

**Reliability Coordinator Services  
Rate Design, Terms and Conditions Straw Proposal  
Comments of NaturEner USA, LLC**

Company	Contact Person	Date Submitted
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NaturEner USA, LLC, on behalf of its two wholly-owned, generation-only, balancing authority subsidiaries NaturEner Power Watch, LLC and NaturEner Wind Watch, LLC (NaturEner), appreciates the opportunity to comment on the Reliability Coordinator Rate Design, Terms, and Conditions Straw Proposal dated April 5, 2018 (Straw Proposal) posted by the California ISO (the CAISO).

In its 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.

As part of its stakeholder process, the CAISO produced the Straw Proposal and requested stakeholder feedback. The CAISO has indicated that it intends to produce a final draft proposal to the CAISO Board of Governors for its review and approval, and thereafter the CAISO intends to develop relevant tariff amendments to be filed with FERC.

The RC has the ultimate responsibility for reliability of the BES within its RC footprint. This is a substantial 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 fulfill the responsibility of maintaining a reliable grid for the Western Interconnection, NaturEner believes that a single RC for the entire interconnection is the best model for reliability. We have genuine concerns about management of seams issues among

multiple RCs and related unease about technological compatibility and the use and upkeep of essential tools. This includes the technology already selected by the CAISO to support its proposed RC operations. Many of the utilities currently customers of the incumbent RC Peak Reliability, Inc. (Peak) have made significant long-term investments in EMS technology solutions to be directly compatible with the systems used by Peak. This was done to ensure seamless model, display and data exchange as well as for those using advanced applications; a consistent solution quality. This has provided a significant value proposition to the membership over a great deal of time which appears will no longer be available should members move to the CAISO. The CAISO's choice of a different EMS technology introduces a number of unknown and unaddressed issues regarding the items above and will introduce a significant amount of complexity in managing the day-to-day needs for affected entities' respective EMS systems. There are also questions as to the future of the EHV data pool and associated WON regarding administration, hosting, configuration, cost, etc. which are not clear and have significant ramifications to situational awareness should the support or systems be unavailable in the future (such items, hereinafter Technology and Tools Issues).

If, however, the single RC regime in the Western Interconnection cannot be maintained, NaturEner is committed to participating to ensure that its choice for RC services provides the comprehensive framework for sustainable independent decisions driven by the best interests of the Western Interconnection.

NaturEner is concerned that it is premature in the process for the CAISO to define rate design related to RC services, given that many technical issues remain to be defined or vetted. In addition, we would like the CAISO to validate that its plan for staffing the RC function is sufficiently robust for a sustainable operation. Clearly, cost savings is a key benefit that the CAISO is pointing to in its provision of RC services compared to other alternatives. NaturEner would like to have greater confidence that the CAISO has adequately designed its shifts and staffing to manage services without having to increase staffing levels later to manage issues that should have been identified today (Staffing Issues) including whether the CAISO has factored into its current cost projections, including Staffing Issues, the time and resources that will be needed to adequately address the seams issues that will arise with the presence of multiple RCs (Seams Issues). To this end, we believe that the CAISO should engage an independent expert immediately as part of the RFP process mentioned below to offer guidance and advice on whether the staffing plan and its RC functions' cost projections are adequately sized for long-term sustainable operations.

NaturEner is also deeply troubled by the proposed cost of the CAISO's provision of RC Services. One of the selling points strongly advocated by the CAISO supporting its provision of RC services is that it can provide robust and compliant RC services, but at

one-half (or less than one-half) of the current costs charged by the current RC. However, not only does the CAISO's Straw Proposal fail to offer such cost-savings benefits to NaturEner, if NaturEner correctly understands the CAISO's Straw Proposal, the CAISO's Straw Proposal would actually result in an approximately 275% price increase to NaturEner.

NaturEner would also like to emphasize that the issue of governance is one that the CAISO should thoughtfully address as soon as possible, as it is a significant concern of many BAs and TOPs in the Western Interconnection (i.e., the entities whom the CAISO seeks to become its RC customers).

### **RC Implementation Oversight and RC Operations Oversight**

NaturEner supports the idea of the interim Reliability Coordinator Project Steering Committee (RPSC). That said, the CAISO should impose greater structure as to the reporting expectations and substance between the RPSC and lower-level sub-committees and working groups. Significant time and resources are being devoted to each of these working groups. Thought and care should be given to ensure that the efforts of these groups result in timely and relevant feedback and inputs to this critical development process as well as the development of a comprehensive gap analysis between all existing RC services and activities that the membership depends on (including indirect support activities) and to develop a comprehensive roadmap to address each with the membership.

NaturEner also requests that the CAISO clarify its proposal regarding the interaction between the RPSC and the CAISO's envisioned long-term oversight committee. This would include at a minimum details regarding how and when the transition between these two oversight bodies will occur.

NaturEner likewise seeks more information as to how consensus regarding recommendations and issues will be achieved if a discrepancy arises either within the members of the RPSC or between working groups. NaturEner believes 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 achieved, NaturEner 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 should also provide detail on the methods and timing of communicating recommendations between the RPSC and the CAISO staff. For example, the communication protocols between the RPSC and the CAISO staff and the dispute resolution process in the event RPSC and the CAISO fail to reach consensus, are issues that must be further detailed. NaturEner suggests that the 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 evaluating whether to procure services from the proposed CAISO RC. As such, NaturEner recommends that a third-party consultant be retained to observe and report on all material project milestones and elements. Such consultant would report directly to the RPSC. Selection of the consultant would be accomplished by a Request for Proposal (RFP) 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 alluded to both above and below, NaturEner strongly believes 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 deep knowledge and relationships in the Western Interconnection will be critical to thoughtful oversight of the RC, and, as we suggest below, we do not believe that the CAISO's current governance structure supports what is required to adequately manage the RC function. It is not clear whether or how the RPSC would factor in to a long-term governance structure and NaturEner requests that the CAISO elaborate on its thinking in this regard.

### **RC Services Agreement**

The Straw Proposal provides 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.

The terms of an RC services offering do not require authorization from FERC. For these reasons, NaturEner requests the CAISO's thinking as to 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.

NaturEner also requests the CAISO's view as to what provisions related to the RC function the CAISO believes must be included in its Tariff and its underlying reasoning. In order for NaturEner to provide any meaningful and substantive comments on these issues, the CAISO should make available the draft form of the RCSA as soon as possible.

## **Reliability Coordinator Onboarding Process and Initial Commitment and Exiting Process**

**A. Onboarding Process:** According to the straw proposal, CAISO is proposing a staggered onboarding integration with a spring of 2019 start date being applicable only to internal CAISO TOPs and TOPs within the CAISO's BAA, and a second start date in the fall of 2019. There is, however, some confusion about that second start date in the fall of 2019. It is not entirely clear if this single official start date is applicable only to TOPs and BAs already within the CAISO's EIM program, or to all entities that have expressed interest in the initial CAISO RC service offering. NaturEner recommends that the CAISO promptly provide a clear answer on this item and also that the CAISO choose a single second such implementation date for all entities who will be a part of the initial footprint (other than those already within the CAISO's BAA), and, that the date be the lowest common denominator of readiness for all entities that commit.

Onboarding should also include a detailed transition plan that ensures coordination among RCs and complete coverage of all BAs and TOPs. Under no circumstances should the CAISO's transition to an RC services provider leave any BA or TOP without an RC for even a short period of time. The CAISO, in conjunction with the incumbent RC Peak, any other potential RCs, WECC and NERC must work together ensure that no entities are abandoned as part of any evolution of RC services in the Western Interconnection. At a minimum, greater transparency around this process is necessary.

**B. Initial Commitment; Exiting Process:** NaturEner believes the initial commitment of 18 months is appropriate. NaturEner believes that the Straw Proposal's six (6) month exit period is too short, as it is not enough time to allow other entities to plan and adjust annual budgets accordingly. Thus, NaturEner suggest that the exit notice provision be one (1) year. Moreover, as the Straw Proposal suggests, entities should only be able to withdraw (after having provided the requisite at least one year's advance notice) at specified times during the year (envisioned by the Straw Proposal as one date in the spring and another in the fall) and these dates should align with entrances into the RC, if any.

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

As mentioned above, NaturEner believes that it is premature in the process to define rate design related to RC services, given that many technical issues remain to be defined and vetted.

In the straw proposal, CAISO proposes to manage RC services costs as part of its revenue requirement. NaturEner appreciates 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, NaturEner is 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 have meaningful input or impact on those portions of the revenue requirement that are specific to RC services. NaturEner requests clarification as to what role the CAISO envisions RC services customers playing in the stakeholder process, and how that process will be run going forward once the CAISO's RC function has been stood up and certified. As mentioned both above and below, we strongly believe that independent governance is essential 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 Calculation for Generation-Only BAs:** Under the existing Funding Agreement, Peak calculates the parties' fees based upon their net load. Generation-only BAs such as NaturEner's, pay a minimum annual charge of the lower of \$10,000 or 0.015% of the final funding amount for any calendar year, with the minimum charge able to be adjusted on written approval of not less than 75% of the Peak Funding Parties, with such charge however not permitted to exceed \$10,000 for any calendar year of the Initial Term. Peak's offering is justified because generation-only BAs typically have small footprints, do not operate transmission or load, and have a limited impact to the BES.

By comparison, under the current CAISO rate proposal, using a volumetric billing determinant of Net Generation (NG) MWh for generation-only BAs, NaturEner's internal analysis indicates that NaturEner would have to pay nearly three (3) times its current annual cost for the CAISO's RC services as compared to what Peak is currently charging. This is contrary to the CAISO's statements that it can provide RC services at a substantially reduced cost, and in fact under this proposal, generation-only BAs will be expected to pick up a larger share of RC costs. This might make sense if generation-only BAs were a proportional driver of higher RC related expenses, but as mentioned in the prior paragraph they are not. Similarly, in Slide 7 of the CAISO RC Rate Design, Terms and Conditions Straw Proposal presentation dated April 12, 2018, the CAISO outlines several core RC service offerings that do not apply to generation-only BAs.

NaturEner would like to see pricing for generation-only BAs which provides better, or at the very least equal, treatment for such BAs as compared to the current Peak Funding Agreement. The costs for the CAISO's RC services for

generation-only BAs should be less than (or at the very least no more) than what they currently pay to the incumbent RC.

- B. Minimum Charge:** NaturEner seeks clarification as to how the minimum charge was developed. The 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. As mentioned above, it also makes sense to have the minimum charge be the lesser of a certain figure and a percentage of the total funding needs as is currently the case under the Peak Funding Agreement.
- C. Revenue Adjustment:** NaturEner seeks further clarification as to how the CAISO envisions the quarterly adjustment would be used, and whether interest would be paid back to funders in the event of a refund.
- D. Funding Requirement:** NaturEner proposes no more than a 3% cap on year-over-year increases unless approved by the RC funding parties for a special assessment. The 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. As a point of comparison, the CAISO's figure of 28-32 TFE positions is vastly different than the much larger number of FTEs currently employed by the incumbent RC Peak. As mentioned above, in addition to the Staffing Issues the CAISO should also have to provide further evidence that it has taken into account in this pricing estimates it is using in its implementation process an accurate estimate of the costs which will result from the Technology and Tools Issues and the Seams Issues which are certain to arise. Furthermore, CAISO should provide transparency into the analysis that was undertaken on the geographic diversity of its current control centers. The last thing anyone should want is for decisions to be made on financial information that turns out to be faulty or incomplete, and then risk the CAISO seeking to materially increase the charges to RC customers to support the costs necessary to provide the RC services.
- E. 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%. NaturEner believes 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. A more appropriate cap would be 5%, with an operating budget reserve between 3-4% of the current RC Operating Budget.
- F. FERC/NERC/WECC Penalties:** The Straw Proposal provides that "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.” Based on the CASIO’s statements it is NaturEner’s understanding 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 are concerned about how this framework would work in the provision of RC services where the RC itself is penalized, and do not support the importing of this CAISO tariff provision into the RC function. A better approach is one where the cost of any penalty or remedial action that is assigned to the RC is allocated among those receiving RC services along the same formula as annual expenses. We do not view an approach where the RC pursues individual entities receiving RC services for allocation of penalty or mitigation costs assigned to the RC as a beneficial one or one where the time spent in the filing to authorize the recovery of funds is warranted. Finally, as is typical with entities needing to give paramount consideration to reliability, NaturEner believes 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.

### **RC Settlements Process**

The CAISO proposes to invoice BAs monthly for RC service with five-day terms. NaturEner suggests that the CAISO instead bill annually (as Peak does today) with a quarterly option (except as may be 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 NaturEner suggests that CAISO do the same. Finally, it is simply not practicable 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. NaturEner instead suggest a bill payment requirement of at least 30 days.

### **Business Practice Manuals**

NaturEner does not have sufficient knowledge to determine whether the listed business practice manuals represent the only manuals or modifications that would be required to appropriately incorporate RC services.



### **Appendix 3: Supplemental Services**

Payments the CAISO receives from RC service members utilizing Hosted Advanced Applications should be credited to RC services-related ABC process and task codes to properly offset the fees the CAISO charges to its RC customers.