



Department of Energy

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California ISO EIM Governance Review Issue Paper and Straw Proposal, December 14, 2018 Bonneville Power Administration Comments

Submitted by	Company	Date Submitted
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The Bonneville Power Administration (Bonneville) appreciates the Energy Imbalance Market (EIM) Governing Body's review of EIM governance and the opportunity to comment on the California Independent System Operator (ISO) staff's related Issue Paper and Straw Proposal dated December 14, 2018. Bonneville is a federal power marketing administration (PMA) within the U.S. Department of Energy that markets electric power from 31 federal hydroelectric projects and some non-federal projects in the Pacific Northwest with a nameplate capacity of 22,500 MW. Bonneville currently supplies 30 percent of the power consumed in the Northwest. Bonneville also operates 15,000 miles of high voltage transmission that interconnects most of the other transmission systems in the Northwest with Canada and California. Bonneville is obligated by statute to serve Northwest municipalities, public utility districts, cooperatives and then other regional entities prior to selling power out of the region.

This proposed review of EIM governance is well timed given the EIM's expansion in both geography and in membership, particularly with the addition of public power members. Moreover, Bonneville is continuing public discussions about its own potential to join the EIM and is evaluating participation in the EIM as it is currently governed. Accordingly, Bonneville's comments here are offered as suggested improvements to EIM governance as the EIM matures in participation and in its scope of functions.

I. General Comments

As the ISO acknowledges in its issue paper, some EIM participants are considering an extended day-ahead market, and we understand that other regional market iterations may evolve over time. As future market evolution discussions take shape in the coming months, Bonneville believes it is important that the ISO demonstrate that regional market expansion is transparently and fairly administered. The proposal is unclear as to whether the ISO intends to consider how such material changes to the EIM or real-time market design would also affect the EIM's governance structure. If the ISO does not intend to address market design changes in this review process, Bonneville urges the ISO and the EIM Governing Body to commit to reopening the EIM governance discussion if it proposes to materially change the current EIM or real-time market structure in the future, such as expanding the EIM to include a day-ahead market.

That said, Bonneville is encouraged by the breadth of EIM governance issues the ISO has presented in its proposal and the timely nature of this review. Bonneville focuses its comments below on four primary themes:

- Expand the EIM Governing Body's primary authority.
- Improve the durability of the current EIM governance structure and its ability to adapt to expanded market functions.
- Increase the EIM Governing Body's influence over the development of policy initiatives and staffing priorities.
- Provide comparable representation for federal PMAs and public power interests in the EIM governance structure and appropriate participation by non-utility interests.

The ISO's consideration of key changes in these areas will help demonstrate its commitment to an independent, transparent, and inclusive EIM governance structure.

II. Expansion of the EIM Governing Body's primary authority

Phase I: Bonneville favors the expansion of the EIM Governing Body's primary authority, both in response to the narrow recommendation in this straw proposal and as a component of the broader EIM governance review. Accordingly, Bonneville supports the ISO's proposal to expand the scope of issues within the EIM Governing Body's primary authority to encompass any market rule change that is driven primarily by factors specific to the EIM balancing authorities.

Moreover, the ISO's upcoming Local Market Power Mitigation (LMPM) Enhancement initiative is of particular relevance for this proposed interim change. Under this change, Bonneville assumes that the components of the LMPM Enhancement initiative for which the EIM is the primary driver would fall within the primary authority of the EIM Governing Body—specifically the proposals to modify the calculation of the competitive local market power price and to create a new default energy bid for hydropower resources. As such, Bonneville urges the ISO to adopt

this change with sufficient time to classify the components of the LMPM Enhancement initiative under this Straw Proposal's expanded primary authority of the EIM Governing Body.

Phase II: Beyond the discrete question posed by the straw proposal, Bonneville supports further expansion of the EIM Governing Body's primary authority. Specifically, Bonneville believes that the EIM Governing Body's primary authority should extend to all generally applicable real-time market rules regardless of the driver for the change, except for those changes that have no material effect on the EIM or the EIM Balancing Authority Areas. Because the ISO's broader real-time market and the EIM have common market rules, IT platforms, staff, and operational protocols, almost any change to the real-time market has an effect on the EIM or the EIM Balancing Authority Areas. Similarly, if the ISO extends the day-ahead market beyond the existing ISO footprint, the extended day-ahead market should fall within the EIM Governing Body's primary authority.

Bonneville's proposal to expand the EIM Governing Body's primary authority in this manner is not meant to shortcut the authority of the ISO Board of Governors, which retains authority to approve or reject any rule changes within the primary authority of the EIM Governing Body on a consent agenda basis. Rather, this proposed expansion seeks to realign those market rule changes that affect the entirety of the regional market with the decision-making body best suited to evaluate the broad impacts of such changes. Bonneville believes the EIM Governing Body's regional scope and its additional layer of independence from California policymakers makes it better equipped to decide proposed market rule changes in full consideration of the diverse interests that would be affected by those changes.

III. Improve durability of the EIM governance structure

Bonneville views the improved durability and independence of the EIM governance structure as fundamental to the stability and expansion of the market. Strengthening the durability of the EIM Governing Body will help to allay regional concerns that the EIM will be directed primarily by California-centric interests. Accordingly, any proposed change to the composition of the EIM Governing Body or for the dissolution of the EIM Governing Body should require a supermajority of the ISO Board of Governors. This layer of protection for the EIM and its Governing Body will signal to non-California stakeholders that the ISO takes seriously the independence of EIM governance from California state policy.

IV. Increase the EIM Governing Body's role over the development of policy initiatives and staffing priorities

Currently, EIM policy initiatives, as well as the content and agendas of EIM Governing Body meetings, are developed, organized, and conducted by ISO staff. This paradigm can dilute the independence and transparency of the EIM Governing Body's decision-making and agenda-setting roles.

Bonneville recommends expanding the role of the EIM Governing Body, with advisory input from stakeholders, to develop and recommend items for the ISO's annual Policy Initiatives Roadmap that would fall within its primary authority. Bonneville acknowledges that ISO staff solicits public comments on the roadmap. However, an ISO-led public process alone does not provide an adequate means for setting EIM Governing Body priorities regarding the development of policy initiatives or staffing priorities. To address this deficiency, the EIM Governing Body could seek input directly from stakeholders as part of its deliberation on the roadmap and advice to the ISO Board of Governors.

Bonneville also recommends that the EIM Governing Body, with advisory input from stakeholders, be given greater autonomy over the development of its meeting agendas. Currently, ISO staff determines which topics are considered by the EIM Governing Body as well as their priority in deliberations. This leaves EIM stakeholders with very limited ability to influence the substance of EIM policy initiatives. Bonneville believes that expanding the development of topics for the EIM Governing Body meetings to other stakeholders will provide a venue for those stakeholders to raise potential issues and advance solutions that are currently unavailable in the ISO's public processes.

V. Representation of federal PMA and public power interests

The interests of federal PMAs as well as public power entities and the customers they serve are distinct and would be significantly underrepresented in the current EIM governance structure. Federal PMAs and public power entities have a unique role in the west given their geography, customer bases, resource portfolios, and statutory constructs and obligations. As a result, their interests may diverge from other EIM stakeholders, who primarily answer to investors and state interests. This difference compels distinct representation from federal PMAs and public power in the EIM governance structure. Beyond their ability to participate in the Regional Issues Forum, investor-owned utilities and state retail end-users are further represented by the Body of State Regulators in the current EIM governance structure. But there is no similar representative body for federal PMAs and public power entities and their end-users. Yet the diversity, proliferation, and size of federal PMAs and public power entities throughout the EIM footprint warrant comparable representation in the EIM decision-making process. This representative disparity has widened as the geographic scope of the EIM has expanded over the last several years. The ISO acknowledged this gap in public power representation in its second revised proposal for Principles for Governance of a Regional ISO in October 2016, which suggested the creation of an advisory body—the Western States Committee—with representatives from public power and a federal PMA.

Bonneville strongly encourages the ISO to engage in a comprehensive review of the current governance structure with the goal of making changes that equitably incorporate the interests of federal PMAs and public power entities. Specifically, Bonneville's transmission system is currently being utilized for EIM transfers with minimal representation in the EIM governance

structure. And with Bonneville potentially joining the EIM, as well as the ISO's consideration of extending the day-ahead market to the EIM, Bonneville's need to influence EIM decision-making will become greater given the expanded role of the EIM and the impact it would have on Bonneville and its customers. Indeed, the number and diversity of Bonneville's transmission customers—comprised of publicly owned utilities, investor-owned utilities, independent power producers, power marketers, and direct service industries—further speaks to Bonneville's uniqueness within the region and necessitates Bonneville's inclusion within the EIM governance structure. Bonneville's interests would not be adequately represented by any other entity.

Therefore, Bonneville offers some suggestions to achieve representational parity but remains open to discussing particular solutions throughout the EIM governance review process. For example, the ISO could form an advisory body similar to the 2016 Western States Committee proposal that includes a representative(s) from states, market participants, federal PMAs, and public power entities, and provides a role for public interest organizations. Alternatively, the ISO could form a new advisory board comprised of representatives from federal PMAs and other public power representatives within the EIM market footprint comparable to the Body of State Regulators. Bonneville envisions that any proposed advisory body would hold public meetings, receive reports from the market monitor, and directly engage the EIM Governing Body on pending decisions and policy work planning.

In addition to making significant changes to the EIM governance structure, the ISO should consider changes to how the governance structure operates, currently comprised of the Body of State Regulators and the Regional Issues Forum. The current structure is intended to serve an advisory function but, from the perspective and experience of many participants, including Bonneville's involvement in the Regional Issues Forum, it does not perform this advisory function effectively. Bonneville believes that the ISO should consider changes to how these, or other bodies created in this process, perform their advisory role. For example, the ISO should consider lifting the restriction that prevents the Regional Issue Forum from addressing issues identified in current stakeholder processes. A more formal structure that requires these bodies to develop or, at a minimum, summarize written positions of their members and communicate those positions to the EIM Governing Body for its consideration may also be warranted. In short, Bonneville believes the EIM governance structure should include a direct, meaningful, and effective way of advising the EIM Governing Body, including a robust role for federal PMAs and public power.

VI. Timing and Process for EIM Governance review

Bonneville supports the ISO's proposal to use a phased approach for the EIM Governance Review. Bonneville views governance as an essential component of an efficient and fair EIM and encourages the ISO to allow stakeholders to participate fully in the EIM Governance Review process based on the breadth of topics that the ISO and EIM Governing Body consider in response to this comment period. Consequently, due consideration should be given to the

schedule to complete all phases of the EIM Governance Review so as not to shortcut the stakeholder dialogue. Moreover, Bonneville encourages the ISO to conduct this review in 2019 for the scope of the current EIM. If completed this year, the ISO should provide for EIM Governance review again at a date-certain or at such time when the ISO or other EIM participants contemplate materially expanding the scope of the current EIM structure (*e.g.*, extending the day-ahead market to the EIM) if it is not addressed in this process.

The ISO also solicited comment on whether a stakeholder-based, working group structure should be used to develop proposed changes for stakeholder input. Bonneville supports the creation of a working group comprised of a diverse representation of industry segments, including representation from federal PMAs and public power.

VII. Conclusion

Bonneville appreciates the ISO's willingness to consider the broad scope of issues identified in the straw proposal and issue paper. Bonneville looks forward to further engagement on these topics throughout the EIM governance review process.