

Comments of Xcel Energy on CAISO EIM Transitional Committee Draft Governance Document

EIM Independent Governance Criteria:

The EIM TC discussion document considers three governance scenarios for discussion and comment.

Autonomous Independent EIM Board of Directors:

One scenario includes an autonomous independent board of directors for the EIM which contracts for market operations service with the CAISO. This alternative has initial appeal. Some potential EIM Entities may appreciate a governance structure more clearly distinct from California's potential dominance. This could result in greater confidence that an EIM Entity's local interests will be respected and accommodated. From that perspective the autonomy option could result in higher EIM participation.

However the autonomous scenario may have drawbacks as well, which could undermine its attraction. First, would it jeopardize CAISO's tax-exempt status or compromise its California statutory basis if it provided market operator services to a separate autonomous organization? Who would have the final say or provide the "tie-breaker" if CAISO and the EIM Entities sought conflicting tariff policy or terms? Further, a key feature of the current EIM design is withdrawal at no exit fee if an EIM Entity determines participation is creating adverse conditions. Presumably under a contract for market operator services this option would no longer be available, since the autonomous organization would have to manage its liabilities. The autonomous scenario may attract a hardy pioneer orientation of self-determination, but it would also increase the costs for EIM Entities to establish initial services and to fund their exit obligations. Lastly, the CAISO has already established and facilitates a stakeholder input and feedback process with respect to market design, operations and policy issues. Under an autonomous scenario, one must assume the autonomous EIM governance organization would likewise establish a stakeholder input process, resulting in duplication of the necessary staff/expense for market engagement.

Independent EIM Board of Directors with Delegated Authority from CAISO

On the downside this scenario has expense associated with establishing additional independent directors for the EIM, in contrast to the third scenario below. Also a downside, like in the autonomous option above, the stakeholders including EIM Entities will be obligated to interface with two independent bodies, both the CAISO Board of Governors and stakeholders and also the EIM Independent Board and stakeholders.

On the upside, this scenario can be useful in preserving the no-cost exit option for EIM Entities, unlike the autonomous option. Further, this option addresses the “tie-breaker” issue in the case of divergent interests between CAISO and the EIM Entities, with CAISO’s independent Board of Governors clearly retaining its full authority when granted deference is infeasible. That might be a small price to pay in order to retain the no-cost exit option. We commend the CAISO Board of Governors and CAISO management for making this option available in recognition of the stakeholder’s who prefer some autonomous governance (to the extent of delegation) yet desire to retain the benefits of swift and low-cost exit. Lastly, we would appreciate if CAISO staff can confirm that this option satisfies the CAISO’s risk concerns regarding tax-exempt status and statutory enablement.

Advisory Committee Input to the Existing CAISO Board of Governors

In this third scenario, the established independent governance of the CAISO would cover all governance aspects of the EIM. Also all stakeholder forums for input to the EIM governance issues and EIM market operations, policy and feedback would be through the established forums at CAISO. An Advisory-Committee-to-be-determined would advise the CAISO Board of Governors on EIM-related matters, in a non-binding manner analogous to the existing Market Surveillance Committee (MSC) established at the CAISO.

Given the established independence from market participants of the CAISO Board, we believe that independence criteria for the Advisory Committee would not be needed. In this scenario the stakeholders input process and the independent governance are already established through existing CAISO institutions. We recommend the advisory structure to be provided from the EIM Entities, with one advisory committee seat per operating EIM Entity. This will ensure clear and direct technical and operational interface to the CAISO Board from the parties acting directly in a critical coordination role with the CAISO market. Unlike the CAISO’s MSC, however, since the EIM Entities are all involved in the provision of transmission service to enable the EIM, we propose their Advisory Committee roles would be uncompensated.

All other inputs to CAISO regarding EIM activity would track the established CAISO stakeholder input process, avoiding the duplication inherent in the other governance scenarios. Since the combined CAISO/EIM footprint is larger than the historical CAISO, some recognition of the

expanded market's geographic diversity when California selects the Board of Governors would likely be appreciated and well-received by EIM Entities. In this scenario the EIM Entities retain their option to exit at no fee, which mitigates their potential concerns with their limited ability to establish either fully-autonomous governance or a delegated-authority governance arrangement under the other scenarios.

Comments for both scenarios with independent directors:

The nomination of directors should include significant, meaningful input from the EIM Entities.

The election of directors should be based on EIM Entity ballots, once there is a plurality of EIM Entities, with one ballot per non-affiliated EIM Entity.

The rules surrounding the nomination process must be clear, approved by members, and account for the expansion of membership.

Comments for all governance scenarios:

We recommend the governance of the EIM be vested with sufficient authority to evaluate and act upon desired changes or evolution in mission. New products or services which satisfy the criteria of just and reasonable expenditures to obtain sufficient benefits should not be precluded by charter or restriction of authority to act.

We are concerned there may be unforeseen gaps or potential issues given that the startup of the EIM was based upon a single EIM Entity (PacifiCorp), with its own enabling EIM OATT revisions and local tariff requirements. We are not aware of, but also concerned about, issues which could arise in the future when multiple EIM Entities participate with the CAISO. We recommend the governance process be vested with sufficient authority to address complications which could result if EIM Entities make local OATT revisions which do not comport with other EIM Entities or with the CAISO EIM Tariff provisions, or any such action which results in market disruption or lack of standardization in operating practices or grid access policy, potentially to the detriment of efficient and reliability regional operations.

Thank you for the opportunity to provide input to the discussion of alternatives for EIM Governance.

Xcel Energy

