

Western States Committee (WSC) Primary Authority Discussion Paper

Submitted by	Organization	Date Submitted
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1. Please indicate your organization’s overall level of support for the ISO’s proposal regarding potential topics for the primary authority of the WSC.

To indicate level of support, please select one of the following options: (1) Fully support; (2) Support with qualification; or, (3) Oppose. Please provide an explanation of your organization’s position. (For example, if your organization fully supports, please provide reasons for your support. If your organization supports with qualification, please describe your qualifications or specific modifications that would allow you to fully support the proposal. If your organization opposes, please explain why you oppose the proposal.

Stakeholder comments at the October 17, 2016 Regional Grid Operator and Governance Workshop (October 17 workshop) and at the October 19, 2016 California Assembly/Senate stakeholder meeting indicated that not all stakeholders share the same understanding of the primary authority proposal (“WSC Proposal”) reflected in the October 7, 2016 discussion paper *Potential Topics within the Primary Authority of the Western States Committee*. Some stakeholders objected that the WSC Proposal defined the Western States Committee’s (WSC) primary authority far more narrowly than anticipated. At least one stakeholder, the representative for Pacific Gas and Electric Company (PG&E), expressed the view that the WSC Proposal, taken together with the Second Revised Governance Proposal, expanded the role of the WSC compared to the previous governance WSC Proposal.¹ Accordingly, for the sake of clarity, ORA summarizes its understanding of the WSC Proposal before indicating whether it supports the proposal.

Within the topic of Resource Adequacy (RA), the WSC Proposal identifies a single element to include within the primary authority of the WSC: the adoption of a regional planning reserve margin (PRM):

The ISO identified the core elements of the ISO’s RA program in its Third Revised Straw Proposal in the Regional RA stakeholder process . . . [T]he ISO has identified one such core area – approval of the system-wide planning reserve margin target – as an issue where a primary authority role for the WSC seems appropriate.²

¹ See Transcript of October 17, 2016 meeting at pages 32-33 and *Revised Proposal for Governance of a Regional ISO* issued July 15, 2016.

² *Potential Topics within the Primary Authority of the Western States Committee*, Section 3.1, pp. 5-6.

The WSC Proposal identifies other areas of RA, including load forecasting, as suitable for an advisory role.³

With respect to allocation of transmission project costs, the WSC Proposal identifies: cost allocation for policy-driven projects originating in one sub-region that may benefit more than one sub-region as within the scope of the WSC's primary authority.⁴

Many stakeholders participating in the October 17 workshop read the WSC Proposal as limiting the WSC's primary authority to these two narrowly defined topics. It is unclear whether this was the CAISO's intent. If it was, ORA agrees that the WSC Proposal defines primary authority too narrowly. However, the CAISO stated at the October 17 workshop that the WSC Proposal is a starting point for a discussion and that it seeks input from "state actors." The CAISO invites comments on "whether there are any other specific topics within the category of [RA and allocation of transmission project costs] for which the WSC should have primary approval authority" (see Questions 3 and 4 of this comment template).⁵ The CAISO thus appears to anticipate further development and potential expansion of the topics within the WSC's primary authority.

ORA recommends that subsequent iterations of the WSC Proposal base WSC's primary authority on the relevant areas of electricity regulation reserved to the states under current law, taking into account areas where states in a regional ISO can most effectively protect their interests through the collective authority of the WSC. This recommendation is explained in response to the next question. Subject to these caveats, ORA supports with qualification the WSC Proposal.

2. The ISO's discussion paper identified at page 5 certain factors that may be relevant in establishing whether a particular topic within the categories of Resource Adequacy or transmission cost allocation should be within the primary approval authority of the WSC. Please provide any comments you may have on whether the factors that have been identified are the correct ones or if other factors or criteria should be considered.

The starting point for the WSC's primary authority must be areas of electricity regulation reserved to the states. Some of those key areas were noted in the August 2, 2016 legal memo *Evaluation of Jurisdictional and Constitutional Issues Arising from CAISO Expansion to include PacifiCorp Assets* (August 2 Legal Memo).⁶ The authors of that memo acknowledged that:

³ *Id.*, Section 3.1.1, p. 6.

⁴ *Id.*, Section 4.1, p. 9.

⁵ Question 4 again refers to RA, but ORA assumes that in fact, the intended topic was transmission cost allocation.

⁶ The August 2 Legal Memo states at page 8:

"Congress, FERC, and the federal courts have long recognized the broad powers that states enjoy in directing the planning and resource decisions of utilities operating within their jurisdictions. [fn omitted] These powers are not diminished by the expansion of an ISO to encompass a broader, multi-state region, and both FERC and the courts have consistently reaffirmed these powers in various multi-state RTOs and ISOs. Such powers include, among other things, policies to promote procurement of particular types of resources, such as state Renewable Portfolio Standards; policies to incentivize construction of particular types of generation; bilateral contracting for future capacity; policies to require the retirement of existing facilities; administration of resource planning exercises; and policies to promote distributed energy resources and to allow demand response resources to be bid into wholesale power markets.[fn omitted]."

FERC has also long recognized the states' historical role in ensuring resource adequacy, requiring that such efforts be "workable" in the context of FERC's duty to ensure overall reliability of the bulk power grid. [fn omitted]⁷

"Preservation of state authority" remains the first principle of the regional governance proposal.⁸ Consistent with that principle, the WSC would allow states in the regional ISO to exercise their collective authority over certain resource adequacy and transmission cost allocation issues.

Accordingly, the WSC's primary authority should be defined to preserve, to the extent legally possible, state authority in those areas, so that the states retain the ability to manage procurement and grid costs to ratepayers. Thus, if "preservation of state authority" is a basic principle of the future regional ISO, the WSC's primary authority over resource adequacy should not be limited to the single narrow topic of establishing the PRM. ORA addresses the scope of WSC authority over Resource Adequacy more fully in response to Question 3 below, and in its comments on the *Third Straw Proposal on Resource Adequacy* submitted on October 27, 2016.

3. The ISO's discussion paper identifies the system wide planning reserve margin target as a topic within RA that should be within the primary approval authority of the WSC. Please comment on this aspect of the WSC Proposal. Please also comment on whether there are any other specific topics within the category of RA for which the WSC should have primary approval authority.

ORA supports a significant role for the WSC in matters involving RA including determining the PRM. Establishing the PRM is a matter of state policy that would allow the WSC to weigh the costs and benefits of different levels of reliability to reach a consensus on a system-wide PRM target that is in the best interest of ratepayers in the region. As explained in ORA's October 27, 2016 comments, the CAISO should modify certain aspects of the *Third Straw Proposal on Resource Adequacy* and the WSC Proposal to ensure that the WSC has adequate authority to establish the PRM target, including the assumptions, inputs and outputs related to the PRM. The WSC should also have primary authority over load forecasting, establishing uniform rules for counting the resources used to calculate the PRM, and the process for validating and overseeing resource adequacy submissions from various load serving entities in a regional ISO.

4. The ISO's discussion paper identifies as a topic for the WSC's primary approval authority cost allocation between sub-regions for policy driven projects that support policy mandates of, or provide benefits to, more than one sub-region. Please comment on this aspect of the WSC Proposal. Please also comment on whether there are any other specific topics within the category of [transmission cost allocation] [for which the WSC should have primary approval authority.

ORA agrees that the WSC should have primary authority over the cost allocation of policy-driven projects that provide benefits to more than one sub-region. Benefits from policy-driven projects could accrue beyond the borders of the sub-region driving the project. ORA therefore recommends that all sub-region-specific policy projects be assessed for possible direct benefits to other sub-regions. These additional benefits should be evaluated for cost allocation using the Transmission Economic Assessment Methodology (TEAM) as the CAISO currently proposes. However, ORA recommends that the TEAM

⁷ *Id.*, p. 9.

⁸ *Principles for Governance of a Regional ISO, Second Revised Proposal, October 7, 2016, p. 3.*

consider benefits more broadly than the CAISO currently anticipates, including employment and tax revenue increases.⁹

ORA recommends that the WSC model its cost allocation deliberations on the CAISO's transmission planning process (TPP). That TPP allows stakeholder input on project development prior to project approval decisions by the CAISO Board. All WSC meetings, including those involving the deliberation of cost allocation meetings for policy projects should be publicly noticed, open, and transparent.

5. Please comment on any other topics that your organization feels should be included in this WSC Proposal.

The WSC Proposal distinguishes between topics within the WSC's primary approval authority (which, in the WSC Proposal, are very limited) and broader topics on which the WSC could play an advisory role. ORA agrees that it is appropriate and useful for the WSC to play an advisory or consultative role on certain topics. However, as stated in response to Questions 1 and 2 above, to determine which topics may be suitable for WSC primary authority and which for an advisory role, it is important to refer to the legal parameters of state authority over electricity service under existing law.

⁹ See ORA Comments on Second Revised TAC Straw Proposal, October 28, 2016, pp. 4-5.