

Stakeholder Comments of Puget Sound Energy, Inc.

| Submitted by | Company | Date Submitted |
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Please use this template to provide written comments on the EIM Governance straw proposal posted on March 19, 2015.

Please submit comments to EIM@caiso.com by close of business April 16, 2015

Puget Sound Energy (Puget or PSE) appreciates the opportunity to provide comments on the Energy Imbalance Market (EIM) Transitional Committee’s (TC) Straw Proposal proposing a model for governance of the EIM. PSE will be the third EIM Entity to join the EIM, has been actively evaluating the benefits and impacts of CAISO’s EIM, and provides comments on the following issues relating to market governance. As stated in previous comments, PSE supports an EIM governance structure that is regionally equitable, maximizes EIM independence to the extent practicable, and allows for utilization of CAISO’s resources and experience.

Structure - composition of the Nominating Committee, composition of the EIM governing body, and process for selecting members.

Comments:

Nominating Committee: The TC has not proposed a limit on the number of nominating committee members designated by each of the four voting sectors (EIM Entities, participating Transmission Owners, suppliers of generation, and publicly-owned utilities located in EIM BAAs). PSE requests that the TC ensure equitable representation from each sector by providing for a balanced nominating committee. PSE requests that the TC work to determine an appropriate number of representatives and voting weight for each market sector, as well as clarify the procedures for approving nominees (for instance, whether nominees would require consensus from the nominating committee, or another form of approval).

Equitable Representation on EIM Governing Body- The Straw Proposal states on page 16 that there should not be a disproportionate influence by any one region or expertise. PSE agrees with this sentiment, but requests that the TC provide more detail and document this requirement more formally. The goal of equitable representation should be specifically defined in the TC Charter or the ISO Bylaws to ensure an EIM governing board with regional diversity and diverse expertise. As noted below, PSE supports a somewhat larger board to ensure regional representation.

As PSE suggested in its initial comments, PSE believes that to ensure equitable and independent decision making by the EIM governing board, the board should include stakeholder representatives. Specifically, the board should have one representative from each of the four market sectors comprising the Nominating Committee (EIM Entities, participating Transmission Owners, suppliers of generation, and publicly-owned utilities), along with up to three independent representatives (with no financial interest in any EIM participant). The chair could then be selected from among the independent representatives. Rather than attempting to find entirely impartial but experienced board members (which may prove challenging, since experience qualifying a potential board member would likely have been obtained over a career in a particular market sector), PSE favors an EIM board that acknowledges and is representative of its diverse array of participants. PSE believes this will ensure equitable and appropriate decisions by ensuring that all voices are heard. Should the TC opt to pursue a board comprised only of independent members, PSE still believes that geographic balance is crucial to ensuring that no one sub-region or state within the EIM has excessive representation.

Independence: The TC notes that the EIM should be governed by a regionally oriented body of members who are “free from conflicts of interest,” and seeks to ensure this by requiring that EIM board members are “financially independent of stakeholders.” See Straw Proposal, page 2. However, the ISO will pay EIM governing board members “at a level that would attract talented and dedicated members.” Id. page 14. To avoid the appearance of any conflict (since it is conceivable that the EIM board and CAISO board may disagree at some point), PSE recommends that the final proposal make clear that any compensation to EIM governing board members arises from EIM operations and participants, with CAISO merely serving as a “pass-through.”

PSE understands that the ISO Board issued a TC Charter that includes the requirement that the EIM board members are “independent from EIM market participants to enable the EIM body to best exercise authority over EIM rules.” PSE believes that its proposal to explicitly ensure sectoral and regional balance on the board is the best way to ensure equitable decision making by the EIM governing board, and will allow for appropriate checks and balances to ensure decisions are made in the best interests of all EIM market participants. PSE’s proposal will allow an equal voice to all interested parties and, therefore, will ensure equitability and lack of disproportionate influence in decisions, which it believes is the true goal of the “independence” required in the TC Charter.

Finally, PSE notes that because the EIM governing board would be treated as a CAISO subcommittee possessing delegated authority, it would be consistent with subcommittee membership in other ISOs and RTOs to allow for representation by each industry sector on the board. For instance, ISO-NE's Reliability Committee and Transmission Committee are both delegated committees comprised of market participants which advise the ISO board and submit proposed rule changes for consideration – a role not dissimilar from the contemplated EIM governing board.

Term Limits - Under the Straw Proposal, EIM governing board members will serve three-year staggered terms. However, the TC does not provide a limit on the number of terms that may be served. Instead, the TC states that the "EIM governing body would serve the entirety of their terms unless they resigned voluntarily or were removed for reasons to be outlined in the ISO bylaws or EIM governing body charter," which does not address the number of terms that may be held. PSE requests that the TC institute a term limit (i.e., 3 or 4 terms) on the number of consecutive terms that may be held by each EIM governing board member or, in the case of members from the four market segments, their employing organization.

Term limits will serve to mitigate the potential for continuing conflicts of interests in the EIM governing board approving nomination proposals from the nominating committee (i.e., allowing EIM governing board members (after the initial year in which the BOG approves nominations) to vote on the re-nomination of themselves). In the case of a re-nomination, EIM governing board members should be required to recuse themselves from voting on their own consideration for board membership.

Scope of authority – scope of authority, including whether it is appropriate and workable, the examples of issues that would fall within the primary and secondary authority of the EIM governing body, and process for resolving disagreements about the particular proposed rule changes or the scope of authority generally.

Comments:

Primary and Advisory Authority : The TC separates the EIM governing body's authority into two categories (i) primary authority and (ii) advisory authority.

PSE notes that the question of what falls within each category is sure to become a contested issue and bolsters the need for an authority resolution procedure that is fair, efficient and protects the interests of the EIM (i.e. a built-in mechanism to determine whether a given issue falls within primary authority, requiring EIM board approval, or secondary authority requiring only consideration of the EIM board's opinion).

In the second category (termed advisory authority), where the EIM governing board has less autonomy, the TC provides that CAISO must still ensure that the substance of the EIM governing body's opinion is included in any FERC filings. PSE requests that this requirement be documented in writing in the TC Charter or ISO Bylaws.

PSE appreciates the work that has been put in to define these areas of authority and

the examples provided in the March 31, 2015 Straw Proposal Working Group meeting, and believes further refinement would be helpful.

FERC Filing Authority: The TC provides a requirement that the EIM governing board cannot direct ISO staff to make a FERC filing without approval of the ISO Board (except in limited cases where an emergency filing may be made, if for a limited duration of 90 days or less).

Under this proposal, in the absence of consensus between the ISO Board and the EIM governing board, the status quo remains in place. This is disproportionately disadvantageous to EIM Entities and other market participants outside of the CAISO balancing authority area, because the status quo for governance of the CAISO markets has been designed to be California-centric.

The combination of the requirement for the ISO Board to approve any filings before they go to FERC and the lack of an effectively defined authority resolution process ties the EIM governing body's hands, leaving the ultimate decision with the ISO Board. PSE requests that the TC provide more specific authority resolution procedures, allowing for an impasse trigger which provides the ability for both the ISO Board and EIM governing board to file proposals with FERC if the two bodies cannot come to an agreement.

Documentation – documentation of these arrangements in the ISO's bylaws and a charter from the ISO Board of Governors, and mission of the EIM governing body that would be identified in its charter

Comment:

Delegation via Bylaw Changes: The TC requests feedback on whether to recommend that there be a limit on the ISO Board's ability to amend or remove the delegation of authority to the EIM governing board in the bylaws generally. PSE supports the creation of a written provision that allows the delegation of authority to be amended or revoked *only* if a super-majority of both bodies vote in favor of it.

Documentation of EIM Governing Board Opinions: Additionally, as noted above, PSE requests that the requirement that CAISO include the substance of the EIM governing board's opinion in filings before FERC be specifically documented in writing in the TC Charter or ISO Bylaws.

Trigger for re-evaluating EIM governance

Comment:

CAISO's Governing Structure: As the TC has noted, the Board itself has contemplated the need to become more regionally focused. PSE believes that in addition to developing a regionally representative EIM governing board by delegating authority via an amendment of the ISO Bylaws, CAISO should evaluate options to amend the ISO

Bylaws to establish a regionally representative CAISO governance structure.

This is particularly important, given the recent announcement that PacifiCorp will explore becoming a Participating Transmission Owner within the CAISO BAA. Should PacifiCorp become a CAISO TO, CAISO's full market would extend over seven states. The combination of a full regional market would clearly be in tension with a single state's government retaining oversight over the board, and PSE believes that CAISO should begin to contemplate changes to its own governance as its markets expand and evolve.