

## Reliability Coordinator Services

### Rate Design, Terms and Conditions Straw Proposal

#### COMMENTS TEMPLATE

Company	Contact Person	Date Submitted
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Please use this template to provide your written comments on the stakeholder initiative  
**“Reliability Coordinator Services Rate Design, Terms and Conditions”**

Submit comments to [initiativecomments@caiso.com](mailto:initiativecomments@caiso.com)

**Comments are due May 4, 2018 by end of day**

The straw proposal that was posted on April 5, 2018 and the presentation discussed during the April 12, 2018 stakeholder meeting can be found on the following webpage:  
[http://www.caiso.com/informed/Pages/StakeholderProcesses/ReliabilityCoordinatorServicesRateDesignTerms\\_Conditions.aspx](http://www.caiso.com/informed/Pages/StakeholderProcesses/ReliabilityCoordinatorServicesRateDesignTerms_Conditions.aspx)

Please identify which topic your question relates to as part of your comments.

The Balancing Authority of Northern California (BANC) and the Sacramento Municipal Utility District (SMUD), hereafter collectively the “Parties,” appreciate the opportunity to comment on the document posted April 5, 2018, entitled “Reliability Coordinator Rate Design, Terms, and Conditions Straw Proposal” (Straw Proposal) by the CAISO.

In the Straw Proposal, the CAISO has provided an overview of the proposed rate design, terms and conditions for the Reliability Coordinator (RC) services it intends to provide beginning in the fall of 2019. CAISO plans, in addition to providing RC services

to all transmission operators (TOPs) within CAISO's balancing authority (BA), to make RC Services available to BAs outside of the CAISO BA area (BAA) and to TOPs within those external BAAs.

As part of its stakeholder process, CAISO has asked stakeholders to respond with any comments or questions. CAISO has indicated that it intends to produce a final draft proposal to the CAISO Board of Governors for their review and approval. After Board approval, CAISO will then develop relevant tariff amendments to be filed with FERC.

BANC, as a registered BA, and SMUD, as a registered TOP, have obligations to maintain the reliability of their electric systems, and preserve and contribute to the reliability of the bulk electric system (BES) for the entire Western Interconnection. Ultimately, it is the RC that has the utmost responsibility for reliability of the BES within its RC footprint. This is a significant obligation. It requires the operating tools, processes and procedures necessary to have the wide area view of the BES, and the knowledge to prevent or mitigate emergency operating situations.

To meet the responsibility of maintaining a reliable grid for the Western Interconnection, the Parties recognize that a single RC for the entire interconnection would be a preferred model for reliability. Managing seams issues among multiple RCs could be a concern. However, if the West cannot retain a single Reliability Coordinator, the Parties are committed to engaging in this process to make sure that its choice for RC services provides the robust framework for sustainable independent decisions driven by the best interests of the Western Interconnection. It is our expectation that everyone engaged in this process will keep the focus on reliability as our mutual paramount consideration.

CAISO is currently working with BAs/TOPs, both inside and outside of its BAA, to develop operating procedures, specific technical requirements and other technical elements that are necessary to stand-up an RC that will meet NERC certification requirements. In order to ensure these critical objectives are achieved, this effort will take time and diligence on the part of all the stakeholders.

The Parties are concerned that it may be too early in the process to define the rate design related to RC services, given that many technical issues remain to be defined that could influence staffing and other support requirements. In addition, we would like to have the opportunity to work with the CAISO to validate that its plan for staffing the RC function is sufficiently robust for a sustainable operation. Clearly, the cost savings is a key benefit that the CAISO is touting in its provision of RC services relative to other alternatives. The Parties would like to have greater confidence that the CAISO has adequately designed its shifts and staffing to manage services without having to later

increase its staffing levels to manage issues that should have been identified today. To this end, we believe that CAISO should engage an independent expert immediately to offer guidance and advice on whether the staffing plan is adequately sized for long-term sustainable operations.

Prioritizing this task will mean that the CAISO will need to reconsider how it has ordered services roll-out, which calls for relatively early rate development and filings at FERC.

Finally, in addition to offering comments on the Straw Proposal, the Parties would like to note that we believe the issue of governance is one that should be addressed in the near term so that this can be factored in to our final decision on which RC service provider to join in the future. Therefore, we are taking the opportunity presented by these comments to make some requests of the CAISO related to RC governance.

### **RC Implementation Oversight**

The Parties support the idea of the interim Reliability Coordinator Project Steering Committee (RPSC); however, CAISO should provide clarification as to the reporting structure between the RPSC and lower-level sub-committees and working groups. The Parties are concerned that significant time and resources are being devoted to each of these working groups. We need to ensure that the efforts of these groups are productive.

The Parties recommend that the CAISO clarify the interaction between the RPSC and the long-term oversight committee; including how and when the transition between these two oversight bodies will occur.

Additionally, the Parties seek more information as to how consensus regarding recommendations and issues will be achieved if a discrepancy arises either amongst the members of the RPSC or between working groups. The Parties believe that it is in the best interest of all stakeholders for the RPSC to work toward consensus wherever possible. However, in the event that a consensus cannot be reached, we recommend that all opinions be documented. To the extent that there is a relatively even split in opinion, we further recommend that the parties look to best practices among other RCs as a possible way to resolve the differences.

As part of the implementation phase, CAISO must elaborate on the methods and timing of communication of recommendations between the RPSC and CAISO Staff. For example, how the RPSC will receive feedback from CAISO staff and the dispute resolution process in the event RPSC and CAISO fail to reach consensus, are issues that must be further detailed. Moving forward, the Parties suggest that CAISO staff work directly with the RPSC to develop an appropriate reporting structure, open and transparent communication, and equitable representation of geographic areas on

current and future oversight bodies.

The RC implementation project schedule and product quality is critical to the entities procuring services from the proposed CAISO RC. As such, the Parties support the use of a third-party Quality Assurance consultant to observe and track all elements of the project. This consultant would report directly to the RPSC. Selection of the consultant would be accomplished by a Request for Proposal process developed by the CAISO and approved by a task force appointed by the RPSC. The RPSC appointed task force, along with the CAISO, would approve the consultant selected.

With respect to future oversight bodies, the Parties strongly believe that the proposed governance framework for the RC function needs to be addressed up front so that entities evaluating options for provision of RC services can consider how decisions will be made and who will be making them. Independence, experience and depth in the Western Interconnection will be critical to thoughtful oversight of the RC; we do not believe that the CAISO's current governance structure can adequately support the independent oversight of the RC function. It is not clear whether or how the RPSC would factor in to a long-term governance structure and the Parties request that the CAISO work closely with the RC service customers to clearly define the long-term governance structure.

### **RC Services Agreement**

In the Straw Proposal, CAISO indicates that all "BAs will be required to enter into a Reliability Coordinator Service Agreement (RCSA) with the CAISO to receive RC services." Further, the proposal states, "the CAISO will develop a *pro forma* RCSA which would obligate the CAISO to provide the RC services and the RC Customer to pay for the RC services it receives from the CAISO pursuant to the rate design, terms and conditions included in the CAISO tariff." This *pro forma* agreement would then be filed with FERC.

BANC and SMUD, like several other public power entities within the Western Interconnection, are not subject to FERC jurisdiction. Additionally, we have seen no compelling argument that the terms of an RC services offering are necessarily subject to FERC jurisdiction that would necessitate this approach. For these reasons, we seek to understand why the CAISO believes the RCSA should be a *pro forma* agreement that is filed with FERC, rather than a standardized bilateral contract that the CAISO enters into with entities receiving RC services. We also seek to understand what provisions related to the RC function the CAISO believes need to reside in its Tariff, and the reasons therefore. In order for the Parties to provide any substantive comments on this topic, the CAISO will need to provide the draft form of the RCSA as soon as possible.

### **Reliability Coordinator Onboarding, Initial Commitment, and Exiting Terms**

- A. Onboarding:** According to the Straw Proposal, CAISO is proposing staggered onboarding integration with an official single start date in the fall of 2019. It is unclear if this single official start date is applicable only to internal CAISO TOPs or to all entities that express interest in the initial CAISO RC service offering. The Parties recommend that CAISO choose a single implementation date for all entities who will be a part of the initial offering, and, that the date is the lowest common denominator of readiness for all entities that commit.

Furthermore, onboarding should include a detailed transition plan that ensures coordination among RCs and complete coverage of all BAs and TOPs. Under no circumstances can CAISO's transition to an RC services provider leave any BA or TOP without an RC for even a short period of time. We understand that there may be discussions under way to plan for transitional services and ensure that no entities are stranded as part of any evolution of RC services in the Western Interconnection; greater transparency around this process would be helpful.

- B. Exiting Terms:** The Straw Proposal suggests a six-month notice provision in order for an entity to withdraw from the RC. The Parties believe that six months is not enough time to allow other entities to plan and adjust annual budgets accordingly. For that reason, we suggest that the exit notice provision be one year. Furthermore, entities should only be able to provide notice of withdrawal at specified times during the year (perhaps one date in the spring and another in the fall) and said times should align with entrances into the RC, if any.

### **Reliability Coordinator Funding Requirement and Rate Design**

In the Straw Proposal, CAISO proposes to manage RC services costs as part of its revenue requirement. We appreciate that the CAISO sets its revenue requirement pursuant to its stakeholder process, which, in theory, should allow for input and feedback by RC services customers. However, we are concerned that because RC services customers will represent a small segment of CAISO's general stakeholder pool, that RC services customers will be unable to determine or influence those portions of the revenue requirement that are specific to RC services. The Parties request clarification as to what role the CAISO envisions RC services customers playing in the stakeholder process, and how that process will be run. As we note below, we strongly believe that independent governance is key to structuring RC services, and believe that an RC governing board formed as proposed below should have the authority and sole obligation to approve the budget for RC services.

- A. Funding Requirement:** The Parties propose a 3% cap on year-over-year increases unless approved by the RC services customers for a special assessment. CAISO should provide transparency into any benchmarking that was done to develop the initial staffing proposal, including a review of the September 8, 2011 event findings for Peak and an explanation as to how the CAISO plans to address these findings. Furthermore, CAISO should provide transparency into the analysis that was undertaken on the geographic diversity of its current control centers. Specifically, we would like to understand why the CAISO is confident that the locations provide sufficient insulation from common large-scale events such as wildfires, earthquakes or severe storms that may affect control center staff (including how they plan to staff both control centers simultaneously) or affect the operation of the two centers themselves.
- B. RC Operating Budget Reserves:** CAISO proposes that the RC Operating Budget Reserve will be 2% of the annual RC operating budget with a cumulative cap of no more than 10%. The Parties believe that the proposed 10% cumulative cap for reserves is too high, and the CAISO has not offered sufficient justification for collecting and retaining that amount of reserve. In our experience, a more appropriate cap would be 5% with an operating budget reserve between 3-4% of the current RC Operating Budget.
- C. FERC/NERC/WECC Penalties:** As stated in the Straw Proposal, “the CAISO tariff sets forth a process by which the CAISO may seek, with FERC approval, to allocate reliability-related penalty costs assessed by FERC, NERC or WECC to specific entities whose conduct was found to have contributed to such penalty and to recover costs associated with such penalties from CAISO RC Customers.” The Parties understand that the CAISO tariff currently allows it to make a filing at FERC to allocate penalties to the entity whose conduct gave rise to the event. However, we do not understand how this framework would work in the provision of RC services where the RC itself is penalized, and do not support this translation of the CAISO tariff provision to the RC function. At this early juncture we believe a better model is one where the cost of any penalty or remedial action is allocated among those receiving RC services along the same formula as annual expenses. We do not see a framework where the RC pursues entities receiving services for allocation of costs as a beneficial one or one where the time spent in the filing to authorize the recovery of funds is warranted. Finally, as is common with entities needing to prioritize reliability above all else, the Parties believe that the CAISO should propose a structure whereby the incentive compensation of key leadership and management is directly affected in the event of penalties and non-compliance events associated with the provision of RC services.

- D. Minimum Charge:** The Parties seek clarification as to how the minimum charge was developed. CAISO should provide more information regarding the formula for determining this charge, whether the figure will change based on expenses and what threshold/criteria will be used to determine a low MWH volume of generation or load.
- E. Revenue Adjustment:** The Parties seeks clarification as to how the quarterly adjustment would be used and whether interest would be paid back to funders in the event of a refund.

### **RC Settlements Process**

The CAISO proposes to invoice BAs monthly for RC service with five-day terms. The Parties suggest that CAISO instead bill annually (as Peak does today) with a quarterly option (except as necessary for federal entities to meet statutory obligations, in which case monthly payment in arrears). This will allow for consistency and continuity of billing processes for RC services customers. Further, the calculation of billing determinants (NEL/NG) should be no more burdensome than it is today in the Peak model. Peak performs an annual calculation and we suggest that CAISO do the same. Finally, it is simply not feasible for many entities to turnaround payment of invoices in five days' time. Furthermore, with an annual pre-payment for services, the CAISO should not need to collect on invoices this quickly. The Parties instead suggest a bill payment requirement of twenty-one business days.