

**RELIABILITY COORDINATOR SERVICES  
 RATE DESIGN, TERMS AND CONDITIONS STRAW PROPOSAL  
 Comments of Seattle City Light**

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Seattle City Light (SCL) 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 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 are threefold: 1) to provide RC services to all Transmission Operators (TOPs) within CAISO’s Balancing Authority (BA); 2) to offer RC services to Balancing Authorities (BAs) outside of the CAISO BA area; and 3) to offer RC services to TOPs within those external BAs, to the extent such BA opts to receive RC services from the CAISO.

As part of its stakeholder process, CAISO has produced a straw proposal and has asked stakeholders to respond. CAISO has indicated that it intends to produce a final draft proposal and present 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 Federal Energy Regulatory Commission (FERC).

SCL is dedicated to delivering customers affordable, reliable, and environmentally responsible electricity services. As a BA and a TOP, SCL is also obligated under NERC reliability Standards to maintain the reliability of its electric system, as well as preserve and contribute to the reliability of the Bulk Electric System (BES) for the entire Western Interconnection. Ultimately, though, it is the RC that has overarching responsibility for reliability of the BES within its RC footprint. This is a significant obligation. The RC must ensure it has the operating tools, processes and procedures necessary perform the wide area view of the BES, and the knowledge to prevent or mitigate emergency operating situations. Performance matters, as the 2011 Southwest Outage is a reminder from the \$37.9 million in penalties imposed, to the excellent work performed by multiple parties to improve operations and reliability in the Western Interconnection.

To meet the responsibility of maintaining a reliable grid for the Western Interconnection, SCL believes that a single RC for the entire interconnection is the best model for reliability. We have serious concerns about the introduction of “seams” with multiple RCs, and the attendant operational and reliability complexity added to the Western Interconnection. However, if the West cannot retain a single RC, SCL is dedicated to engaging to ensure 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 focus on this purpose as our mutual paramount consideration.

CAISO is currently working with TOPs, both inside and outside of its BA, to develop operating procedures, specific technical requirements and other technical elements that are necessary to establish 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.

SCL 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 specified. 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, the cost savings is a key benefit that the CAISO is pointing to in its provision of RC services compared to other alternatives. SCL desires 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. 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.

Finally, SCL believes that the issue of governance is one that should be addressed at once. As such, our comments include feedback on the straw proposal of rate structure, together with requests of the CAISO on RC governance.

### **RC Implementation Oversight**

SCL supports 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. SCL 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.

SCL also recommends that the CAISO clarify the interaction between the RPSC and the long-term RC oversight committee, including how and when the transition between these two oversight bodies will occur.

Additionally, SCL 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. SCL 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 reached, SCL recommends that both the majority and minority opinions be documented. To the extent a relatively even split in opinion occurs, the chosen approach should default to the opinion that aligns most closely with the current RC's (Peak Reliability) approach.

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, SCL 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 are critical to the entities procuring services from the proposed CAISO RC. As such, SCL recommends that a third-party Quality Assurance consultant be contracted 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 competitive 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, SCL strongly believes that the proposed governance framework for the RC function needs to be addressed up-front. Entities must be able to evaluate options for provision of RC services with knowledge about how an organization will make decisions, and who will be making them. Independence, experience and depth 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 SCL requests that the CAISO elaborate on its thinking in this regard.

### **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.

SCL, like several other entities in the Western Interconnection, is not a public utility as defined by the Federal Power Act Section 201(f) (16 U.S.C. § 824(e)). Additionally, the terms of an RC services offering do not require authorization from FERC. For these reasons, SCL seeks 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 why. In order for SCL to provide any substantive comments on this topic, the CAISO will need to provide the draft form of the RCSA as soon as possible.

SCL suggests that the RCSA 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. SCL does not believe that the immediate termination of RC services is 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.

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

- A. Onboarding:** According to the straw proposal, 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.

CAISO states that it will not charge implementation costs for future customers of its RC services. SCL would appreciate further explanation of why CAISO does not propose to charge implementation costs on future customers and how that approach would protect the existing RC services customers from disproportionately high costs potentially imposed by some new customers.

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. SCL believes that six months is insufficient to allow other entities to plan and adjust annual budgets accordingly. For that reason, SCL suggests 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. SCL 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, SCL 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 influence those portions of the revenue requirement that are specific to RC services. SCL requests 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:** SCL proposes a 3% cap on year-over-year increases unless approved by the RC Funding Parties 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 Reliability 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, SCL 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%. SCL 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. In our experience, a more appropriate cap would be 5% with an operating budget reserve between 3-4% of the current (Peak Reliability) 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." SCL 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. 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, SCL 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.

- D. Minimum Charge:** SCL seeks 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:** SCL 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. SCL suggests that CAISO instead bill annually (as Peak Reliability 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 Reliability model. Peak Reliability performs an annual calculation and SCL suggests that CAISO implement 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. SCL instead suggest a bill payment requirement of twenty-one business days.

### **Long-Term Governance**

SCL believes that the RC function needs its own governance structure and that the key staff providing RC services should report 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 must be made independent of those that affect the markets operated by the CAISO. Oversight is best provided by a group of people with years of background and technical experience. The current composition and qualifications of the CAISO Governing Board is 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, SCL proposes that the CAISO form a separate company with a separate governing board made up of seven to nine representatives of the BA and TOPs' receiving RC service to oversee the RC function. 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. SCL 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.