

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

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

Public Utility District #1, Chelan County, WA (CHPD) 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 Straw Proposal.

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. The CAISO plans, in addition to providing RC services to all transmission operators (TOPs) within the 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 a BA and a TOP, CHPD has an obligation to maintain the reliability of its electric system, and preserve and contribute to the reliability of the bulk electric system (BES) for the entire Western Interconnection. Ultimately, the RC has the ultimate 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.

The best model for maintaining a reliable grid for the Western Interconnection is a single RC for the entire interconnection. We have serious concerns about the managing of seams issues among the RCs. However, if the West cannot retain a single Reliability Coordinator, CHPD is dedicated to engaging 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. We sincerely hope that everyone engaged in this process will keep the focus on this as our mutual paramount consideration.

CHPD is concerned that it is too early in the process to define rate design related to RC services, given that many technical issues remain to be defined. In addition, we would like the CAISO to validate that its plan for staffing the RC function is sufficiently robust for a sustainable operation. CHPD would like to have greater confidence that the CAISO has adequately designed its shifts and staffing to manage services, and that the CAISO will not have to increase staffing levels later to manage issues that should have been identified today. To this end, the 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.

Finally, in addition to offering comments on the straw proposal, CHPD reiterates its concerns about the CAISO's governance model. This is an issue of regional importance

that the CAISO should address right away. Therefore, we are including in our comments some requests of the CAISO related to RC governance.

RC Implementation Oversight

CHPD supports the idea of the interim Reliability Coordinator Project Steering Committee (RPSC); however, the CAISO should provide clarification as to the reporting structure between the RPSC and lower-level sub-committees and working groups. CHPD is concerned that significant time and resources are being devoted to each of these working groups and wants to ensure that the efforts of these groups actually bear fruit.

CHPD recommends 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, CHPD seeks 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. 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, CHPD recommends that both the majority and minority opinions be documented. To the extent that there is a relatively even split in opinion, the chosen approach should default to the one that aligns most closely with the current RC's (Peak's) approach to that issue.

As part of the implementation phase, the CAISO must elaborate on the methods and timing of communication of recommendations between the RPSC and CAISO staff. For example, the CAISO must describe in further detail how the RPSC will receive feedback from CAISO staff and the dispute resolution process in the event the RPSC and the CAISO fail to reach consensus. Moving forward, CHPD suggests 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, CHPD recommends that the CAISO retain a third-party Quality Assurance consultant to observe and track all elements of the project. This consultant would report directly to the RPSC. The consultant would be selected through 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, as noted below, CHPD strongly believes that the proposed governance framework for the RC function needs to be addressed up front. This way, entities evaluating options for provision of RC services can consider how decisions will be made and who will be making them. It is not clear whether or how

the RPSC would factor in to a long-term governance structure and CHPD requests that the CAISO elaborate on its thinking in this regard. Additionally, independence from the market operator, experience, and depth in the Western Interconnection will be critical to thoughtful oversight of the reliability coordinator. As noted in our letter of intent, and described in more detail below, the CAISO's current governance structure is not well-suited to adequately manage the RC function.

RC Services Agreement

In the straw proposal, the 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.

CHPD, like several other entities in the Western Interconnection, is a non-FERC jurisdictional entity. Additionally, the terms of an RC services offering do not require authorization from FERC. For these reasons, the best option for contracting for RC services is a bilateral contract. The CAISO should explain why it believes the RCSA should be a *pro forma* agreement that it would file with FERC, rather than a standardized bilateral contract that the CAISO enters into with entities receiving RC services.

Reliability Coordinator Onboarding

The CAISO is proposing a 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. CHPD recommends that the CAISO choose a single implementation date for all entities who will be a part of the initial offering, and that the date be the latest date 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 the 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 to ensure that no entities are stranded as part of any evolution of RC services in the Western Interconnection. The CAISO should provide greater transparency around this process.

RC Settlements Process

The CAISO proposes to invoice BAs monthly for RC service with five-day terms. CHPD suggests that the 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. 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 CHPD suggests that the CAISO do the same. Furthermore, it is simply not feasible for many entities to turnaround payment of invoices in five days' time. With an annual pre-payment for services, the CAISO should not need to collect on invoices this quickly. CHPD instead suggests a bill payment requirement of twenty-one business days.

Reliability Coordinator Funding Requirement and Rate Design

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.” CHPD understands 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. 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, the CAISO should propose an incentive structure where the 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 (as is common with entities that need to prioritize reliability above all else).

Long-term governance

The RC function needs its own governance structure, and the key staff providing RC services should report up to this RC-specific governing body. Decisions that drive the tools, investment and staffing to manage RC services provided to a diverse group of entities in the Western Interconnection need to be made independent of decisions that affect the markets operated by the CAISO. Oversight is best provided by a group of people, selected independently from the CAISO, with years of appropriate technical

experience. The current make-up and qualifications of the CAISO Governing Board are simply not designed with the RC function in mind.

Despite the fact that there is synergy with use of systems and tools, RC services is very much a distinct service from the rest of the services offered by the CAISO. As such, CHPD proposes that the CAISO form a separate company with a separate governing board to oversee the RC function. This board would be seven to nine representatives of the balancing authorities and transmission operators receiving RC service. To provide additional transparency and ability to evaluate RC operator decisions, we also propose that the CAISO retain an independent expert to provide advice and guidance to the RC governing board and RC staff.

We are happy to engage immediately with the CAISO and other stakeholders to discuss this concept in more detail. CHPD strongly believes that governance is an issue that should be addressed immediately and we suggest that the CAISO plan to have a governance proposal to stakeholders for review no later than May 21.