



**Reliability Coordinator Services
Rate Design, Terms and Conditions Straw Proposal
Comments of the Salt River Project**

Company	Contact Person	Date Submitted
Salt River Project (SRP)	Steven Cobb, Director <i>Transmission/Generation Operations</i> Steven.Cobb@srpnet.com (602) 236-3965	May 4, 2018

The Salt River Project (SRP) appreciates 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 California ISO (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 produced a straw proposal and has asked stakeholders to respond. 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.

As a BA and a TOP, SRP 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, 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, SRP believes that a single RC for the entire interconnection is the best model for reliability. We have serious concerns about the managing of seams issues among the RCs. However, if the West cannot retain a single Reliability Coordinator, SRP 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.

CAISO is currently working with 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.

SRP 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. Clearly, the cost savings is a key benefit that the CAISO is pointing to in its provision of RC services compared to other alternatives. SRP 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. 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, in addition to offering comments on the straw proposal, SRP would like to note that we believe the issue of governance is one that should be addressed right away, so we are taking the opportunity presented by these comments to make some requests of the CAISO related to RC governance.

RC Implementation Oversight

SRP 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. SRP 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. SRP 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, SRP seeks more information related to how consensus will be achieved with recommendations and issues if a discrepancy arises amongst the members of the RPSC or between working groups. SRP 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, SRP recommends that both the majority and minority opinions be documented. To the extent 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, CAISO must elaborate on the methods and timing of communication related to recommendations between the RPSC and CAISO Staff. For example, issues that must be further detailed include how the RPSC receives feedback from CAISO staff and the dispute resolution process in the event RPSC and CAISO fail to reach consensus. Moving forward, SRP 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, SRP 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 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, SRP 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 depth in the Western Interconnection will be critical to thoughtful oversight of the reliability coordinator and 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 SRP 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.

SRP, 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, SRP 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 SRP 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 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. SRP recommends that CAISO choose a single implementation date for all entities who will be a part of the initial offering, and, that the date be 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. SRP believes that six months is not enough time to allow other entities to plan and adjust annual budgets accordingly. For that reason, SRP 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. SRP 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, SRP 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. SRP requests clarification as to what role the CAISO envisions RC services customers playing in the stakeholder process, and how that process will be run. We strongly believe that independent governance is key to structuring RC services, and believe that an RC governing board should have the authority and sole obligation to approve the budget for RC services.

- A. Funding Requirement:** SRP 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 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, SRP 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%. SRP 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 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.” SRP 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 that is assigned to the RC is allocated among those receiving RC services along the same formula as annual expenses. We do not see a framework 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 common with entities needing to prioritize reliability above all else, SRP 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:** SRP 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:** SRP 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. SRP suggests 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 SRP suggests 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. SRP instead suggest a bill payment requirement of twenty-one business days.