

Revised Proposal Principles for Governance of a Regional ISO

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Background for this proposal – SB 350

- 359.5. (a) It is the intent of the Legislature to provide for the transformation of the Independent System Operator into a regional organization..., and that the transformation should only occur where it is in the best interests of California and its ratepayers.
 - Shall not alter obligations to state laws
 - Shall maintain open meeting and public access to records
 - Voluntary, with approval from own state or local regulatory authority
 - Modifications to governance structure would be needed

SB 350 sets out the following process.

- ISO conducts studies
- Public Utilities Commission, Energy Commission and Air Resources Board jointly hold public workshop where the ISO presents study results and governance modifications
- ISO submits to the Governor
- Governor transmits to Legislature

Approach to developing principles for governance of a Regional ISO:

- Discussions with and feedback from stakeholders and state officials
- Conceptual papers
- May 6 - Energy Commission workshop
- June 9 - ISO initial proposal
 - Comments by CA and Western States energy leadership and stakeholders
 - Discussions at CA legislative staff workshops
- July 15 – ISO revised proposal
 - Refines principles in light of oral and written comments

The revised proposal reflects three types of changes.

- Removal of the principle about tracking GHG emissions
 - ISO committed to development of transparent tracking methodology
- Addition of a principle about when the final governance plan would become effective
- Refinements to other principles to add more detail or address particular stakeholder concerns

Let's go through each principle of the revised proposal...

1. Preservation of State Authority: Modifications

- Clarify how key bylaw provisions could be modified
- Refine the restriction on capacity markets
- Develop a process for deciding when a proposed action or policy would impair state authority, involving consultation between ISO Board and Western States Committee

The initial proposal requires the ISO governing documents to restrict the ISO's ability to impair state authority.

- Clarify to ensure when these provisions may be changed
- Only with unanimous approval of both
 - Western States Committee and
 - ISO Board
- Transitional Committee to develop a process for deciding when state authority is impaired
- Will involve consultation between ISO Board and Western States Committee

The revised proposal clarifies the restriction on capacity markets.

- Focus on prohibiting mandatory capacity markets
 - absent the unanimous authorization of the Western States Committee
- Allow each state or local regulator to approve participation in other types of forward capacity markets

2. Transmission Owners Withdrawal: Clarification

- Original principle emphasized that a transmission owner may leave for any reason, either voluntarily or at the direction of a state regulatory authority
- Add reference to local regulatory authorities
- Otherwise no substantive change

Additional background about withdrawal of a transmission owner:

- Withdrawal is voluntary, subject to contractual terms
- Relevant contract is Transmission Control Agreement
 - Requires two years notice
 - Withdrawing owner required to make good faith effort not to unduly impair ISO's control responsibilities
 - Does not impose exit fee

3. Transitional Committee of Stakeholders and State Representatives: Modifications

- Details provided about:
 - The composition of the Transitional Committee
 - The selection of the Committee
 - Adoption of a charter describing process
 - Timeline for developing governance proposal
 - Decision on the Committee's proposal
 - Process following approval

The revised proposal details the membership of the Transitional Committee.

- One representative of each state in the expanded ISO footprint
- Cross-section of stakeholders from throughout region
 - Investor-Owned Utilities
 - Publicly-Owned Utilities (Municipals and Co-ops)
 - Independent Power Producers
 - Large Scale Renewable Energy Providers
 - Distributed Energy Resource Providers
 - Generators and Marketers
 - Federal Power Marketing Administrations
 - Public Interest Groups
 - State-Sanctioned Ratepayer Advocates

The revised proposal recognizes stakeholders' desire to select their own representatives, while ensuring that Committee as a whole reflects views of entire region.

- Each stakeholder sector would select two candidates from different states
- To ensure regional diversity
 - ISO Board to select between candidates for each sector
 - Make additional appointments if necessary

The Transitional Committee would work out a plan for regional governance that is consistent with these principles.

- Charter from ISO Board regarding process, including open meetings
- Strive to complete work in nine to twelve months
- Plan must be approved by, at least, each state representative
- Following submission to Board and approval, Transitional Committee to oversee adoption of proposed corporate governance documents

4. Transitional Period: Modifications

- Remove concept of an initial Board
- Provides details on the process for transition

As revised, the proposal no longer calls for a transitional period, during which the Governor of California would continue to appoint Board members.

- Board members selected through a new regional process to be seated beginning within 18 months
- Transitional Committee to consider whether to extend terms of sitting board members
 - Weigh potential benefits of passing along institutional knowledge
- New board will be comprised of nine (9) members

5. Composition and Selection of Regional ISO Board: Modifications

- Describe two-step nomination and selection process
 - To be used for transition period at a minimum
 - Details developed by Transitional Committee

The Transitional Committee will develop a process for selecting board members.

- For the transition period, at least, board members will be selected in a two-step process
 - Nominating committee of stakeholders supported by an executive search firm
 - Nominees must be approved by a committee made up of voting members of the Western States Committee (i.e., state officials)

6. Establishment of Western States Committee: Modifications

- Changed name to Western States Committee (WSC)
- Composition of committee
- Provisions for filing with FERC on areas of primary authority
- Voting structure

The committee will not be limited to public utility commissioners.

- Representative can be any official selected by the state
- Should be familiar with utility regulatory or energy policy issues
- Includes non-voting representative of publicly-owned utilities
- Add non-voting representative of federal power marketing administrations

In recognition of these change, the name of the committee was changed to the “Western States Committee”

The scope of the Committee's authority over Section 205 filings has been revised to allow the ISO to file after "sustained inaction."

- Committee has primary authority over specific areas of transmission cost allocation and resource adequacy
- Scope to be defined by Transitional Committee
- Revised so that, even in areas of primary authority, ISO may file with prior approval of WSC in limited circumstances
 - Initial proposal had two exceptions related to reliability
 - Revised proposal added exception for "sustained inaction"

The Transitional Committee will develop a voting rule for the WSC's exercise of primary authority.

- Original proposal suggested a voting rule similar to WIRAB
 - Proposal must be approved by both a majority of states and a majority of load
- Revised proposal leaves voting rule to be determined by the Transitional Committee
 - Must include some form of weighted voting for deciding issues within Committee's primary authority
 - Other Committee decisions would not require weighted voting

7. Stakeholder Processes and Participation: Modifications

- No substantive change
- Transitional Committee to consider, including
 - Possibility of a “market advisory committee” of stakeholder representatives
 - Funding for consumer advocates
 - Other improvements

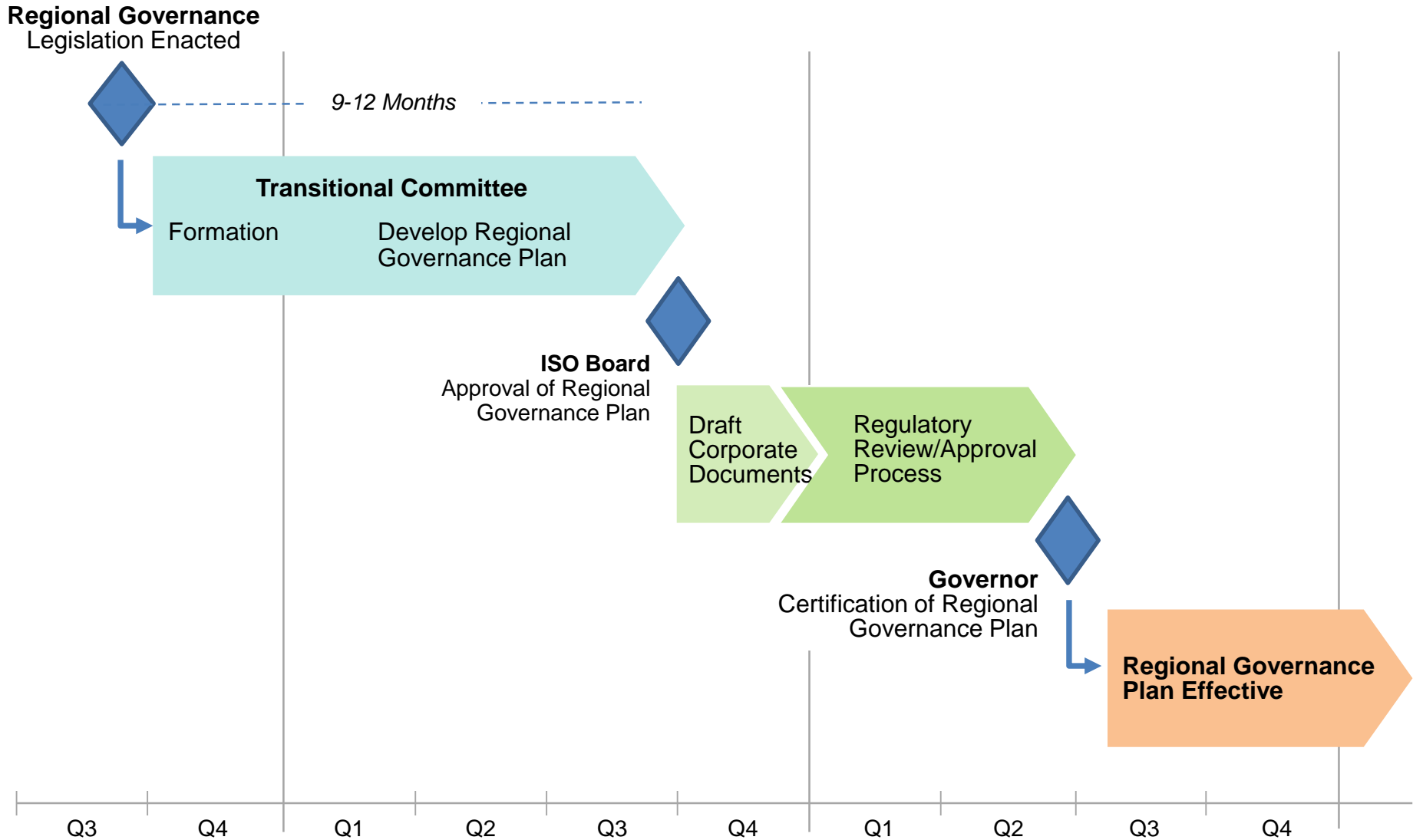
8. New Principle in the Revised Proposal: Requirement for Plan to Become Effective

- Development of plan by Transitional Committee
 - Must be approved by every state representative, at least
- Approval by ISO Board
- Development of governance documents
- Obtain regulatory approvals
- Approval by Governor of California

Approval by the Governor of California would involve a certification to the Legislature

- Governor would certify regional governance plan
 - Complies with these principles
 - Is in best interest of California and its ratepayers

Possible Timeline for Regional Governance Plan



SB350 and ISO Reference Material

- California Energy Commission docket 16-RGO-01
http://www.energy.ca.gov/sb350/regional_grid/documents/index.html
- Senate Bill No. 350 - Clean Energy and Pollution Reduction Act of 2015
https://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill_id=201520160SB350
- Fast Facts – Benefits of a regional energy market
<http://www.aiso.com/Documents/2015RegionalBenefitsFactSheet.pdf>
- ISO's Regional Energy Market webpage
<http://www.aiso.com/informed/Pages/RegionalEnergyMarket/BenefitsofaRegionalEnergyMarket.aspx>