

COMMENTS REGARDING CAISO’S RELIABILITY COORDINATOR RATE DESIGN, TERMS AND CONDITIONS DRAFT FINAL PROPOSAL AND ASSOCIATED DOCUMENTS

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CAISO issued its Reliability Coordinator Rate Design, Terms, and Conditions Straw Proposal Stakeholder Comments and CAISO Responses on May 31, 2018. This document included a draft Pro Forma Reliability Coordinator Service Agreement (RC Services Agreement). CAISO then issued its Reliability Coordinator Rate Design, Terms And Conditions Draft Final Proposal on June 20, 2018. Additional issuances by CAISO included the RC Onboarding Timeline – Onboarding External and the RC Onboarding Customer Checklist External Draft. As part of its market notice and meeting on June 27, 2018, CAISO requested that comments on these be returned by July 11, 2018. Arizona Public Service Company (APS) appreciates the opportunity to provide comments on the aforementioned documents and provides its comments on each document below.

Reliability Coordinator Rate Design, Terms, and Conditions Straw Proposal Stakeholder Comments

APS’s comments on the Reliability Coordinator Rate Design, Terms, and Conditions Straw Proposal Stakeholder Comments are focused on the RC Services Agreement. As an initial premise, APS is concerned about the default billing approach proposed in the RC Service Agreement. In particular, without agency or other agreements or documentation, the billing of a Balancing Authority (BA) for all Transmission Operators (TOPs) and Transmission Owners (TOs) in its Balancing Authority Area (BAA) could result in such BAs being responsible for RC services costs associated with other entities and that are uncollectable by such BAs. For example, in APS’s BAA, there are numerous TOPs and TOs that are unaffiliated with APS. Defaulting the billing of costs to the BA and allowing TOPs and TOs to “elect” their billing option without any agency, affiliation, or other agreement could result in BAs being assessed RC services costs for unaffiliated entities without an opportunity to recoup or re-allocate such costs. As an additional initial premise, APS notes that the RC Services Agreement places obligations on the BAs, TOPs, and TOs to ensure compliance with the North American Electric Reliability Corporation (NERC) reliability standards, but places no similar obligations on CAISO. These concerns are addressed in more detail below.

1. Section 1.1.4 – NERC Definitions is not a term that is utilized in the RC Services Agreement with the exception of where it is defined in Section 1.1.4. APS recommends placing this as a preamble prior to Section 1.1 or revising it from defined term format and inserting it as Section 1.1 and moving the Specific Definitions to Section 1.2.
2. Section 2.2 – To ensure that CAISO’s obligation to remain compliant with all applicable NERC reliability standards is acknowledged, APS recommends revising Section 2.2 as follows: The CAISO agrees to provide RC Services to the RC Customer, commencing on the RC Services Date, in accordance with Section X.X of the CAISO Tariff and in compliance with good utility practice and the applicable NERC reliability standards.
3. Section 2.4 – To ensure that CAISO and its RC services customers remain aware of the relationships between BAs, TOPs, and TOs and to ensure the accurate billing and allocation of RC services costs, APS recommends revising Section 2.4 as follows: Each RC Customer that is a Balancing Authority will provide the CAISO with a list of the Transmission Operators and corresponding Transmission Owners it is representing for RC Services in Schedule 1. Each RC Customer that is a Transmission Operator, ~~it~~ will provide the CAISO with a list of the Transmission Owners it is representing for RC Services in Schedule 1 and shall identify the Balancing Authority Area in which it and any Transmission Owners is located. Any changes to Schedule 1 will not constitute an amendment to this Agreement.
4. Section 3.2.1 – APS is concerned that, where a technical issue has impacted the RC services customer’s ability to meet its obligations, a thirty (30) day cure period may not be adequate to implement a full remedy. To address this concern, APS recommends that Section 3.2.1 be revised as follows: In the event the RC Customer commits any material default under this Agreement, which, if capable of being remedied, such remedy has not been commenced or agreed upon between the RC Customer and CAISO within thirty (30) days after the CAISO has given written notice to the RC Customer of the default, the CAISO may terminate this Agreement upon thirty (30) days prior written notice of termination. Any outstanding financial right or obligation or any other obligation under the CAISO Tariff of the RC Customer that has arisen while that RC Customer was receiving services under this Agreement, and any provision of this Agreement necessary to give effect to such right or obligation, will survive until satisfied. With respect to any notice of termination given pursuant to this Section, the CAISO must timely file a notice of termination with FERC, or must otherwise comply with the requirements of FERC Order No. 2001 and related FERC orders. The filing of the notice of termination by the CAISO with FERC will be considered timely if: the filing of the notice of termination is made after the preconditions for termination have been met, and the CAISO files the notice of termination within sixty (60) days after issuance of the notice of default. This Agreement will terminate upon acceptance by FERC of such a notice of termination, or thirty (30) days after the date of the CAISO’s notice of default if terminated in accordance with the requirements of FERC Order No. 2001 and related FERC orders.

5. Section 3.2.3 – APS is concerned about the requirement for RC services customers to pay for transition assistance. This is especially concerning where a transitioning customer is transitioning as a result of default. APS respectfully asserts that, as a RC, CAISO has an obligation to ensure the reliability of its RC area and a broader obligation to the reliability of the western interconnection. For this reason, APS recommends the following revisions to Section 3.2.3: ~~The CAISO will reasonably assist the RC Customer to transition to another Reliability Coordinator prior to the effective date of the transition, including providing data and assistance, provided that the RC Customer will reimburse the CAISO for its reasonable costs for such assistance.~~
6. Section 4.1 – APS seeks clarification from CAISO on how penalty allocations to a non-federal governmental entity such as Bonneville Power Authority will be handled, e.g., will their NEL be considered in the overall allocation of penalties and amounts allocated to them be considered uncollectable, will their NELs be excluded and such amount allocated across the remaining population of payers, or will another allocation method be utilized.
7. Section 5.2 – APS understands the ability to elect billing preferences; however, it reiterates its initial concern that elections relative to billing must be validated and verified with the affected entities. Hence, APS recommends that a BA only be billed for TOPs for which it acknowledged inclusion in its billing through its provision of its Schedule 1 and a TOP only be billed for TOs for which it acknowledged inclusion in its billing through its provision of its Schedule 1. Accordingly, APS recommends revision of Section 5.2 as follows: If the RC Customer is a Balancing Authority, or if it is a Transmissions Operator who elects to be billed directly in exchange for the RC Services provided by this Agreement, said RC Customer will be invoiced for RC Services in accordance with Section X.X of the CAISO Tariff and its Schedule 1 and will have the right to dispute the RC Services invoiced amount in accordance with Section X.X of the CAISO Tariff. If the RC Customer is a Transmission Operator and does not elect to be billed directly, the costs for its RC Services will be borne by its Balancing Authority in accordance with the Balancing Authority’s Schedule 1. If the RC Customer is within the CAISO Balancing Authority Area, the Transmission Operator will be billed in accordance with Section X.X of the CAISO Tariff.
8. Section 8.1 – Given the number and complexity of interdependent, inter-related compliance obligations between the RC and its associated BAs, TOPs, and TOs, APS recommends that Section 8.1 be revised to ensure that liability for such compliance obligations be placed on the entity responsible for a particular alleged violation. To address this, APS recommends that Section 8.1 be revised as follows: Except as expressly provided in this Agreement, neither Party will be liable to the other Party under any circumstances, whether any claim is based in contract or tort, for any special, consequential, indirect or incidental damages, including, but not limited to, lost profits, loss of earnings or revenue, loss of use, loss of contract or loss of goodwill, arising out of

or in connection with this Agreement or the services performed in connection with this Agreement.

The Parties each remain responsible for compliance with all NERC Reliability Standards applicable to them pursuant to their individual respective registered functions; provided that nothing in this Section affects the Parties' rights under the NERC Rules of Procedure to seek direct assignment of violations and/or penalty costs assessed against either Party for confirmed violations of NERC Reliability Standards where the other Party has been found to be the direct or contributing cause of the confirmed violation. Further, where a Party has been found responsible for or contributing to another Party's violation, the Party found responsible for or contributing to such violation agrees to indemnify the other Party for any and all penalties and/or sanctions that resulted from its action, inactions, omissions, etc., including, but not limited to, assessed penalty amounts, costs for mitigation activities and/or corrective action plans, administrative costs associated with the enforcement process (including legal and other administrative fees and costs) except in cases of gross negligence or willful misconduct by the other Party. Notwithstanding the foregoing, this indemnification is solely limited to confirmed violations that are assessed as a result of or in association with the performance of Services under this Agreement. Any other confirmed violations that either entity is assessed for activities unrelated to this Agreement that are undertaken by an entity in fulfillment of its obligations under its respective functional registrations shall not be within the scope of this Section. Parties agree to mitigate such costs to the extent practicable and to cooperate fully to provide each other the information, documentation and assistance as necessary to determine responsibility and indemnification under this Section.

9. Section 8.3 – APS respectfully asserts that any other Party to the RC Services agreement could suffer a loss resulting from third party claims. To ensure that all parties have the appropriate ability to recover such losses, APS recommends revision of Section 8.3 as follows: To the extent that a Party suffers any loss as a result of any third party claims arising out of the performance of this Agreement in violation of Section 8.2 herein, the Party will be entitled to seek recovery of such loss against responsible parties. CAISO shall be entitled to seek recovery of such loss through Section 14 of the CAISO Tariff, and, for the purposes of this Section only, RC services customers shall be considered Market Participants under Section 14 of the CAISO Tariff.
10. Schedule 1 – APS recommends that CAISO revise Schedule 1 to add an additional field for the identification of the entities' associated BA.

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Stakeholder Comments and CAISO Responses

1. Section 2, p. 7 – APS is unaware of a current requirement for RCs to submit a reliability plan. Please provide the applicable NERC reliability standard or requirement under which this plan will be developed, submitted, and approved.
2. Section 5, p. 11 – It is unclear as to whether CAISO intends to “certify” its RC customers as “ready” or “prepared” to take RC services. APS understands the need to ensure that RC customers have implemented all necessary systems, system changes, procedures, etc. to transition to the CAISO as the RC. APS has reviewed the RC Onboarding Customer Checklist External Draft and understands its foundation and basis; however, APS seeks clarification on the process CAISO will utilize to “certify” its customers.
3. Section 6.2, p. 16 – APS seeks clarification of exclusion of energy storage facilities from the NEL calculation. The input into and output from such a facility should be near net zero and should not, therefore significantly skew a BA’s NEL. However, such exclusion could skew the cost allocation amongst BAs based on their NEL. More specifically, a BA with a higher concentration of energy storage facilities could have an NEL calculated that is artificially low, resulting in the NEL of other BAs being assigned a proportionally larger share of the overall costs of RC services, which increase would not be tied to that BA’s increased NEL, but rather to the increase in energy storage facilities in another BA. For this reason, APS recommends that CAISO reconsider the exclusion for energy storage facilities and/or provide its rationale behind the proposal made in Section 6.2.
4. Section 7.1, p. 19 – APS seeks clarification that only the payment schedule will be publicly posted. If any additional information is intended to be publicly posted, APS requests that CAISO identify such information.
5. Section 7.2, p. 20 - The RC Services Agreement provides remedies for CAISO to seek repayment for defaulted obligations from the defaulting RC services customer. However, Section 7.2 provides that payment of a RC services customer default amount will be allocated to the remaining active RC services customers. As indicated previously, such a process for re-allocation of defaulted amounts without provision of a mechanism through which the remaining, active RC customers could seek repayment of any additional allocation is untenable, unsustainable, and does not incentivize prompt payment and repayment of defaults. Further, where CAISO has already collected a defaulted RC services customer from other RC services customers, its ability to collect such defaulted amounts would likely be compromised. Accordingly, the current proposal in Section 7.2 contradicts and undermines the default resolution process and remedies proposed in the RC Services Agreement. This could result in neither CAISO nor the remaining, active RC services customers being able to collect defaulted amounts, rendering defaults uncollectable and de-centivizing prompt payment.

6. Section 8, p. 20 – APS requests clarification of the proposed updates to the outage management business practice manual. The outage coordination requirements and obligations of a RC differ from that of CAISO as a Market Operator and, as such, additional revisions may be necessary.

RC Onboarding Timeline – Onboarding External

1. APS requests clarification of what the BA/TOP Application Development entails.