concern.

Commented [A21]: [JS] I understand that the existing CAISO stakeholder process is not limited to California parties – anyone can participate. We need to dig into most effective process – we don't want to end up with endless committees, subcommittees, and task forces which effectively leaves the institution in the hands of the parties who have the money and bodies to participate in all these forums.

Commented [A22]: [NRDC] Assuming you mean a combined process, not separate stakeholder processes for within and outside of CA? This section aligns with a few other points in this document recognizing the need for meaningful opportunities for stakeholder input with the avoidance of endless committee structures that make participation difficult. CAISO is currently a model among RTOs on this front, for balancing these interests.

- Non-profit status: a regional ISO should be a non-profit entity, established as a 501(c)(3) under the Federal Internal Revenue Code, and should not be unique to any particular Western State, as it transitions away from its current California-centric focus (the CAISO is currently established as a California non-profit public benefit corporation, which may need to be changed). The ISO should NOT be a for-profit entity; otherwise, that would compromise the principle of independence and attempting to ensure the most efficient economic dispatch on a non-discriminatory basis among all the Generators and Transmission Owners in the Western States.
- Accountability: although there will inevitably be tension between independence and accountability, it is important -- especially in the “transition phase” -- to ensure broader accountability to the non-California states which have PacifiCorp as a regulated utility (OR, WA, ID, WY and UT). As it broadens, this will apply to NV and AZ as well – potentially. Therefore, care should be taken to design accountability to each of these States as utilities in these states join, and to ensure that appropriate Member Classes (by state or region) are reflected in the governance structure – either through the Membership categories, the Nominating Committee, and the executive search process for Members of the revised Board of **Directors**.
- A Regional/State Committee of regulators must have the ability to make Section 205 filings at FERC on key issues, such as transmission cost allocation, resource adequacy rules, and seams issues with adjacent BA’s, among **others**.
- Good Neighbor policy: as mentioned above, especially with large, federally owned balancing authorities such as BPA and WAPA, care should be taken to ensure that appropriate mechanisms are built in to ensure consultation with these bodies – such as advisory committees, the current regional issues forums (RIF), and coordinated mechanisms among the advisory bodies to ensure timely and efficient outcomes as well as broad **accountability**.
- Efficiency principles: although a broad stakeholder process is essential and independence is a very high priority, there should also be consideration of the efficiency of decision-making by the Board, and not imposing excessive burdens and costs on the Board and the relevant committees as the ISO broadens to additional states and service territories. Ultimately, the consumer and end-users of the electricity should benefit from the broader market and increased geographical footprint, and the governance bodies should reflect those principles and not unduly burden the new **Board**.

Commented [A23]: [NRDC] Not clear what is meant by Member Classes, but again, the EIM transitional approach could be a good model here.

Commented [A24]: [NRDC] See Comment #A6 above – the states cannot usurp existing Section 205 filing rights. They may be given heightened ability, as is the case in SPP, MISO and ISO-NE, to have accompanying 205 rights on some issues and the ability to influence FERC filings. But none of these other regions give the states exclusive or unlimited Section 205 filing rights on any issue.

Commented [A25]: [JS] I’m not ready to sign off on this yet without more discussion. I understand this has been a difference between MISO (where OMS doesn’t make filings) and SPP (where the regional state committee makes filings. Nothing prevents individual states or groups of states to make filings. I lean that direction of leaving it up to the states but am open to discussion.

Commented [A26]: [JS] Concept of regional forums, like that created for the EIM, is okay.

Note that WAPA has joined SPP with some special language reflecting WAPA’s statutory responsibilities.

Commented [A27]: [NRDC] Per Comment A9, this is an important principle and should be considered in conjunction with inclusiveness, as noted.

- Voting vs. ex-officio status: care should be taken so that there is no conflict of interest and independence is ensured – both at the Board level and at the Nominating Committee, Audit Committee, and other key Committees. Ex-officio membership in various Committees is allowed, but voting status should ensure independence and rigor.

Key Issues That Need To Be Addressed

- ISO Costs and Benefits Analysis: as stated above, this is the key threshold issue that CAISO, PacifiCorp, and any transmission owner wishing to participate in this market structure will have the burden to prove to each State Commission or other governing authority (in the case of public power).
- Assuring fair, well-functioning markets: The current CAISO market monitoring and enforcement function is not well understood outside California and its own stakeholder process. There will be generalized concerns about market manipulation that must be addressed. The regional ISO, together with the State/Regional Committee, must ensure that efficient dispatch is achieved in daily, hourly, and sub-hourly markets across the Western states, both for increasing amounts of renewable energy (RE), traditional baseload generation as it becomes more flexible, and the potential for energy efficiency and demand response (non-wires solutions).
- How to protect existing state public policy preferences, such as the RPS mandates (or voluntary goals) for RE, energy efficiency (EE), and demand response (DR) tariffs and policies, and other state laws, without imposing such policies or their costs on other states. Whether and how the GHG reduction requirements in one state (such as California’s cap-and-trade program, and the Emissions Performance Standards in several states) could affect both generation and demand side resource measures (DSM) in other states.
- The extent of State control or decision-making over utility investments in generation, demand-side resources, and transmission.
- New transmission planning and siting: Particularly with respect to transmission, the six states potentially involved in the regional ISO each have different statutes and rules for the commissions (and siting authorities) regarding the need for transmission, and transmission siting and permitting rules. Some States require CPCNs for new lines, and some do not, instead relying on traditional ratemaking and prudence reviews. How are these to be coordinated with the existing

Commented [A28]: [JS] Some smart folks in the industry have raised the issue of parties outside of the EIM process manipulating EIM prices. The same could happen with the ISO where its and external problem not internal one.

Commented [A29]: [NRDC] Education in advance of commitment to the ISO will be key here. Also, market manipulation review and specific dispatch monitoring is not an issue that lends itself to a regional states committee.

Commented [A30]: [NRDC] This comment could be seen as creating an issue where none exists. RTOs, by law, cannot do anything except facilitate the policies of all states in the RTO; it cannot prefer one state’s policies over the other. In addition, the RTO cannot, by law, impose the costs of specifically meeting CA’s policies onto the other states. They can only impose costs on beneficiaries.

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Commented [A31]: [NRDC] By law, generation and demand-side resource investment decisions must remain with the states. Re transmission, states will maintain their permitting and certifying authority, but do not currently have other authority over transmission planning, which already resides with FERC. There will not be changes here.

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Transmission Planning Process (TPP) within the CAISO as it expands to a broader regional footprint? How will these processes be coordinated with the existing planning and stakeholder process of TEPPC and WECC? Would states cede their authority to approve or disapprove utility transmission investments?

- Cost allocation: Who will have oversight of the cost allocation methodologies – namely, the Transmission Access Charge (TAC) – as it is developed through the CAISO stakeholder process, and more importantly, as it is implemented (avoiding the rate pancaking issue). Should the States, specifically a Regional/State Committee, be delegated a more specific role as a collective body in determining cost allocation for new transmission lines?
- Resource Adequacy (RA): Should there be an ISO-wide Planning Reserve Margin (PRM)? If so, how is it set -- by the ISO or by the States working in collaboration with regional bodies such as the RTF (Regional Technical Forum, of the Northwest Power and Conservation Council), and the respective State Commissions? The same with respect to load forecasts and the counting conventions used to determine if the PRM has been met, including the counting of biddable and non-biddable Demand Response as these policies have developed in the California market, and are emerging in the Pacific Northwest and other markets?
- Should Local RA requirements be uniform across the footprint, or should States retain the authority to establish their own local criteria? What about Flexible RA requirements—set by CAISO, by the states collectively, or by each state individually? Under what circumstances, if any, should the ISO have the ability to engage in “backstop” procurement when it perceives resource insufficiency, and allocate the resulting costs to entities it sees as deficient?
- Demand response (DR) policies and potential aggregation: DR policies vary across the region, usually in the form of tariffs approved by State Commissions in each of the states. California has been developing new policies for more DR aggregation in its markets, together with CAISO, and the potential for DR aggregation from the distribution level to the Bulk Electric System level will likely increase as the market footprint expands.. How are these to be developed and coordinated, and how are the cost-effective benchmarks established?
- The core functions of a regional ISO are the efficient management of the bulk transmission grid, operation of ancillary and related energy market services, and power system planning. CAISO performs several ancillary functions in furtherance of California policies on energy, the environment, and public health. How can a regional ISO assure that the cost and burden of performing non-core,

Commented [A32]: [NRDC] States will continue to maintain their needs determination and siting permitting authority. Nothing about ISO expansion changes that. The ISO will take the preliminary step of coordinating regional transmission planning to avoid redundancies and ensure that projects are needed on a regional scale. However, the ISO cannot require anything to actually get built, that is left to the states.

WECC does a good job of providing a common case across the West and can continue to do so, but WECC does not make transmission or generation choices or do cost allocation. The ISO will have to do this planning as it does now, using WECC data and IRP data from the affected states.

Commented [A33]: [NRDC] States may be awarded the ability to influence but cannot by law be delegated an explicit decision making role on cost allocation.

It is not clear that large amounts of new regional transmission, other than what is already contemplated, will be required to achieve material efficiencies in the region.

Commented [A34]: [JS] I understand that CAISO uses the planning reserve margin established by the CPUC. I think this general rule should be continued for the regional ISO with the ISO reviewing those margins to ensure no reliability or “leaning” problems arise. Mandatory action for reliability reasons should reside with the ISO with review by the Regional/State Committee

Commented [A35]: [NRDC] The ISO’s current RA proposal maintains the role of states in determining appropriate sub-regional reserve requirements with appropriate and transparent ISO review; same goes for load forecasting.

Commented [A36]: [NRDC] This is an important question. Coordination is required. As a practical matter since most of the PAC states are not restructured, the utilities will be running the demand response programs (as opposed to third party providers who aren’t contracted with the utility) and will have the ability to coordinate effectively. States also have the ability to prohibit wholesale market participation by DR in their states, per FERC Order 745.

legacy functions for the benefit of one state are recovered from customers in that state (this could not only be the policy preference of California, but another state as it attempts to encourage certain energy resources through incentives and public policies)? For example, could an “unbundled” Grid Management Charge (GMC) address this issue?

- How to protect the rights of public preferences customers of BPA and WAPA and others, namely the PUD’s, the municipal utilities, and rural cooperatives, as this market is developed and built out? Many of these entities are transmission-dependent utilities that rely on BPA, WAPA, or other transmission owners for the delivery of electricity to loads in their respective BA’s.
- Seams issues: ~~As the broader market develops based on LMP prices at nodes throughout the region, there will inevitably be friction and potential price disparities between the regional ISO and BPA, as one example. These issues~~ will need to be addressed and resolved preferably through some agreed-upon mechanisms, including some arbitration or dispute resolution bodies, with State Commissions, Transmission Owners, and the ISO.
- Transmission planning and coordination: how to coordinate this planning among various entities and bodies, both at the Bulk Electric level and the distribution level. This would impact the WECC planning process, which involves the TEPPC of WECC, as well as the existing planning process (TPP) that has existed within CAISO.
- Order 1000 planning and coordination issues: there are various sub-regional bodies within the West that have submitted FERC Order 1000-compliant plans for open and transparent transmission planning – such as Columbia Grid, NTTG, CAISO, CCPG (Colorado), and SWAT (Southwest Area Transmission). On a voluntary basis, they have been coordinating between themselves on transmission planning in the West. How will these efforts fit in to the broader regional ISO, and in the WECC planning process?
- Similar treatment and low barriers to entry: currently, PacifiCorp is seeking to participate in a broader regional ISO in the West, but if the market is successful, in the future there will likely be other transmission owners and utilities in the West that will seek to participate in this broader market. Will policies be developed, such as a most-favored nation (or state) clause, that will allow additional utilities and BAs to join the broader ISO market on similar terms? How will consistency with the principles enshrined in Order 2000 of FERC be established in the revised charter and bylaws of the ISO?

Commented [A37]: [NRDC] As written above, This comment could be seen as creating an issue where none exists. RTOs, by law, cannot do anything except facilitate the policies of all states in the RTO; it cannot prefer one state’s policies over the other. To the extent that the “ancillary functions” do not rise to policies, the RTO still cannot impose the costs of providing benefits to CA customers onto other states, unless there are real, not theoretical, benefits from those services to the other states.

Commented [A38]: [JS] I recommend just putting that the regional ISO must deal with all non-participants in a non-discriminatory way.

Commented [A39]: [NRDC] Beyond the “Good Neighbor” principle, this bullet seems beyond the scope of regional ISO expansion, to the extent these entities don’t join.

Commented [A40]: [JS] There are already price disparities. A bigger footprint (without BPA) won’t change the price disparities or the perceived problems. I wouldn’t load this issue onto a list of concerns about creating an ISO.

Commented [A41]: [NRDC] These price discrepancies already exist, regional expansion will only serve to lessen the issue.

Commented [A42]: [NRDC] WECC does not plan transmission. If performs cost and powerflow analysis and produces data sets for transmission planning to be used by the Order 1000 planning entities.

Commented [A43]: [JS] Personally, I think the interregional cost allocation process is a joke. It’s been set up to ensure no transmission project gets built unless all affected parties agree. At issue is whether Pacific withdraws from NTTG if it joins the ISO (which is likely). I’d drop this.

Commented [A44]: [NRDC] This needs to be worked out; CAISO has recognized it as an implementation issue. Any entity that joins CAISO will become part of the CAISO region for Order 1000 planning purposes.

Commented [A45]: [JS] I don’t get the question

