



## **WIRAB Advice on the California ISO's Reliability Coordinator Proposal**

July 10, 2018

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The Western Interconnection Regional Advisory Body (WIRAB) appreciates the opportunity to comment on the California Independent System Operator's (CAISO) Reliability Coordinator (RC) services proposal. WIRAB's membership is comprised of states and provinces with territory in the Western Interconnection and represented primarily by Public Utility Commissioners and State Energy Office Directors who understand the importance of bulk power system reliability, efficient and cost-effective RC services, and robust stakeholder engagement.

WIRAB was created by the Federal Energy Regulatory Commission (Commission or FERC) upon petition by the Western Governors and in accordance with Section 215(j) of the Federal Power Act. Section 215(j) authorizes WIRAB to advise FERC, the North American Electric Reliability Corporation (NERC), and the Regional Entity (i.e., the Western Electricity Coordinating Council (WECC)) on matters of governance and whether reliability standards and fees proposed to apply within the region are just, reasonable, not unduly discriminatory or preferential, and in the public interest. Section 215(j) also authorizes WIRAB to advise FERC on other topics for which the Commission has requested WIRAB's assistance.

WIRAB provides the following comments or advice on the CAISO's RC proposal in three categories: Governance, BA/TOP competency requirements and general Rate Design, Terms and Conditions.

### **Governance:**

- 1. The governance structure of the CAISO RC should memorialize a specific role for WIRAB to directly advise the CAISO RC's decision-making body on the perspectives of state policymakers and regulators and to ensure that the CAISO RC is well informed and highly effective in serving the public interest in the performance of its duties.**

It is appropriate for WIRAB to advise an independent, decision-making body on the governance and activities of the CAISO RC. As the regional advisory body for the Western Interconnection, WIRAB has unique statutory authority to advise FERC, NERC, WECC, and Western RCs (i.e., Peak Reliability and the CAISO) on reliability matters. Section 215(j) provides that FERC "may give deference to the advice of any regional advisory body if the body is organized on an Interconnection-wide basis." Accordingly, FERC has noted that deference to WIRAB is appropriate where topics listed in FPA section 215(j) are implicated.<sup>1</sup> FERC has previously deferred to WIRAB's advice to Peak Reliability, noting that deference to WIRAB was appropriate

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<sup>1</sup> FERC Order on Rehearing, Docket No. EL13-52 et al., P. 46 (Dec. 6, 2013).

where topics listed in FPA section 215(j), such as “governance of an existing or proposed regional entity ... [and] whether fees proposed to be assessed within the region are just, reasonable, not unduly discriminatory or preferential, and in the public interest,” have been implicated.<sup>2</sup>

Deference to WIRAB is similarly appropriate here, where—like Peak Reliability—the CAISO proposes to offer RC services to BAs and TOPs within the Western Interconnection. As with Peak Reliability, the governance structure of the CAISO RC should memorialize a specific role for WIRAB to directly advise the CAISO RC’s decision-making body on the perspectives of state policymakers and regulators. As the primary provider of RC services in the Western Interconnection, Peak Reliability provides and safeguards opportunities for WIRAB to advise the Peak Board of Directors, providing within its bylaws that, “[t]he Board will give serious consideration to . . . WIRAB’s (or any successor) recommendations.”<sup>3</sup> Decisions made on behalf of the CAISO RC should be well-informed by the perspectives of state policymakers and regulators and should demonstrate that the CAISO RC is highly effective in serving the public interest in the performance of its duties and responsibilities.

It is important that the CAISO establish a governance framework that specifically provides substantive opportunities for WIRAB to directly advise the CAISO RC on RC matters.

WIRAB believes that maintaining an open channel of communication between the CAISO staff and WIRAB staff will be important to informing interactions and collaboration between WIRAB and the CAISO RC’s decision-making body. However, in its role as an advisory body, it is appropriate for WIRAB to directly advise the CAISO RC’s decision-making body, not the CAISO staff or an advisory oversight committee, on reliability matters. Therefore, WIRAB recommends that the CAISO establish a governance framework that memorializes specific opportunities for WIRAB to advise the CAISO RC’s decision-making body on RC matters.

**2. As the CAISO develops its proposal for RC services, the CAISO should establish an independent decision-making body to oversee the CAISO’s RC activities on an ongoing basis.**

The Reliability Coordinator (RC) is the entity with the “highest level of authority who is responsible for the Reliable Operation of the Bulk Electric System [(BES) and] . . . the authority to prevent or mitigate emergency operating situations in both next-day analysis and real-time operations.”<sup>4</sup> Ongoing changes within the Western Interconnection have and continue to present unique reliability challenges and opportunities for the provision of RC services.

In the past, concerns over performance and reliability led to a West-wide, stakeholder-driven effort to consolidate the western RCs into a single, interconnection-wide entity at WECC. This movement was intended to establish independence of the RC from host utilities and organizations and to capture economies of scale needed to develop the capability and tools necessary to monitor the entire Western Interconnection. However, following the 2011 Southwest Outage, WECC, NERC and FERC agreed that greater situational awareness and independence of the single RC was

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<sup>2</sup> *Id* at 46

<sup>3</sup> Peak Reliability Bylaws, sec. 3.14.

<sup>4</sup> North American Electric Reliability Corporation, Glossary of Terms Used in NERC Reliability Standards (updated June 12, 2018).

necessary. In response, the West established a single, independent organization with a social-welfare mission and focused solely on the provision of RC services to monitor the Western Interconnection, promote West-wide situational awareness, and ensure reliability. Now, once again, we face the prospect of an increased number of entities providing RC services—in addition to other, non-RC services—in the West.

As a certified RC, the CAISO RC will use its authority, as needed, to make real-time and next day operational decisions within its RC footprint. This discretion will create opportunities to impact the operation of generation and transmission resources. For example, access to a diverse set of generation resources over a broad CAISO RC footprint will provide multiple options for addressing reliability problems and, if needed, broad discretion for curtailing generation resources. With this level of discretion, and in the larger context of market expansion, oversight and transparency into the CAISO RC's decision-making processes will be key to establishing and maintaining the confidence and cooperation of RC customers and other stakeholders, including ratepayers who ultimately pay for RC services and fund the development and acquisition of the RC's capital assets.

It is important that the direction and efforts of the CAISO RC are guided by an independent decision-making body that is committed to ensuring transparency, protecting the public good, maintaining or improving the current level of reliability in the West, and representing the best interests of a broad spectrum of RC customers and ratepayers within the CAISO RC footprint. The CAISO could achieve these objectives through the establishment of an independent oversight committee that operates on an ongoing basis to direct and oversee the CAISO's RC activities. Such an oversight committee should determine the strategic priorities of the CAISO RC, direct CAISO RC committee activities, approve the CAISO business plan and budget, and operate independently from the CAISO's other operations, with a specific focus on reliability matters and with consideration of stakeholders across the CAISO's multi-state RC footprint.

WIRAB respectfully recommends that the CAISO consider establishing an independent, decision-making body to oversee the CAISO's RC activities and provide transparency into the CAISO RC's decision-making processes.

**3. The oversight committee charter should establish a liaison role for a representative of state governments to advise the oversight committee on an ongoing basis.**

If the proposed RC oversight committee will serve only as an advisor to the CAISO RC's decision-making body, WIRAB recommends that the oversight committee charter establish a liaison role for a representative of state governments to advise the oversight committee on the perspectives of state regulators and policymakers. As a body charged with providing input and guidance to CAISO management on issues relating to the RC function, it is important that activities of the oversight committee are well-informed by all relevant perspectives.

Although it is appropriate for WIRAB to directly advise the CAISO RC's decision-making body, if the oversight committee will not function as the ultimate decision-making body for the CAISO RC, WIRAB still believes it would benefit the oversight committee (as an advisory body) to engage and communicate with a state representative-liaison on a regular and ongoing basis.

The CAISO's final draft proposal indicates that the proposed oversight committee will hold at least one public meeting per year, allowing interested stakeholders (including state regulators and policymakers) an opportunity to address matters concerning the CAISO's performance of the RC function. WIRAB does not believe this would be sufficient in terms of providing a necessary level of transparency or encouraging an ongoing, open and informed dialogue with state representatives. Therefore, if the proposed RC oversight committee will serve only as an advisory body to another entity, such as the CAISO Board of Governors, WIRAB recommends that the oversight committee charter establish a specific liaison role for state governments to advise the oversight committee on RC matters.

### **BA/TOP Competency Requirements:**

- 1. The CAISO RC should consider establishing minimum requirements for the accuracy of information exchanged to ensure Balancing Authority and Transmission Operator competency when establishing RC Service Agreements to promote exceptional operations from all CAISO RC customers, raise the level of Reliability Coordination and improve reliability in the Western Interconnection.**

Reliability Coordination is a public service that directly benefits grid operators and end-use customers alike by ensuring the integrity and reliability of the bulk electric system. However, the reliability of the Western Interconnection is only as strong as its weakest link. Therefore, it is paramount that all entities within the Western Interconnection strive for reliability excellence by continually improving coordination and communication. WIRAB believes the CAISO has an opportunity, with the development of its RC, to request excellence from those entities that take RC services from the CAISO and to go above and beyond the minimum requirements. WIRAB recommends that the CAISO incorporate minimum data accuracy requirements for BA and TOP into its RC Service Agreements that help to ensure that the CAISO receives accurate and complete information, thereby allowing the CAISO RC to function at the highest possible level and improve reliability across the Western Interconnection. To encourage adherence to the requirements, WIRAB recommends that the CAISO institute escalating penalties for poor performance.

WIRAB has identified potential metrics and minimum requirements that can help ensure that the CAISO RC receives the high-quality information necessary to perform the RC Function at an exceptional level. These metrics include: 1) day-ahead load forecasting; 2) submittal of scheduled transmission outages; and 3) submittal of scheduled generation outages. Peak Reliability identified these previously as important metrics for completing high-quality next day studies. In the table below, WIRAB has outlined the potential minimum requirements for each metric, the applicable entity, the timing of review, and the CAISO's potential recourse in the event the requirements are not met.

Metric	Requirement	Applicable Entity	Timing of Review	First Violation	Second Violation	Third Violation
Day Ahead Load Forecasting	Less than or equal to 5% Mean Absolute Percent Error (MAPE) for hourly load forecasts averaged over a 6 month period	BAs	Bi-annually	Notify Entity	Notify Entity plus Other RC Customers	CAISO institutes an escalating monetary penalty; if penalty is not paid within 20 business days, CAISO may suspend its role as the RC of record for under-performing RC customer.
Scheduled Transmission Outage Submittal	Greater than 90% of scheduled or known outages are properly submitted for operating day	TOPs	Bi-annually	Notify Entity	Notify Entity plus Other RC Customers	CAISO institutes an escalating monetary penalty; if penalty is not paid within 20 business days, CAISO may suspend its role as the RC of record for under-performing RC customer.
Scheduled Generation Outage Submittal	Greater than 90% of scheduled or known outages are properly submitted for operating day	BAs (including Gen only BAs)	Bi-annually	Notify Entity	Notify Entity plus Other RC Customers	CAISO institutes an escalating monetary penalty; if penalty is not paid within 20 business days, CAISO may suspend its role as the RC of record for under-performing RC customer.

*Table 1 - BA/TOP Requirements*

WIRAB believes that incorporating minimum BA/TOP requirements into RC Service Agreements would raise the level of Reliability Coordination and improve reliability across the CAISO RC footprint and throughout the Western Interconnection. WIRAB understands that it may also be beneficial to implement requirements related to other metrics such as: generation and interchange schedule submittals; real-time contingency analysis quality; next-day study submittal, quality and review; operator communication; communication of local emergency operations, etc. It is paramount for the CAISO to set expectations for BAs and TOPs so that it will ensure that the CAISO elevates the conversation around Reliability Coordination.

**Rate Design, Terms and Conditions:**

WIRAB appreciates the opportunity to review the CAISO’s RC proposal and makes the following recommendations regarding specific provisions in the Draft Final Proposal:

- 1. WIRAB recommends that the CAISO establish an annual RC Revenue Adjustment that ensures any excess or shortfall in revenue collection from the prior year is reflected in the subsequent year’s RC revenue requirement to ensure appropriate funding by end-use electricity customers in the Western Interconnection.**

The RC Rate Design, Terms and Conditions Straw Proposal, released April 5, 2018, included an RC Revenue Adjustment to appropriately match the costs borne by end-use electricity customers paying for RC services with the reliability services received. In the Draft Final Proposal, the CAISO eliminated this revenue adjustment mechanism. WIRAB supports the original approach because it ensures that end-use electricity customers that only receive RC services from the CAISO will not pay for other services they do not receive. Any excess or shortfall in RC revenue collection should accrue to those who bear the costs of RC services.

- 2. WIRAB recommends establishing an RC Operating Reserve because it provides sufficient resources to address unexpected funding contingencies.**

The RC Rate Design, Terms and Conditions Straw Proposal, released April 5, 2018, included an RC Operating Reserve to ensure sufficient funding to address unexpected funding contingencies

related to the RC function. In the Draft Final Proposal, the CAISO eliminated the RC Operating Reserve. WIRAB supports the original approach because it ensures that funds received to pay for RC services will not be used to address contingencies that arise from the provision of other non-RC services.

- 3. WIRAB supports the CAISO's proposal to use an activity-based costing system, annual revenue requirement development process, and triennial cost of service study to establish rates for the Reliability Coordinator Services cost category, finding this approach to be open, transparent, and capable of building the CAISO RC's annual revenue requirement from the bottom up.**
- 4. WIRAB supports the allocation of the CAISO's indirect costs based upon Full Time Equivalents (FTEs) contributing directly to the RC function because this is a well-established and equitable method for allocating shared costs.**
- 5. WIRAB supports volumetric billing of RC Customers based on Net Energy for Load and Net Generation for Generation Only BAs because this is a well-established rate design that equitably allocates RC costs based on the overall BA electricity usage.**
- 6. WIRAB supports establishing a minimum charge for BAs with zero to low energy volumes to fairly allocate RC costs to small BAs or TOPs that require RC Services.**
- 7. WIRAB supports the CAISO's proposal to require an initial commitment term of 18 months because this ensures adequate funding during startup and onboarding.**
- 8. WIRAB supports the CAISO's proposal to require 12-month advance written notice for exit from the CAISO RC and the annual enter and/or exit window because this provides flexibility for BAs without jeopardizing the ability for the CAISO to continue to provide RC Services.**
- 9. WIRAB supports the CAISO's proposal to allocate reliability penalty costs assessed by FERC, NERC and WECC to specific entities whose conduct was found to have contributed to such penalty because it fairly allocates penalty costs to those responsible for the violation of one or more NERC Reliability Standards.**

WIRAB looks forward to continuing to work with the CAISO and all participants in the Western Interconnection on the continued development of the CAISO's RC proposal.