



# RTO Stakeholder Processes: Principles & Best Practices

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PRESENTATION TO THE REGIONAL ISSUES FORUM – ALBUQUERQUE, NM

MARCH 11, 2019

# Presentation Outline

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- Overview of RTO Governance Principles
  - Why does good governance matter?
  - Common elements of RTO stakeholder processes
  - Types of RTO stakeholder process
  - Common complaints with RTO stakeholder processes
  - FERC Order 719
- Comparing and Contrasting RTO Stakeholder Processes
  - SPP
  - MISO
  - CAISO
- Concluding Thoughts for Discussion

# Why does good governance matter in RTOs?

*“Stakeholder governance processes are essential to the efficient development of market rules. This is because stakeholder governance is one of the primary processes for the development, amendment and proposal of RTO market rules and tariffs for approval.”*

Source: R Street Policy Study: How the RTO Stakeholder Process Affects Market Efficiency (Oct. 2017).



Photo Credit: RTO Insider

# RTO Governance: Common Elements

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- RTO stakeholders are typically grouped into various membership sectors:
  - Transmission Owners
  - Electric Generators
  - End-Use Customers
  - Marketers and/or Brokers
  - Public Power Entities
  - Consumer Advocates
  - Renewable Energy Developers
  - Environmental or Public Interest Groups
  - *State regulators also participate, but typically through a separate “body” that directly advises the RTO board.*
- Generally, each sector is allocated a voting interest in the governance process.
- RTO members participate in formal stakeholder committees and working groups that assist in market rule development.
- RTO boards typically have the final “say” in market rule changes, but the ability of stakeholders to influence final decisions of these boards varies.

# RTO Governance: Stakeholder Process Types

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## Advisory Only

- Stakeholders serve in an advisory role to the RTO's board of directors, so even though market rule and tariff changes go through a stakeholder process for input, the board is not required to follow that input.
- *Examples include:* ISO-NE, MISO and SPP

## Shared Governance

- Market rule and tariff changes *must* receive stakeholder approval before being submitted to the RTO's board of directors. Therefore, both the board and the stakeholders must agree on a proposal before it can be filed at FERC.
- *Examples include:* NYISO and PJM

## CAISO

- CAISO's model is unique as there is no "formal" stakeholder process and the board is appointed by the Governor (and confirmed by the state's Senate). CAISO staff guides market and tariff changes through what amounts to a notice-and-comment process, where stakeholders can shape final tariff changes, but the board has ultimate authority to approve tariff changes and make filings at FERC. In this model, anyone can qualify as a stakeholder and submit comments to the CAISO.

# RTO Governance: Common Complaints

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- **Lack of understanding** regarding how stakeholder feedback is considered and incorporated.
- **Lack of transparency** at all levels of the stakeholder process, leading to a lack of accountability.
- **Time and money** required to participate effectively in RTO stakeholder processes is significant.
- **Incumbent utility power** tends to dominate RTO stakeholder processes (particularly when compared to new market entrants).
- **Coalition/block voting** can be used to serve market participants' interests rather than enhance market efficiency.
- Complicated bureaucracies can **slow down decision-making** or lead to less-than-optimal market rule changes (because consensus is so hard to achieve).
- RTO staff may advance positions that don't always serve the public interest purposes of the RTO's board (i.e., the "**principal-agent**" problem).

Source: R Street Policy Study: How the RTO Stakeholder Process Affects Market Efficiency (Oct. 2017).

# FERC Order 719

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Governance Principle	Definition
<b>Inclusiveness</b>	Any stakeholder affected by the operation of the RTO must be permitted to communicate its views to the RTO's board.
<b>Fairness in Balancing Diverse Interests</b>	The interests of stakeholders must be equitably considered; deliberation and consideration of RTO issues must not be dominated by a single stakeholder category.
<b>Representation of Minority Interests</b>	In instances where stakeholders are not in total agreement on a particular issue, minority positions must be communicated to the RTO's board at the same time as majority positions.
<b>Ongoing Responsiveness</b>	Two-way communication is a must – i.e., there must be a mechanism for stakeholder input into the RTO's decisions as well as a mechanism for the RTO's board to provide feedback to stakeholders.

# Inclusiveness

*Any stakeholder affected by the operation of the RTO must be permitted to communicate its views to the RTO's board.*

RTO	Stakeholder Process Description
SPP	Membership exit fees (~\$700,000 for non-transmission owning members & more than \$1 million for transmission-owning members) discourage a diversity of membership, including that of environmental groups, consumer advocates, and renewable energy developers.
MISO	MISO's membership is diverse, including 12 environmental groups and 14 consumer advocacy groups.
CAISO	CAISO does not require a membership fee or exit fee and anyone can be a stakeholder and effectively participate in the process.



# Fairness in Balancing Diverse Interests

*The interests of stakeholders must be equitably considered; deliberation and consideration of RTO issues must not be dominated by a single stakeholder category.*

RTO	Stakeholder Process Description
SPP	Voting membership, and therefore decision-making, is dominated by incumbent transmission owners and transmission customers.
MISO	A number of sectors dominate decision-making: incumbent generators, transmission owners, power marketers, and transmission-dependent utilities occupy 4 separate sectors with a combined 48% of voting rights.
CAISO	Anyone can be a stakeholder in, and submit comments through, the stakeholder process. All stakeholder comments are taken into account when making tariff revisions.

# Representation of Minority Interests

*In instances where stakeholders are not in total agreement on a particular issue, minority positions must be communicated to the RTO's board at the same time as majority positions.*

RTO	Stakeholder Process Description
SPP	SPP membership aims to reach consensus before a final proposal is presented to the board. Where members have dissenting opinions, they can elect to clarify those positions in writing.
MISO	Positions are presented to MISO by staff or by stakeholders. Staff leads the analysis and proposes a solution, which is then voted on by stakeholders and, if passed by a majority of (weighted) votes, is presented to board for approval.
CAISO	Minority positions are commonly represented throughout the stakeholder process, although not always clarified in front of the Board of Governors before final decisions are made. Public comment opportunities at board meetings can be used to express dissenting opinions.

# Ongoing Responsiveness

*Two-way communication is a must – i.e., there must be a mechanism for stakeholder input into the RTO's decisions as well as a mechanism for the RTO's board to provide feedback to stakeholders.*

RTO	Stakeholder Process Description
SPP	The board works closely with the SPP executive management team and relies heavily on their input when making final decisions. Most two-way communication appears to take place between the board and the executive management team (rather than between the board and the members).
MISO	MISO's board holds a "Board Week" where each sector is permitted to offer its views on issues of concern and the board offers its reactions.
CAISO	Opportunities for feedback between board members and stakeholders exist (including during board meetings), but no formal mechanism exists for this type of "two-way communication."

# Thoughts for Discussion

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- The ability of stakeholders to directly influence the decision-making of the RTO's board is an important factor for stakeholders desiring a “meaningful voice” in RTO governance.
- Where a formal stakeholder process exists, membership diversity is important (and commonplace), including representation from consumer advocates, public interest organizations, and public power.
- Formal stakeholder processes offer benefits (e.g., development of formal recommendations for the RTO board's consideration) and drawbacks (e.g., slower decision making timelines).
- Effective, diverse stakeholder participation will be difficult, if not impossible, to achieve where stakeholder processes are too expensive and time-consuming.
- A hybrid model could work well in the context of the EIM stakeholder process – e.g., enabling the RIF to provide formal recommendations to the EIM Governing Body – without the need to “start over” and establish a formal committee structure with voting rights for various membership sectors.

# Helpful Resources

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- 1) R Street Policy Study: How the RTO Stakeholder Process Affects Market Efficiency (Oct. 2017): <https://2o9ub0417chl2lg6m43em6psi2i-wpengine.netdna-ssl.com/wp-content/uploads/2018/04/112-1.pdf>.
- 2) Christina Simeone, PJM Governance: Can Reforms Improve Outcomes? (May 2017): <https://kleinmanenergy.upenn.edu/sites/default/files/proceedingsreports/PJM%20Governance%20Reforms.pdf>.
- 3) E4The Future, Regional Energy Markets: Do Inconsistent Governance Structures Impede Market Success? (June 2016): <https://e4thefuture.org/wp-content/uploads/2016/07/RTO-Governance-2016.pdf>.
- 4) Ron Binz, Considerations in Establishing a Western Regional System Operator (April 2016): [https://efiling.energy.ca.gov/URLRedirectPage.aspx?TN=TN211283\\_20160429T073623\\_Considerations\\_in\\_Establishing\\_a\\_Western\\_Regional\\_Grid\\_Operator.pdf](https://efiling.energy.ca.gov/URLRedirectPage.aspx?TN=TN211283_20160429T073623_Considerations_in_Establishing_a_Western_Regional_Grid_Operator.pdf).
- 5) AESL Consulting, An RTO Comparison: SPP and MISO's Contrasting Approaches (Sep. 2016), [https://www.dora.state.co.us/pls/efi/EFI\\_Agenda.Show\\_Docket?p\\_session\\_id=&p\\_docket\\_id=16I-0816E](https://www.dora.state.co.us/pls/efi/EFI_Agenda.Show_Docket?p_session_id=&p_docket_id=16I-0816E) (submitted Jan. 4, 2018).



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