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RE: EIM Governance Review Committee’s Scoping Paper

I. INTRODUCTION

The Public Power Council (PPC) and Northwest Requirements Utilities (collectively, “Northwest Ratepayers”) appreciate the opportunity to engage with the Governance Review Committee (GRC) and other regional stakeholders to discuss the governance structure of the Energy Imbalance Market (EIM) and the potential Extended Day Ahead Market (EDAM). The scoping paper that the GRC developed is very thorough and demonstrates the GRC’s diligence in this important process.

PPC has previously expressed its members’ keen interest in EIM governance. This interest is only amplified for the EDAM, which will have much greater impact on the energy markets and individual entities across the West, regardless of whether they directly participate in the market. But Northwest Ratepayers do not consider governance in a vacuum. EDAM must work as a package, including market design, oversight, and governance. We look forward to engaging on all these issues with CAISO, the EIM Entities and other stakeholders as part of the CAISO stakeholder initiatives. We will also continue to work with Bonneville Power Administration (BPA) to understand the potential impacts that EDAM would have on its system, and thus our members, given BPA’s statutory obligations to its preference customers.

The Northwest Ratepayers are interested in the development of EDAM from several different perspectives:

- as load serving entities in the potential EDAM footprint;
- as possible EDAM participants – either as EDAM Entities, owners of participating generation, or both;
- as active participants (both as buyers and sellers) in Western bilateral markets which will be impacted by an EDAM; and
- and as purchasers of preference power and transmission services from BPA (whose transmission use and generation revenues stand to be impacted by EDAM whether or not BPA becomes an EDAM participant).

Given the potential for EDAM to vastly impact Northwest public power utilities, the Northwest Ratepayers worked with other Northwest public power entities to develop shared interests that are fundamental to an acceptable governance model. The group of entities that adopted these “Northwest Public Power Interests for EDAM Governance” represents nearly all the publicly-owned utilities in the Pacific Northwest. Collectively, this group represents utilities that: (1) serve over 8400 aMW of load; (2) supply energy in the Western Interconnection from hydroelectric facilities with a total nameplate rating exceeding 7400 MW; (3) comprise approximately 94% of BPA’s Tier 1 power load and fund almost 80% of BPA’s power operation and nearly 70% of the agency’s overall costs; and (4) serve load in Oregon, Washington, Montana, Idaho, Nevada, Utah, Wyoming, and California.

The Northwest Public Power Interests for EDAM Governance are attached and form the basis of these comments. These comments provide additional detail to inform the GRC’s proposals on EIM and EDAM governance. First, we focus on a core group of outcomes that would be required for the Northwest Ratepayers to support an EDAM governance proposal. These outcomes must be advanced together to create an EDAM governance that has the authority, durability, and expertise needed to administer a regional day-ahead market. With a focus on providing detailed feedback to the GRC, the Northwest Ratepayers offer specific recommendations that could be used to achieve each required outcome. The Northwest Ratepayers also make recommendations for changes to the existing EIM governance model. Finally, we offer some additional comments in an effort to address the questions posed by the GRC in its scoping document.

II. EDAM GOVERNANCE MODEL MUST-HAVES

The Northwest Ratepayers believe that a legislative change to revise the CAISO’s founding statutes would be the ideal method for creating a diverse, representative governance for a multistate market. Given the challenges to achieving such a legislative change, the Northwest Ratepayers are committed to exploring a governance model where authority is delegated to a diverse, representative governing body that shares the interests of those participating in and impacted by the market. Such a model cannot be created without five core – “must-have” – elements we have identified below. In addition to identifying these five elements, we offer specific recommendations for achieving each element.

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| Must-have element 1: The EDAM Governing Body Must Have the Authority to Set EDAM Policy |
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The EDAM Governing Body must be delegated enough authority that it can effectively set the direction of the new EDAM. While we understand there must be some limits on this authority, decisions impacting the broad set of stakeholders affected by the EDAM should be made by a decision-making body representing their interests.

In order to create this authority PPC recommends that:

- **The EDAM Governing Body be given authority over all day-ahead and real-time market design.** The EDAM Governing Body should be representative of the participants in the EDAM footprint. To ensure that the market reflects the interests of the broad set

of stakeholders impacted, the EDAM Governing Body should have primary authority when rules apply broadly across the market. When day-ahead market issues impact only CAISO's Balancing Authority Area, the CAISO Board of Governors should have authority over those rule changes. Giving the CAISO Board of Governors primary authority over broad market issues allows a group that is statute-bound to serve a small subsection of the market's stakeholders to make decisions that impact everyone in the market footprint.

- **A third-party dispute resolution process must be established to resolve cases where the EDAM Governing Body and CAISO Board of Governors disagree on adopting CAISO proposals.** Without this remedy, the CAISO Board of Governors could repeatedly veto an EDAM Governing Body decision. We recommend that the dispute resolution process can be triggered after three attempts to reach agreement. Northwest Ratepayers are open to discussing an appropriate third-party arbiter with stakeholders but note that the Federal Energy Regulatory Commission is one potential arbiter in these cases.

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| <p>Must-have element 2: The Delegation of Authority to the EDAM Governing Body Must Be Durable</p> |
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Without achieving the legislative change required to ensure a regionally representative governance, out-of-region entities participating in EDAM are facing some additional risk. EDAM Entities will be making important business decisions based on the assumption that authority will be delegated to the regionally representative EDAM Governing Body. While we understand that for this model to work, the delegated authority must be able to be rescinded, this should only be done under extreme circumstances. Protections must be in place to provide some stability and dependability for market participants.

In order to provide this stability PPC recommends that:

- **A majority vote of both the EDAM Governing Body and the CAISO Board of Governors should be required to make changes to the delegation of authority to the EDAM Governing Body.** This is required to assure that the delegation of authority is not easily revocable based on political changes or disagreements on market design.
- **The EDAM Governing Body must stay appropriately funded to carry out its mission.** The EDAM Governing Body will need to be appropriately funded to administer the day ahead market properly. A majority vote from both the CAISO Board of Governors and the EDAM Governing Body should be required to defund, and essentially dissolve, the EDAM Governing Body. This protection is necessary to ensure there is not a loophole that would undermine the durability requirement discussed above.

Must-have element 3: The EDAM Governing Body is Provided Adequate Resources to Impact the Direction of the EDAM Market, Including Access to an Independent Market Expert.

For the EDAM Governing Body to make knowledgeable decisions regarding the market, the Governing Body will require additional information on the performance of the market. It will also need the ability to ensure that CAISO resources are allocated to address the most pressing issues as identified by the Governing Body.

To provide the EDAM governing body the information and resources needed to direct EDAM, PPC recommends:

- **The EDAM Governing Body should have access to an Independent Market Expert (IME) to provide analysis on proposals and conduct regular assessments on the performance of the EDAM market.** The CAISO Board of Governors has access to analysis performed by the Department of Market Monitoring (DMM) employed by the ISO. Similarly, the EDAM Governing Body should have an independent body that can provide critical information and analysis the EDAM Governing Body needs to help inform important policy positions. This analysis should be provided on both an ongoing basis, and in response to specific proposals. As the IME will benefit all market participants, the cost of this market expert should be funded by market participants through a Grid Management Charge. The ongoing monitoring and allocation of these charges could be included as part of the regular Grid Management Charge rate development process. Such an IME should have experience in monitoring organized markets that reflect a similar diversity of resources contained in the potential EDAM footprint.
- **The EDAM Governing Body should be able to provide input on and have final approval of the CAISO Initiatives Roadmap.** The EDAM Governing Body should be able to ensure the priority of specific initiatives based on stakeholder input and analysis produced by the IME. Currently, neither the CAISO Board of Governors nor the EIM Governing Body has authority to direct CAISO staff's work, including the timing and priority of various initiatives. This has the potential to make decisions or direction given by either body ineffective if CAISO staff chooses to not prioritize those decisions and direction. Both the CAISO Board of Governors and the EDAM Governing Body should approve the annual initiatives roadmap and provide guidance to CAISO staff on within-year changes during quarterly updates.

Must-have element 4: The EDAM Governing Body Must Adequately Represent Northwest Public Power Interests

In order to provide sufficient protections for Northwest public power under this “delegated” authority approach, Northwest public power’s interests must be represented as part of the EDAM

governance structure. Northwest public power has a unique perspective that cannot be adequately represented by other types of entities or entities from other regions. The regulatory structure for public power is different from investor-owned utilities (IOUs). Public power entities are regulated by locally-elected officials who provide oversight for the entity's business. Public power entities are also not-for-profit, which may cause a divergence of interest from their IOU counterparts. Northwest entities also face unique challenges due to their generation mix, which is predominantly hydro. Hydro generation has unique benefits, such as its flexible generating capacity, but also unique challenges, such as operating constraints stemming from low- and high-water years, plus irrigation, transportation, recreation and environmental demands.

To ensure adequate representation for Northwest public power, PPC recommends that:

- **A nomination process should be adopted to ensure that the EDAM Governing Body represents the diversity of participants and stakeholders in the EDAM footprint.** The current nomination process used to appoint members to the EIM Governing Body has been successful at achieving such representation and a similar process should be adopted in EDAM.
- **Public Power should be given the opportunity to provide direct input to the EDAM Governing Body.** The interests of IOU customers are currently represented directly to the EIM Governing Body through the Board of State Regulators; there is no similar representation for public power customers located in the EIM footprint. The EDAM governance model should establish such a committee, made up of one representative of public power from each state with market participants. Representatives on this committee should be nominated by public power regulatory bodies and act as liaisons between those bodies and this new public power committee. This is particularly important within the potential EDAM footprint. Across the eleven states included in the current and planned EIM footprint, publicly-owned utilities serve over 30% of retail demand. This is nearly 10% higher than the share of demand served by public power in any other organized market in the United States.
- **A stakeholder advisory committee should be formed to allow stakeholders to provide input to the EDAM Governing Body directly.** The CAISO should turn the Regional Issues Forum (RIF) into a stakeholder advisory committee. Such a committee would allow market stakeholders to work together to develop positions, increasing the potential for consensus among stakeholder in the EDAM footprint. This would also allow stakeholders the opportunity to directly represent their interests and positions to the Governing Body. This stakeholder advisory group could function like the RIF with the exception that the stakeholder advisory committee would discuss proposals that are currently under consideration of the Governing Body. No formal voting structure would be needed, but the participants in the stakeholder advisory committee should be able to report out on discussions from that forum to the EDAM Governing Body.

Must-have element 5: The EDAM Governing Body Must Be Designed to Maintain the Voluntary Nature of the Market

Without a legislative change to governance, the voluntary nature of the market will continue to be a necessary protection for participants outside of California whose interests are not directly represented by the CAISO Board of Governors.

To ensure that the EDAM retains its voluntary nature, PPC recommends that:

- **The language in the EIM Governing Body’s mission that states that the EIM Governing Body shall “allow EIM Entities to withdraw from the EIM prior to any action that would cause or create an exit fee” should be maintained and strengthened.** Maintaining the voluntary nature of the market will be an unwavering requirement for Northwest public power entities that are considering participation.

III. EIM GOVERNANCE KEY CHANGES

While EIM Governance has worked fairly well thus far, given the scope of that market, PPC suggests the following changes:

- 1) **Create more durability in the delegation of authority to the EIM Governing Body.** Require a majority vote of both the EIM Governing Body and the CAISO Board of Governors to make changes to this delegation.
- 2) **Expand the delegated authority of the EIM Governing Body to include primary authority over all real-time market issues, except for rules that apply specifically to the CAISO BAA.** By not giving the EIM Governing Body primary authority over real-time market issues, decisions on market issues are being made by a body that is not representative of those participating in the real-time market. Providing primary authority to the EIM Governing Body would allow for more diverse interests to be considered when updating real-time market rules, while still providing the CAISO Board of Governors an opportunity to review the changes on its consent agenda. This would ensure that all real-time market stakeholders are represented when rule changes are approved.
- 3) **Modify the Regional Issues Forum to become a stakeholder advisory committee by allowing RIF members to provide direct input to the EIM Governing Body regarding active CAISO initiatives.** Leveraging the RIF to create a stakeholder advisory committee would create more opportunity for the EIM Governing Body to make decisions informed by stakeholders. The discussion among a stakeholder advisory committee would also provide opportunities to develop consensus among stakeholder groups.
- 4) **Create a formalized structure that allows public power to provide input directly to the EIM Governing Body.** This opportunity is already given to commissioners who regulate the IOUs while no similar opportunity is provided for public power. The EIM governance should be revised to address this inequity.

Northwest Ratepayers urge the Governance Review Committee to adopt these recommendations in its proposals for EDAM and EIM Governance and look forward to further discussing these issues with all stakeholders.

IV. OTHER COMMENTS ON GRC PAPER

In addition to the critical issues discussed above, PPC offers these additional comments in response to other areas of the scoping document. Many of the topics discussed in the GRC's scoping document have already been discussed and are repeated here for completeness.

Issue 1: The Delegations of Authority for Market Rules & Decisional Classification Process

- As stated above, the delegation of primary authority on market issues should be expanded for both EDAM and EIM governance.
- It is also critical that the process for delegating authority to the EIM and/or EDAM Governing Body be made more durable, as discussed above.
- The dispute resolution process regarding the decisional classification of CAISO initiatives should be amended so that the Chair of the CAISO Board of Governors is not the tie-breaking vote. Continuing this practice essentially creates a process where the CAISO Board of Governors determines the decisional classification of all initiatives. Stakeholders should work together to identify another tiebreaker. One option could be taking a vote among those serving on the stakeholder advisory committee.
- It is difficult to respond to the question of whether the decisional classification rules have been applied appropriately as we find the current rules inappropriate. There have been cases where the EIM Governing Body should have had primary authority, but it was not given that authority under the current decisional classification rules.

Issue 2: The Process and Criteria for Selecting Governing Body Members

- As discussed above, the current nominating process has been working well and should continue for both EIM and EDAM.
- Northwest Ratepayers believe there may be potential benefits from expanding participation on the Governing Body but at this time, do not offer specific proposals for doing so.

Issue 3: Governing Body Meetings and Engagement with Stakeholders

- As discussed above, a stakeholder advisory committee should be created.
- A new committee should be created to provide public power an opportunity to provide direct feedback to the Governing Body as stated above.
- The current Governing Body meeting process has been working well. In particular, holding these meetings in different locations across the EIM footprint has been a good way to engage more stakeholders. While quarterly meetings have been sufficient to date, additional meetings may be needed given the additional complexity of an EDAM. In the near term, additional meetings could be ad hoc to address specific needs.
- While PPC understands the BOSR's desire for resources to allow them to be more engaged, the CAISO is not an appropriate source of funding for the BOSR. Creating such a funding

mechanism would be inequitable as other stakeholders are not provided funding from the CAISO to participate in stakeholder discussions.

Issue 4: Other Potential Areas for Governing Body Involvement

- As discussed above, Northwest Ratepayers find it critical that an independent market expert regularly assess performance issues in an EDAM market. While this would be helpful in an EIM, the scope of the day-ahead market creates a greater need for this additional information and impartial expertise.
- The Governing Body must be able to provide feedback, and grant final approval of, the annual policy initiative roadmap, as further described above.

Issue 5: Guiding Principles

- The additional guiding principles created by the transitional committee provide important guidance for the Governing Body that should be retained for both an EIM and EDAM.
- If an EDAM moves forward, the guidance on maintaining no exit fees should be maintained and potentially strengthened as discussed above.

Issue 6: Other Potential Topics for Discussion

- Northwest Ratepayers would like to emphasize, as discussed above, the importance of creating additional durability for the Governing Body – for both EIM and EDAM.
- A more robust dispute resolution model must be offered to ensure that the CAISO Board of Governors does not have unlimited veto power over the Governing Body. This is also described in more detail above.
- The Governance Review Committee should include another opportunity for stakeholders to review governance, both for EIM and for EDAM, in the next five years. As the market continues to evolve, additional revisions to the governance model may be appropriate.
- Northwest Ratepayers continue to believe that eventual legislative change to allow true regional governance is the ideal outcome. In this process, we should seek to design a robust governance structure that could eventually be further buttressed through such legislative changes.

General Process Comments

- Northwest Ratepayers support joint authority of the CAISO Board of Governors and the EIM Governing Body during this governance review process for both EDAM and EIM.
- Northwest Ratepayers have no proposed changes on the proposed stakeholder engagement schedule.

Thank you for this opportunity to submit comments.



Northwest Public Power EDAM Governance Interests

January 23, 2019

This document addresses governance interests only; market design interests are addressed separately.

The governance foundation of a centralized day-ahead market is critical to an equitable sharing of value among participants. If the CAISO day-ahead market is to expand across the Western Interconnection, it will impact all entities in the West. It is therefore essential that the governance of that market reflect and represent the interests of all entities in the region.

- The NW Publicly Owned Utilities (NW Public Power) believe a fully independent governance structure, which can only be achieved through a legislative change in California, is the ideal governance approach for any multi-state market.
- NW Public Power recognizes the challenges associated with securing a legislative change at this time.
- The following interests are offered in an earnest effort to explore whether a delegated approach to governance, whereby the CAISO board delegates some level of authority to an EDAM governing body, can achieve sufficient independence so that:
 - Decision making represents and balances the interests of the consumers, market participants, and regulators across the proposed market footprint.

INDEPENDENT BOARD WITH AN INDEPENDENT SELECTION PROCESS

- EDAM Governing Body is of sufficient size to allow the EDAM Governing Body to be reflective of the different regions, market participants, and interests impacted by EDAM
- A clearly defined process for the selection of the EDAM Governing Body by a Nominating Committee comprised of representative regions and participants
- EDAM Governing Body members are independent¹ from market participants or regional governments

DECISION MAKING AUTHORITY OVER MARKET RULES THAT IMPACT EDAM FOOTPRINT

- EDAM Governing Body has decision-making authority for all day-ahead and real-time market design rules, unless the market change applies uniquely to the CAISO Balancing Authority Area and has no impact to the EIM or EDAM
- Decision-making criteria for the EDAM Governing Body is clearly defined and takes into account different regions, market participants, and interests

¹ See *Regional Transmission Organizations*, Order No. 2000, FERC Stats. & Regs. ¶ 31,089 (1999), order on reh'g, Order No. 2000-A, FERC Stats. & Regs. ¶ 31,092 (2000), *aff'd*, *Public Utility District No. 1 of Snohomish County, Washington v. FERC*, 272 F.3d 607 (D.C. Cir. 2001).

DURABILITY OF EDAM GOVERNING BODY

- The structure and decision-making authority of the EDAM Governing Body is highly durable and cannot be defunded or de-obligated without EDAM Governing Body consent

ENHANCED FORMAL INPUT TO EDAM GOVERNING BODY

- The EDAM Governing Body has an independent market expert that:
 - Provides industry best practices and advise on market design; and
 - Conducts analysis and monitoring of key market features to ensure proper function and efficient and fair outcomes for all market participants.
- A Market Advisory Committee with membership representing a balanced mix of market participants as a formal advisory channel to the EDAM Governing Body and CAISO Board of Governors
- The governance structure provides a formal venue for state public utility commissions, power marketing agencies, and public power from all regions impacted by the market to have input to the EDAM Governing Body on items under its decision making authority

THIRD PARTY DISPUTE RESOLUTION

- A dispute resolution process is codified that provides for recommendations of the EDAM Governing Body and the independent market expert to be considered by an independent third-party in the case that the EDAM Governing Body's recommendation conflicts with that of the CAISO Board of Governors

EXIT PROVISIONS AND FINANCIAL PROTECTIONS

- The EDAM Governing Body shall, as part of their mission, ensure that participation in EDAM is voluntary and that exit provisions of less than 6 months exist without assessment of an exit fee

EDAM GOVERNING BODY INPUT INTO CAISO RESOURCE ALLOCATION

- EDAM Governing Body will have the ability to prioritize and have dedicated iso resources to address market design issues

TRANSPARENT PROCESS AND REVIEW

- EDAM Governing Body decision-making, and stakeholder engagement occur in a transparent and inclusive manner
- A review period is established for EDAM Governance to consider if changes are warranted as the market evolves.

The group of entities that adopted these “Northwest Public Power Interests for EDAM Governance” represents nearly all the publicly-owned utilities in the Pacific Northwest that:

- Serve 8400 aMW of load;
- supply energy in the Western Interconnection from hydroelectric facilities with a total nameplate rating exceeding 7400 MW;
- comprise approximately 94% of BPA's Tier 1 power load and fund almost 80% of BPA's power operation and nearly 70% of the agency's overall costs; and
- serve load in Oregon, Washington, Montana, Idaho, Nevada, Utah, Wyoming, and California.