



Reliability Coordinator Services Rate Design, Terms and Conditions Straw Proposal Comments from Arizona Public Service

Company	Contact Person	Date Submitted
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APS would like to thank the California ISO (CAISO) for the opportunity to comment on the document posted April 5, 2018, entitled Reliability Coordinator Rate Design, Terms, and Conditions.

I. RELIABILTIY COORDINATOR SCOPE OF SERVICES

The CAISO should seek a direct joint management agreement with other RCs in the Western Interconnection and the tool provider for joint-use tools such as Western Interchange Tool (WIT) and Enhanced Curtailment Calculator (ECC).

II. RELIABILITY COORDINATOR OVERSIGHT

APS supports the concept of the RPSC; however, CAISO should provide further clarification relative to the reporting structures between the RPSC and the lower-level sub-committees and working groups. APS would like the RPSC to receive emails on a regular basis (suggestion: weekly) with updates from progress/meeting minutes from working groups and task force.

Further, how consensus regarding recommendations and/or issues will be achieved when/if a discrepancy arises either amongst the members of the RPSC or between working groups is also an important concept upon which CAISO should expound. If a shared consensus cannot be achieved, then majority and minority opinions are documented. If opinions are split relatively evenly, default to approach that aligns most closely with current Peal process for simplicity.



In addition, the methods and timing of provision to recommendations to CAISO as well as feedback to the RPSC from CAISO on such recommendations must be further detailed along with the dispute resolution process should the RPSC and CAISO be unable to reach consensus. APS suggests that CAISO work directly with RPSC to develop an appropriate structure, robust communication methods, feedback loops, and equitable representation for CAISO BA versus non-CAISO BA entities.

To increase efficacy of this leadership committee, APS would like to recommend two additional project elements:

- 1) The implementation of two co-chair positions for the RPSC Leadership. One would be from the North and one from the South part of the Western Interconnection with the dividing line being the Northern border of California, Nevada, Utah, and Colorado (California entities would be part of the southern group) and;
- 2) The engagement of a third-party Quality Assurance entity to oversee the CAISO RC project and provide independent progress reports to the RPSC. The CAISO would issue the RFP approved by both the CAISO and the Ad Hoc Task Force approved by the RPSC. The RFP recommendation and costs to be approved by the RPSC.

Finally, APS requests additional clarity and information from the CAISO regarding the plan to develop a long-term oversight committee.

III. RELIABILITY COORDINATOR SERVICE AGREEMENTS

- A. General: The current proposal outlines that Balancing Authorities would be required to sign the Reliability Coordinator Service Agreement; however, APS would prefer the TOPs within the CAISO BA be obligated to sign the Reliability Coordinator Service Agreement.

A draft of the Reliability Coordinator Service Agreement and any associated CAISO tariff language should be made available soon for comment.

- B. Onboarding: APS recommends that CAISO provide clarity regarding whether their single official start date is applicable only to internal CAISO RC customers or whether such date also considers the potential integration of external entities. If there is a differentiation, CAISO should clarify the approximate official start date for non-CAISO entities. The RPSC preference is to have a single implementation date for all entities expressing interest and that date should be the lowest common denominator of readiness of all entities that commit.



To ensure interconnection reliability, APS would like the transition plan to include a coordination plan amongst all of the Western Interconnection RCs to assure complete coverage of all Balancing Authorities and Transmission Operators.

Exiting: The exit provision should be expanded from 6-month advance written notice to 12-months. This will allow for entities the time necessary to adjust annual budgets accordingly and otherwise prepare for exit. In addition, strike the sentence “This is to ensure adequate preparation and resources, as well as recognize seasonal challenges during the winter and summer months” as it is unnecessary with a longer withdrawal period.

IV. RELIABILITY COORDINATOR FUNDING REQUIREMENT AND RATE DESIGN

APS understands that the CAISO sets its revenue requirements pursuant to its stakeholder process and that it has proposed to manage RC services costs as part of the “other cost and revenue” category; however, as RC services customers will represent a small segment of CAISO’s overall stakeholders, APS is concerned that RC services customers will be unable to discern and/or influence those portions of the revenue requirement that are RC services focused. What input will the RC Service members have into the budgetary process? Specifically, will RC members vote and approve RC-related items presented during the stakeholder process? APS suggests that CAISO clarify how RC services will be addressed during its overarching stakeholder processes.

- A. RC Operating Budget: APS requests transparency in the benchmarking efforts used to determine the proposed CAISO RC staffing levels. In addition, we request a review of the September 8, 2011 event findings for Peak.

Lastly, transparency is requested regarding analysis of geographic diversity of control centers.

- B. RC Operating Budget Reserve: The proposed 10% cumulative cap of the current RC Operating Budget is determined to be too high. The regulatory lag is currently greater than eighteen months; therefore an acceptable cap should be 3-5% unless approved by RC Customers for special assessment.

The intended use of this reserve appears to be focused solely on penalties, which is inappropriate based on the CAISO’s current Section 14.7, which requires prior authorization before passing penalties through to stakeholders. Therefore, APS recommends that the CAISO consider what other uses the



reserve would have and the criteria that should be met before such use would be authorized.

The RC Operating Budget contingency should be used to cover RC Customer defaults for no more than 3 months in lieu of increases.

- C. FERC, NERC and WECC Penalties: The CAISO Open Access Transmission Tariff (“OATT”) establishes the process by which the CAISO may seek to allocate reliability-related penalty costs assessed by FERC, NERC, and/or WECC to specific entities and to recover costs associated with such penalties from the CAISO Market Participants. This process currently allows the CAISO to directly allocate penalties “[t]he CMEP proceeding, or enforcement proceeding directly instituted by FERC, results in a finding that the conduct or omission(s) of the Market Participant(s) subject to potential direct allocation contributed, either in whole or in part, to the Reliability Standards violation(s) at issue,” and “[a]ny findings by NERC and/or WECC regarding whether the conduct or omission(s) of the Market Participant(s) contributed, either in whole or in part, to the Reliability Standards violation(s) at issue are filed with FERC.” As enforcement actions are confidential, the NERC Rules of Procedure are prescriptive relative to identification of a responsible or contributing party, and all such customers are unlikely to be assessed as “at fault” or “contributing,” RC Customers would be unable to engage in a dialogue relative to alleged violations that could be attributable to more than one registered function.

Otherwise, any violations assessed to the CAISO are assessed against the CAISO Market Participants as proposed in the CAISO’s filing with the Commission to approve an allocation. APS is concerned that – given the overlap of functions, activities, software, and personnel - “direct allocation” of a reliability coordinator-focused penalty could result in an inequitable cost shift of such penalties from the CAISO Market Participants as a whole to RC Customers despite the benefits of the provision of RC services being distributed far beyond the RC service customer population. Further, for those RC Customers that are also Market Participants, there is a potential for double allocation of penalties should the CAISO simply amend its OATT to address RC Customers as a “class” similar to “Market Participants.”

For these reasons, APS does not support a pass-through of allocated penalties to RC Customers only as proposed in the Straw Proposal. These costs will need to be socialized amongst all RC Customers and Market Participants with a true up to ensure that an RC Customer that is also a Market Participant is not allocated a portion of the same penalty twice. Furthermore, the CAISO’s leadership should be accountable for non-



compliance which should not always be allocated pursuant to Section 14.7 – especially where the CAISO is found to be negligent.

RC Revenue Adjustment

The Straw Proposal states that the development of the RC rate will include an annual RC Revenue Adjustment. To ensure that entities are able to budget appropriately, APS proposes an annual cap of 3% to the year-over-year increases in RC services costs unless the expense is an unexpected service cost or is approved by RC Customers. Any increases also need to be transparent (including where related to shared applications with Reliability Coordinators).

- D. RC Billing Data: Process for providing NEL data can be no more burdensome than we already have today. CAISO should establish processes through which all NEL and NG estimates and forecasts utilized for billing purposes are validated on an appropriate frequency.

Minimum Charge: APS requests additional clarity on how the minimum charge was determined. Will this figure fluctuate based on expenses? What are the thresholds/criteria for determining a low MWH volume of generation or load? Finally, APS requests that the CAISO explain how these minimum charges will be allocated in terms of operating reserve versus direct cost payment.

- E. RC Quarterly Rate Adjustments (if required): How will the excess (under 5%) collected be utilized? Will interest be paid back to the funders?

V. RELIABILITY COORDINATOR SETTLEMENT PROCESS

The calculation of billing determinants (NEL/NG) should be no more burdensome than the current Peak RC process, which is an annual calculation and requests a change from the proposed monthly invoice to an annual invoice in advance of RC services.

- A. Payment Default: APS requests an invoice payment terms revision from due on the 5th business days to within 21 business days. Further, a \$1,000 late penalty payment is excessive. APS suggests the use of a percentage of the invoiced amount that is applied after 21 business days.



In the event of an RC Customer default, APS suggests 3 months of potential rate adjustments be funded out of reserves prior to re-allocation. To ensure that RC customers are appropriately incentivized for payment, provide RC customers to whom unpaid amounts are re-allocated a private right of action against the defaulted customer to recoup those amounts.

Further, reliability needs to be the utmost consideration when a customer is in default. Thus, immediate suspension of RC services is not a reliable method of operation and fears that there could be adverse impacts to the Western Interconnection if the Straw Proposal is implemented as written relative to defaulting customers. APS suggests the RC Service agreement include provisions that allow CAISO to terminate its provision of services (pursuant to terms similar to those allowed for other parties) for a RC Customer that has been unable to cure its default status after six (6) months. In addition, APS requests the CAISO review its default timing to ensure consistency with overall billing/invoicing timelines; review the potential for use of reserves to address short-term defaults, and its actions following a default.

VI. BUSINESS PRACTICE MANUALS

APS is uncertain that the listed business practice manuals represent the only manuals or modifications that would be required to appropriately incorporate RC services.

VII. APPENDIX 3: SUPPLEMENTAL SERVICES

- A. Hosted Advanced Applications: Funding received from RC Customers utilizing Hosted Advanced Applications should be credited to RC Services-related ABC process and task codes to properly offset costs by RC Service members.