

**Balancing Authority of Northern California**

# Regular Meeting of the Commissioners of BANC

**2:00 P.M.**

**Wednesday, March 27, 2019**

**915 L Street, Suite 1480**

**Sacramento, CA 95814**

# **Balancing Authority of Northern California**

## **NOTICE OF REGULAR MEETING AND AGENDA**

Notice is hereby given that a regular meeting of the Commissioners of the Balancing Authority of Northern California (BANC) will be held on **March 27, 2019 at 2:00 p.m.**, at **915 L Street, Suite 1480, Sacramento, CA 95814.**

### **AGENDA**

- 1 Call to Order.**
- 2 Matters subsequent to posting the Agenda.**
- 3 Public Comment** – any member of the public may address the Commissioners concerning any matter on the agenda.
- 4 Consent Agenda.**
  - A. Minutes of the Regular Commission Meeting held on January 23, 2019.
  - B. BANC Operator Reports (January and February).
  - C. Compliance Officer Reports (February and March).
  - D. PC Committee Chair Reports (February and March).
  - E. General Manager's Report and Strategic Initiatives Update.
- 5 Regular Agenda Items – Discussion and Possible Action.**
  - A. San Luis Transmission Project (SLTP) Update – Duke-American Transmission Company (DATC).
  - B. EIM / EDAM / RC Updates.
  - C. Consider and Possibly Approve Resolution 19-03-19 *Approval of BANC Internal Compliance Program Charter.*
  - D. Legal and Regulatory Update.
  - E. Consider and Possibly Accept BANC 2018 Audited Financials.
  - F. Consider and Possibly Approve Resolution 19-03-20 *Accepting and Adopting the BANC Member Participation Percentages for 2019.*
  - G. Future Meetings and Strategic Planning.
- 6 Closed Session:** Conference with legal counsel in anticipation of litigation pursuant to subdivision (c) of Cal. Gov't Code § 54956.9; one case.
- 7 Adjournment.**

## **Balancing Authority of Northern California**

# **Consent Agenda Items**

- A. Minutes of the January 23, 2019 BANC Regular Meeting.**
- B. BANC Operator Reports (January and February).**
- C. Compliance Officer Reports (February and March).**
- D. PC Committee Chair Reports (February and March).**
- E. General Manager Report and Strategic Initiatives Update.**

MINUTES OF THE REGULAR MEETING OF THE COMMISSIONERS OF THE  
BALANCING AUTHORITY OF NORTHERN CALIFORNIA (BANC)

January 23, 2019

On this date, a Regular Meeting of the Commissioners of the Balancing Authority of Northern California (BANC) was held at 915 L Street, Suite 1480, Sacramento, CA 95814.

Representatives Present:

<b>Member Agency</b>	<b>Commissioner</b>
Modesto Irrigation District	Greg Salyer, Chair
City of Redding	Dan Beans
City of Roseville	Michelle Bertolino
Sacramento Municipal Utility District	Paul Lau
City of Shasta Lake	James Takehara
Trinity Public Utilities District	Paul Hauser

<b>Agency</b>	<b>Liaison</b>
Western Area Power Administration	Dawn Roth Lindell Sonja Anderson

1. Call to Order: Chair Salyer called the meeting to order at 2:00 p.m.
2. Matters Subsequent to Posting the Agenda: None.
3. Public Comment: Chair Salyer invited comments from the public and none were given.
4. Consent Agenda: Mr. Lau moved, Ms. Bertolino seconded, and the participating Commissioners unanimously approved the Consent Agenda items comprised of: (A) Minutes of the Regular Commission Meeting held on November 14, 2018. (B) BANC Operator's Reports for November and December; (C) Compliance Officer's Reports for December and January; (D) PC Committee Chair's Report for December and January; and (E) General Manager's Report and Strategic Initiatives Update.
5. Regular Agenda Items:
  - A. EIM Implementation/EDAM Update

Mr. Shetler provided a brief overview of status related to EIM Phases 1 and 2 Implementation, the Extended Day Ahead Market (EDAM) and RC Services. All required software for EIM software has been tested, with Energy Management System (EMS) system upgrades remaining as a possible outstanding issue. Day-in-the-life testing is complete, parallel operations began February 1st, and go-live is on track for April 3<sup>rd</sup>.

All required agreements have been executed and CAISO Security & Collateral requirements have been submitted. Current actuals plus forecast estimates indicate that we are expected to come in within 2-3% of the original study estimate plan.

MINUTES OF THE REGULAR MEETING OF THE COMMISSIONERS OF THE  
BALANCING AUTHORITY OF NORTHERN CALIFORNIA (BANC)

- i. Mr. Shetler shared that BANC has developed EIM Phase 1 Bilateral Trading Guidelines, which means that when SMUD becomes an EIM participant, there will be restrictions on bilateral trading with Phase 1 participants because of the timelines associated with EIM. Exposure is considered limited, as there have historically not been a significant number of requests for bilateral trades in this timeframe. However, a set of guidelines has been developed and general concurrence with those guidelines has taken place within the Resources Committee and EIM Oversight Committees. At this time, we are not seeking Commission approval, as this is viewed as a living document which may require adjustments going forward. There are currently no open concerns.
- ii. A white paper included in the packet looked at several methodologies regarding how to allocate costs for Phase 2. After much discussion, a decision was made to stay with the load ratio share approach. After some discussion and acknowledgement that cost allocations are not 100% accurate and that any cost allocation methodology could be revisited in the future, Mr. Beans moved, Ms. Bertolino seconded, and the participating Commissioners unanimously approved 19-01-15 *Approval of BANC EIM Cost Allocation for Phase 2 Participation*.
- iii. With regard to Phase 2, Mr. Mark Willis discussed EIM functionality through SMUD. He shared with the Commission that, in terms of the BA footprint (operations, boundaries, NERC compliance, Northwest Power Pool Reserve Sharing Group) and the preservation of Sub-BA arrangements/functionality, everything remains the same as we move into Phase 2, with the exception of redefining the EIM footprint. Mr. Shetler laid out a schedule for the EIM Phase 2 decision-making process, noting the goals of finalizing estimates mid-summer 2019 and bringing the decision on Phase 2 to the Commission in August. Representative(s) were requested to be submitted from each organization for planning purposes.
- iv. Mr. Shetler informed the Commission that the SMUD Utilicast contract expires in April, following EIM Phase 1 implementation. Under a prior sole source request, SMUD previously did a competitive analysis and determined Utilicast to be the best fit for the Phase 1 work. Currently, approval for Tasks 1, 2, and 4 in the attached proposal is requested. Mr. Beans moved, Ms. Bertolino seconded, and the participating Commissioners unanimously approved 19-01-14 *Authorization of Contract for Services Related to BANC EIM Phase 2, EIM Phase 1 Support/Analysis, and EDAM Support*.
- v. Mr. Braun provided an EIM Governance Update. There is a minor change in issues under EIM Governing Body primary authority. A proposal is being made via issue paper to create a 'primary driver test,' which would require modifications to the EIM Governing Body charter.
- vi. Mr. Shetler gave an update on the Extended Day Ahead Market (EDAM). The Feasibility Assessment (FA) is expected to be complete in June and is a gross benefits analysis of the market as a whole (public) with a high-level gross allocation of benefits to each EDAM participant (non-public/utility-specific). Entities will have the ability to contract separately for more detailed individual assessments at some point in the future. CAISO could launch a formal stakeholder process in the 2<sup>nd</sup> half of 2019, depending on the results of the FA.

MINUTES OF THE REGULAR MEETING OF THE COMMISSIONERS OF THE  
BALANCING AUTHORITY OF NORTHERN CALIFORNIA (BANC)

BANC has executed the NDA and cost-sharing agreement to participate in the FA. Mr. Shetler also clarified that only EIM entities can participate in EDAM.

- B. Mr. Shetler gave an RC Services Update including RC-RC coordination around the transitioning of processes and technology to the new RCs. Primary risks include: PEAK viability/staffing retention, challenges presented by multiple transition dates, issues around RC decision-making (seams/boundaries), and the formation of a generation-only RC.

6. Closed Session:

- A. The Commission retired to closed session for conference with legal counsel in anticipation of litigation pursuant to subdivision (c) of Cal. Gov't Code § 54956.9; one case.

After returning to open session, Mr. Braun reported that no action was taken in closed session.

The meeting was adjourned at 3:38 p.m.

Minutes approved on March 23, 2019.

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C. Anthony Braun, Secretary



# BALANCING AUTHORITY OF NORTHERN CALIFORNIA

P.O. BOX 15830 • D109 • SACRAMENTO • CA 95852 -1830

**TO:** BANC Commission

**RE:** BANC Operator Report for January 2019

## Operations:

- BA Operations: Normal
- Significant BA Issues: None
- NWPP Reserve Energy Activations
  - 0 contingency requiring activation of NWPP
  - 0 MW average generation lost
  - 0 MW maximum generation lost
  - Generating unit(s) and date(s) affected: None
  - All recoveries within 0 minutes
- USF
  - 5 of 31 days with instances of USF mitigation procedure utilized
    - 1 day on Path 66
  - No operational impact on BANC
- BAAL Operation:
  - Maximum duration of BAAL exceedance: 11 minutes
  - Number of BAAL exceedance >10 minutes: 1 (1/2/19, 13:19)
  - BAAL violation (BAAL exceedance >30 minutes): None

## Monthly Notes:

- No additional notes or impacts for January 2019



# BALANCING AUTHORITY OF NORTHERN CALIFORNIA

P.O. BOX 15830 • D109 • SACRAMENTO • CA 95852 -1830

**TO:** BANC Commission

**RE:** BANC Operator Report for February 2019

## Operations:

- BA Operations: Normal
- Significant BA Issues: None
- NWPP Reserve Energy Activations
  - 4 contingency requiring activation of NWPP
  - 100 MW average generation lost
  - 140 MW maximum generation lost
  - Generating unit(s) and date(s) affected:
    - 2/14 CSG (tripped offline) and Whiterock (tripped offline)
    - 2/15 Whiterock (tripped offline, low cooling water)
    - 2/28 SCR-KES line relayed
  - All recoveries within 8 minutes (averaged 4 minutes)
- USF
  - 4 of 28 days with instances of USF mitigation procedure utilized
  - 0 days on Path 66
  - No operational impact on BANC
- BAAL Operation:
  - Maximum duration of BAAL exceedance: 5 minutes
  - Number of BAAL exceedance >10 minutes: None
  - BAAL violation (BAAL exceedance >30 minutes): None

## Monthly Notes:

- No additional notes or impacts for February 2019

# Compliance Officer Report

## BANC Commission Meeting

### February 2019

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The following summarizes routine issues for the Commission's information and consideration. Any major issues or action items will be identified separately on a future Commission agenda for action.

#### **BA Compliance Issues:**

- No significant operational Balancing Authority compliance events occurred.
- All required BA compliance reports and operating data were submitted to WECC.
- BANC's Inherent Risk Assessment survey will be submitted to WECC on or before February 18, 2019 as part of the scoping activities leading up to BANC's 2019 Combo Audit (scheduled to be held September 3 - 13, 2019).

#### **BANC MCRC:**

- The next BANC MCRC teleconference is scheduled to be held at 10:00 AM on Monday, February 25, 2019.

# Compliance Officer Report

## BANC Commission Meeting

### March 2019

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The following summarizes routine issues for the Commission's information and consideration. Any major issues or action items will be identified separately on the Commission agenda for action.

#### **BA Compliance Issues:**

- No significant operational Balancing Authority compliance events occurred.
- All required BA compliance reports and operating data were submitted to WECC.
- BANC completed its 2018 Self Certification review and submitted a statement confirming 100% compliance with all applicable NERC Reliability Standards to WECC on February 28, 2019.
- BANC's Inherent Risk Assessment survey was submitted to WECC on February 18, 2019 as part of the scoping activities leading up to BANC's 2019 Combo Audit (scheduled to be held September 3, 2019 -September 13, 2019).
- In preparation for BANC's 2019 Combo Audit, a detailed Critical Infrastructure Protection (CIP) mock-audit will occur from March 25 – April 5, 2019. A team of ex-WECC auditors will review the RSAWs and compliance evidence, conduct interviews, and perform site visits of key facilities.
- The proposed revisions to the BANC ICPC and the BANC MCRC Charter were distributed to members for review and comment in late-February. Both documents were finalized following the conclusion of the review and comment period. The BANC MCRC Charter will be presented to the BANC Commission for review and information, and the BANC ICPC will be presented for approval at the March 27, 2019 Commission meeting.

#### **BANC MCRC:**

- The next BANC MCRC teleconference is scheduled to be held at 10:00 AM on Monday, March 25, 2019.

# PC Committee Chair Report

## BANC Commission Meeting

### February 2019

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The following summarizes Planning Coordinator-related issues for the Commission's information and consideration. Any major issues or action items will be identified separately on a future Commission agenda for action.

#### **BANC PC Committee Issues:**

- Staff has scheduled a kick-off meeting for the 2019 BANC PC Ten-Year Assessment. This WebEx meeting is scheduled for February 20, 2019 at 10:00 AM, and the primary topic of discussion will be the assessment study plan. Brett Kelly, an engineer at SMUD, will lead the meeting and perform the assessment studies this year.
- Staff is finalizing a graphic that will visually explain the Planning Coordinator (PC) and Transmission Planner (TP) relationship between BANC and SMUD and between SMUD and the other BANC PC Participants.

# PC Committee Chair Report

## BANC Commission Meeting

### March 2019

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The following summarizes Planning Coordinator-related issues for the Commission's information and consideration. Any major issues or action items will be identified separately on the Commission agenda for action.

#### **BANC PC Committee Issues:**

- Staff scheduled a BANC PC Committee meeting to discuss study plans for the FAC-013, FAC-014, and PRC-026 studies. The WebEx meeting is scheduled for March 21, 2019. Prabal Singh (SMUD) will be performing these studies on behalf of BANC and will lead the meeting.
- Staff is updating the base cases for the TPL-001-4 study (Ten-Year Transmission Planning Assessment) based on comments received from the BANC PC Participants. The base cases will be finalized on March 25, 2019, and staff will then begin performing the steady-state and transient stability analyses.
- Staff is finalizing a graphic that will visually explain the Planning Coordinator (PC) and Transmission Planner (TP) relationship between BANC and SMUD and between SMUD and the other BANC PC Participants.

# GM Report

## BANC Commission Meeting

### March 27, 2019

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I wanted to summarize routine issues for the Commission's information and consideration. Any major issues or action items will be identified separately on the Commission agenda for action.

#### **Outreach Efforts:**

Refer to GM outreach report provided under separate distribution. In addition, here are some other noteworthy items:

##### **LADWP/Seattle City Light/SRP**

Dialogue continues with these entities regarding EIM participation. Based upon the group's discussions, we have agreed to continue to interact on an informal basis to make sure we are on the same page on EIM issues from a POU perspective. We are routinely holding bi-weekly calls to provide updates and discuss issues. To date, we have collaborated with the other POUs on joint language to use in the EIM Entity agreement that we will all need to sign for EIM operations, on how to address market-based rate authority with DMM, and potential common language for OATT revisions. We have also worked with the other three entities to agree upon the joint funding of BBSW to monitor CAISO interfaces for us.

##### **POU Western Markets Initiative**

BANC continues to participate in this effort, which is being coordinated by APPA. The group continues to evaluate how best to represent the POUs in the ever-changing power markets in the West. The most recent face-to-face meeting was scheduled for March 18, 2019, at SRP Offices in Phoenix. We have agreed to cut back on the number of conference calls and face-to-face meetings until there is a clearer understanding on where regionalization might be heading.

#### **Market Initiatives:**

##### **EIM Participation**

The BANC EIM Phase 1 effort is moving forward on schedule with no major issues. All of the software updates have been delivered and testing is completed. We have resolved the issues around EIM agreements and at this stage all agreements have been executed. We have completed Day-in-the-Life preparation and testing and Market Simulation. BANC/SMUD was the first EIM Entity to pass all of the Structured Scenarios with 100% success on the first try. Parallel Operations was

initiated on February 1st and all requirements have been met. CAISO and BANC certified readiness for go-live and this was filed at FERC on 2/28/19. We are on schedule to meet our go-live date of April 3rd.

The BANC EIM Phase 2 effort was kicked off with a meeting of BANC, SMUD, the Phase 2 Entities (MID, Redding, and Roseville), WAPA-SNR, and the consultant (Utilicast) on 3/7/19. We laid out the preliminary schedule for gap analyses and decision-making that will lead to a Commission discussion at the August meeting regarding moving forward with Phase 2.

BANC and TANC continue to hold discussions with the CAISO regarding IBAA relief. At this stage the CAISO is holding firm on the need for IBAA but has acknowledged that when any of the BANC entities join EIM, there will not be a need for IBAA for that entity in the future.

The CAISO has also announced the intent to allow EIM entities to participate in an extended Day-ahead Market (EDAM). Based upon the discussions among the EIM entities and the CAISO, we have agreed to perform a feasibility assessment of the proposed market design. The feasibility assessment was initiated in December 2018 and is planned for completion in June 2019. It is expected that if an EDAM looks feasible the CAISO would use the second half of 2019 to conduct a formal stakeholder process followed by tariff filings at FERC. An EDAM go-live is currently estimated to be in the late 2021-early 2022 timeframe.

## **WAPA:**

### **Market Engagement**

We are continuing to work with WAPA on integrating them in to the EIM implementation discussions. We have included WAPA-SNR in our Phase 2 discussions and they will be involved in the gap analysis that Utilicast will perform to ensure that we understand the WAPA-SNR interface for the Phase 2 implementation.

On another note, WAPA is hosting a markets in the West discussion in Phoenix on April 9-10<sup>th</sup>. I have been invited to attend and plan on doing so.

### **San Luis Transmission Project**

WAPA-SNR has announced its intent to work with the Bureau of Reclamation and CDWR to construct the SLTP. BANC met with WAPA and the other parties to fully understand the implications of having this new transmission project in the BANC BA/WAPA-SNR sub-BA. There is a possibility that the DWR may also consider bringing some of the State Water Project in to the BANC through participation in the SLTP. We are participating in follow-up meetings with WAPA-SNR, DWR, and the State Water Contractors on this project. In December the State Water Contractors

board voted to recommend that DWR participate in the SLTP with at least a 50 MW share. A follow-up meeting was held in mid-March. In addition, the SLTP developers (DATC) have requested an opportunity to update the Commission on the project status, which we intend to do at the March Commission meeting.

## **Peak Reliability:**

### **Peak/PJM Connex Partnership**

On July 18, 2018, Peak announced that it had terminated its partnership with PJM Connex as part of Peak's decision to wind down operations. There is a possibility that PJM Connex may still pursue market development in the West on its own.

### **RC Services Alternatives**

BANC and the three TOPs (SMUD, MID, and WAPA-SNR) in the BANC footprint submitted in late March their revocable notices of withdrawal from Peak. BANC has executed the CAISO RC Services Agreement. We have confirmed with the CAISO that the BANC footprint will move to the CAISO for RC services by July 1, 2019. Activities are on track to support the July 1<sup>st</sup> transition.

On July 18, 2018, Peak unilaterally made the decision to wind down its operations based upon the informal feedback it had been receiving from the Funding Parties. BANC is working with the other Funding Parties to coordinate on the wind down and closure efforts for Peak. At its February meeting, the Peak Board passed a resolution for termination of Peak at the end of 2019. This resolution will require member approval.

### **Peak MAC and Board Meetings**

The next quarterly meeting of the Peak MAC and Board will be held on April 30, 2019, in Portland. I plan on attending these meetings in my roles as both the BANC executive sponsor and as the Peak MAC Chair. This will also serve as the annual meeting of Peak.

## **WECC**

### **Electricity/Natural Gas Reliability Interface**

WECC initiated its natural gas/electricity interface study in September 2017. WECC continues its outreach on this effort and is planning some next steps on industry coordination regarding follow-up actions.

### **WECC Board Meetings**

I attended the WECC MAC and Board meetings on March 5-6, 2019, in Salt Lake City, UT, as BANC's executive sponsor to WECC. I also plan on attending the WECC Reliability Summit in Phoenix on May 1<sup>st</sup>.

### **RC Services for the West**

WECC and NERC are focused on the RC transition in the West and view it as a major reliability issue for the coming year. WECC/NERC are gearing up for the certification effort for the new RCs. They have determined that Peak will not require a formal recertification on each of the four RC transitions in 2019. WECC has posted a map on its website that shows the basic boundaries of the future four RC's in the Western Interconnection in 2019.

### **CDWR Delta Pumping Load:**

BANC is coordinating with SMUD, CDWR, WAPA, and the CAISO regarding how the construction and pumping loads and ancillary services will be provided for this project. The CAISO has reached out to BANC/SMUD/WAPA-SNR regarding contacts for initiating discussions on how CAISO will supply energy for the construction loads in our footprints.

### **Strategic Initiatives:**

An update of the 2018/2019 Strategic Initiatives is attached to this report.

BANC 2018/2019 Strategic Plan - Routine Initiatives - March 2019 Update

No./Priority	Focus Area	Initiative	Responsibility	Target Due Date	Status
1 Medium	INDEPENDENCE	Effectively oversee the BA operations.	Jim Shetler	Ongoing	See monthly Ops, PC, Compliance, & GM Reports
2 Medium		Develop long-term succession plan and traits for General Manager	Jim Shetler/Commission	4th Qtr. 2019	
3 Low		Organizational Issues: ~ Develop BANC procedures & processes as appropriate	Jim Shetler/BBSW	4th Qtr. 2019	
4 Medium	OUTREACH	Engage in industry forums (WECC, Peak, NWPPA, etc.)	Jim Shetler	Ongoing	Continue attending Peak & WECC Board mtgs, WEIL, & NWPP Exec. Forum
5 Medium		Coordinate with other POU BAs (Ca and regionally)	Jim Shetler	Ongoing	Coordinating with SCL, SRP, LADWP, & TID on EIM
6 Medium		Outreach to regulatory and legislative bodies on key issues	Jim Shetler/BBSW	Ongoing as Necessary	Attended NERC Board Mtg 2/6-7/19
7 Medium	ASSETS	Evaluate joint dispatch options	Resource Committee	4th Qtr. 2019	Based upon current EIM Phase 2 this has been put on hold.
8 Low	MEMBER SERVICES	Identify and outreach to potential new BANC members	Jim Shetler	Ongoing	Follow-on discussions with TID suspended

BANC 2018/2019 Strategic Plan - Focused Initiatives - March 2019 Update

No./Priority	Focus Area	Initiative	Responsibility	Target Due Date	Status
9 High	INDEPENDENCE	Manage implementation of EIM Phase 1 participation effort	Jim Shetler/SMUD	4/3/19	Phase 1 on schedule; Readiness cert. - 2/28
10 High		Planning efforts for possible EIM Phase 2 ~ Gap analysis by Utilicast ~ Develop BANC processes ~ Finalize Phase 2 processes ~ Phase 2 EIM Impl. Agrmt.	Jim Shetler Jim Shetler/BBSW Jim S./BBSW/Mark W. Jim Shetler/BBSW	10/1/19 7/1/19 10/1/19 12/31/18 10/1/19	Initiated Phase 2 Effort Kickoff mtg - 3/7/19  On-going w/ CAISO
11 High		EDAM Phase 1 evaluation ~ Feasibility Assessment ~ CAISO Stakeholder Process	Jim Shetler/BBSW Jim Shetler/BBSW	2nd Qtr. 2019 4th Qtr. 2019	FA effort initiated
12 Medium	OUTREACH	Evaluate opportunities to engage other entities in market development	Jim Shetler	4th Qtr. 2017	~ Continue coordination w/ LA, SCL, SRP ~TID discussions on hold
13 Medium		Regional Policy Issues: Monitor/weigh-in where appropriate	Jim Shetler/Commission	Ongoing	
14 High		Regionalization: ~Monitor CAISO governance ~EDAM discussions	Jim Shetler/BBSW Jim Shetler/BBSW	Ongoing	Reviewing EIM Gov. Prop. Active participation
15 High		Transition of RC Services ~Transfer from Peak to CAISO ~Coordinate Peak Wind Down to support transition	Jim Shetler Jim Shetler	7/1/19 12/31/19	Engaged in CAISO RCSC Participating in RCTCG
16 Medium	ASSETS	2018 IRP Review Issues ~SMUD UARP Capabilities ~WAPA/BOR CVP Capabilities ~Coordination w/ CAISO/TID ~Discuss DWR capabilities ~Coordinate on next IRPs	Jim S./Res. Com./SMUD Jim S./Res. Com./WAPA Jim S./Res. Com. Jim S./Res. Com. Jim S./Res. Com.	12/31/19 12/31/19 12/31/19 12/31/19 12/31/19	Discussions initiated  Discussions initiated
17 Medium		Evaluate TP services for Redding & Roseville	Jim Shetler/J. Gillette	12/31/18	Direct between SMUD and Redding/Roseville

## Balancing Authority of Northern California

### Agenda Item 5C

1. **Resolution 19-03-19 *Approval of BANC Internal Compliance Program Charter.***
2. **BANC Internal Compliance Program Charter.**
3. **BANC Internal Compliance Program Charter – Redline.**
4. **BANC Member Compliance Review Committee Charter.**
5. **BANC Member Compliance Review Committee Charter - Redline.**

# **Braun Blaising Smith Wynne, P.C.**

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Attorneys at Law

3/19/19

**To: BANC Commission**  
**From: BANC Counsel**  
**RE: Approval of BANC Internal Compliance Program Charter**

The Compliance Officer is seeking Commission approval of the revisions made to the Balancing Authority of Northern California (BANC) Internal Compliance Program (ICP) Charter (ICPC), conducted under his direction. The last review and revision, Version 5, occurred in July of 2017. Certain revisions to the ICPC, discussed further herein, were determined by the Compliance Officer to be necessary to ensure that the substance of ICPC keeps pace with the best practices being followed by the BANC compliance staff as they implement the ICP. ICPC Version 6 is therefore being provided to the Commission for your review and approval.

## Background

The BANC ICP is comprised of both policy-level and program-level components. The document before the Commission is the ICPC, which outlines the policy-level component of the ICP. The ICPC provides the overall policy framework for the ICP and therefore requires approval by the Commission.

The ICP implementation details are outlined in separate program-level documents, including the Member Compliance Review Committee (MCRC) Charter, found in Appendix A of the ICPC, the North American Electric Reliability Corporation (NERC) Compliance Monitoring and Enforcement Program Implementation Plan, found in Appendix B of the ICPC, and a detailed compliance program components document, which serves as the manual for the ongoing day-to-day processes and procedures related to implementing and managing the ICP. These program-level working documents, while entirely consistent with ICPC policies, are not separately approved by the Commission.

## Summary of ICPC Changes

The ICPC changes were precipitated by the implementation of an Internal Controls Evaluation (ICE) Program for NERC standards under the direction of the BANC Compliance Officer. The ICE Program describes how BANC identifies, documents, and evaluates internal controls, incorporating internal controls guidance provided by NERC and Western Electricity Coordinating Council (WECC) and consistent with established industry best practices. ICE Program activities support BANC's participation in the ICE process that WECC conducts as a part of its Compliance Monitoring and Enforcement Program (CMEP) activities. Section 5.5, Internal Controls Evaluations Program, was added to the ICPC to reflect this change.

In addition to this primary revision, other minor ICPC updates and clean up changes were made, including, but not limited to:

- Revisions to definitions to ensure consistency with other BANC agreements and documentation
- Updates to conform with changes made to WECC's CMEP Implementation Plan and/or other Compliance Enforcement Authority guidance
- Formatting and terminology usage consistency; and
- Minor process modifications to reflect any changes to how BANC functions are actually being performed by BANC compliance staff<sup>1</sup>

Conforming changes were also made to the MCRC Charter and a copy is being provided for your information.

### Conclusion

The ICPC has been reviewed by the MCRC, which includes representatives from each of the BANC member organizations and the Western Area Power Administration – Sierra Nevada Region. All suggested edits and changes were made by BANC staff in response to this review. Along with the memorandum, you have been provided both a clean Version 6 and a redline of Version 5 so you can review the actual changes. We are now seeking Commission approval of these changes as reflected in Version 6 of the ICPC.

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<sup>1</sup> Several years of BANC operations and multiple audits has helped the compliance team better align actual practices with the ICPC.

**Balancing Authority of Northern California  
Resolution 19-03-19**

**Approval of BANC Internal Compliance Program Charter**

WHEREAS, the Balancing Authority of Northern California ("BANC") maintains an Internal Compliance Program ("ICP") to ensure compliance with North American Electric Reliability Corporation ("NERC") Reliability Standards ("Standards");

WHEREAS, the Commission has adopted the BANC ICP Charter ("ICPC") to establish its policies relating to the ICP;

WHEREAS, the Compliance Officer, in consultation with the Member Compliance Review Committee ("MCRC"), periodically reviews and proposes revisions to the ICPC to ensure the ICP is aligned with changes and/or revisions to Standards and/or changes in BANC's obligations thereto;

WHEREAS, the Compliance Officer has proposed revisions to the ICPC, referred to as ICPC Version 6, primarily to address the addition of and Internal Controls Evaluation ("ICE") Program and other updates to better align the ICPC with ICP activities;

WHEREAS, the MCRC has reviewed and has concurred with the proposed ICPC revisions; and

NOW, THEREFORE, BE IT RESOLVED that the Commissioners of the Balancing Authority of Northern California hereby acknowledge and approve the ICPC.

PASSED AND ADOPTED by the Commissioners of the Balancing Authority of Northern California this 27<sup>th</sup> day of March 2019, by the following vote:

		Aye	No	Abstain	Absent
Modesto ID	Greg Salyer				
City of Redding	Dan Beans				
City of Roseville	Michelle Bertolino				
City of Shasta Lake	James Takehara				
SMUD	Steve Lins				
TPUD	Paul Hauser				

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Greg Salyer  
Chair

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Attest by: C. Anthony Braun  
Secretary

# **BALANCING AUTHORITY OF NORTHERN CALIFORNIA**

## **Internal Compliance Program Charter**

**Version 6.0**

**BANC Members:**

Modesto Irrigation District  
City of Redding  
City of Roseville  
City of Shasta Lake  
Sacramento Municipal Utility District  
Trinity Public Utilities District

# Internal Compliance Program Charter

## TABLE OF CONTENTS

Section 1.	Overview .....	1
Section 2.	Definitions and Terms .....	3
Section 3.	BANC Internal Compliance Program Structure .....	6
3.1	BANC 6 .....	
3.2	Commission .....	6
3.3	Compliance Officer .....	6
3.4	Member Compliance Review Committee .....	7
3.5	BANC Operator .....	7
3.6	BANC Planning Coordinator .....	8
3.7	BANC Counsel .....	8
3.8	General Manager .....	8
Section 4.	Compliance Reporting Structure .....	9
Section 5.	Elements of BANC Internal Compliance Program .....	10
5.1	Operational Independence .....	10
5.2	Compliance Monitoring and Training .....	10
5.2.1	Continuous Self-Assessment and Correction .....	10
5.2.2	Compliance Communication and Training .....	10
5.3	Internal Compliance Investigations .....	11
5.4	Process for Handling Potential Non-Compliance.....	11
5.5	Internal Controls Evaluations Program .....	12
5.6	Review of BANC Internal Compliance Program and Internal Compliance Program Charter .....	12
	Appendix A - Member Compliance Review Committee Charter .....	A-1
	Appendix B - NERC Compliance Monitoring and Enforcement Program Implementation Plan .....	B-1
	Appendix C - General Structure and Relevant NERC Functional Registrations within the BANC Balancing Authority Area Footprint.....	C-1

## **Section 1. Overview**

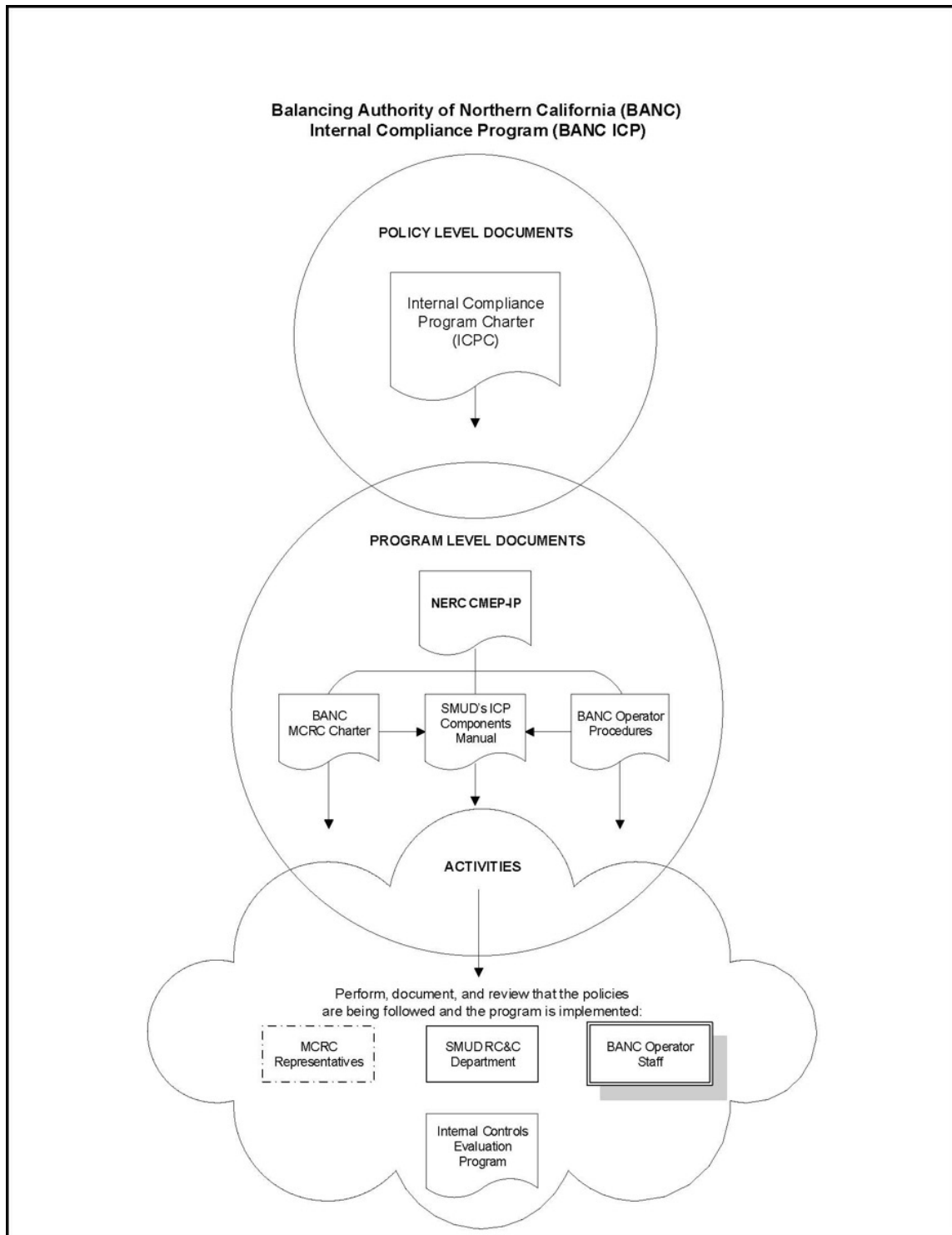
The Balancing Authority of Northern California (BANC) Internal Compliance Program (ICP) is comprised of two types of component documents: (1) policy-level; and (2) program-level. This document outlines the first, policy-level component of the ICP, referred to as the “Internal Compliance Program Charter” (ICPC). Developed by the Compliance Officer and approved by the BANC Commission, the ICPC provides the overall policy framework for the ICP. The ICP implementation details are outlined in separate program-level documents, including: the BANC Member Compliance Review Committee (MCRC) Charter, found in Appendix A; the North American Electric Reliability Corporation (NERC) Compliance Monitoring and Enforcement Program Implementation Plan (CMEP-IP), found in Appendix B; the SMUD Internal Controls Evaluation Program for NERC Reliability Standards (ICE Program); and the SMUD Internal Reliability Compliance Program Components Manual.

The ICPC has been reviewed by the MCRC and provided to Compliance Staff and Subject Matter Experts (SMEs) responsible for maintaining compliance with the NERC Reliability Standards requirements and the mandatory Western Electricity Coordinating Council (WECC) Regional Reliability Standards (NERC/WECC collectively, “Reliability Standards”) requirements applicable to the functions for which BANC is registered. Diagram 1, below, shows the general framework of the ICP.

The goal of the ICP is to actively support a culture that continuously promotes and fosters a reliable and efficient Bulk Electric System (BES) by striving for operational excellence, including the incorporation of best-practices, principles, and processes that support Reliability Standards compliance. This ICPC establishes the framework for the plans, policies, procedures, systems, roles and responsibilities to monitor, assess, and ensure compliance with all applicable Reliability Standards and associated rules, orders, and regulations.

Compliance is accomplished through committed leadership, clear communication channels, training, individual performance and accountability, and a commitment to continuous improvement through monitoring activities, measuring, reporting, reviewing root causes, prevention, risk assessments, and responding to compliance and reliability issues.

**Diagram 1: BANC ICP Framework**



The ICP is comprised of six elements:

1. A Commission, comprised of an executive from each BANC Member (Member) agency, which is responsible for directing the program to meet the Reliability Standards applicable to BANC in its capacity as a NERC-registered Balancing Authority (BA) and Planning Coordinator (PC).
2. An independent BANC Compliance Officer (CO), appointed by the Commission and responsible for reviewing compliance processes and plans, investigating potential violations of applicable Reliability Standards, self-reporting determined violations of those standards, directing the overall program goals, and providing periodic briefings and updates to the Commission, MCRC and BANC management.
3. A Member Compliance Review Committee (MCRC), comprised of representatives from each Member and a participant from the Western Area Power Administration -- Sierra Nevada Region (WASN), that is responsible for consulting with the CO with respect to compliance with applicable Reliability Standards.
4. The BANC Operator, who employs the SMEs responsible for meeting, maintaining, and providing the relevant documentation and technical expertise required to demonstrate compliance with all applicable Reliability Standards and who supports the compliance efforts of the CO and the MCRC.
5. BANC Counsel that provides legal support to the ICP.
6. A General Manager who implements the directives of the Commission and supports the ICP.

## **Section 2. Definitions and Terms**

Unless otherwise defined herein, capitalized terms when used with initial capitalization, whether singular or plural, shall have the meaning set forth in the FERC-approved Glossary of Terms used in NERC Reliability Standards, the NERC Functional Model, the WECC/NERC Delegation Agreement, including the WECC Compliance Monitoring and Enforcement Program (CMEP).

2.1 “BA/PC Compliance List” shall mean the informational list of Reliability Standards applicable to BANC in its capacity as a NERC-registered Balancing Authority and Planning Coordinator maintained by Compliance Staff and made available to Members from time to time.

2.2 “Balancing Authority” or “BA” shall be defined by the prevailing FERC-approved definition of the term as published in the NERC Glossary of Terms.

- 2.3 “Balancing Authority Area” or “BAA” shall mean the collection of generation, transmission, and loads within the metered electrical boundaries of the Balancing Authority.
- 2.4 “Balancing Authority Operation Services Agreement” shall mean the Agreement between BANC and SMUD as the BANC Operator whereby SMUD shall perform specified services for BANC in accordance with the terms of that Agreement.
- 2.5 “BANC Operator” is the role that shall be filled by the entity contracted as operator of the BANC BAA.
- 2.6 “Bulk Electric System” shall be defined by the prevailing FERC-approved definition of the term as published in the NERC Glossary of Terms.
- 2.7 “Commission” shall mean the BANC Commission as established in the JPA, as that agreement may be amended from time to time.
- 2.8 “Compliance” shall mean the full performance of the duties and obligations necessary to comply with applicable Reliability Standards.
- 2.9 “Compliance Enforcement Authority” shall mean FERC, NERC, WECC, and any other agency, court, organization, or other entity or person duly authorized pursuant to law or regulation to: (a) audit or determine compliance with applicable Reliability Standards; or (b) impose, enforce, excuse, or rescind Penalties or otherwise take action binding on one or more Parties with respect to a finding of failure to comply with a Reliability Standard.
- 2.10 “Compliance Investigation Report” shall mean a formal report resulting from an Internal Compliance Investigation or other documentation as approved by the Compliance Officer for the purposes of documenting such an investigation, pursuant to Section 5.3 of this Charter.
- 2.11 “Compliance Monitoring and Enforcement Program Implementation Plan” or “CMEP-IP” shall mean the program used by WECC to monitor, assess, and enforce compliance with Reliability Standards for entities within its footprint.
- 2.12 “Compliance Officer” or “CO” shall mean the individual appointed by the Commission to establish and direct the implementation of the BANC Internal Compliance Program approved by the Commission.
- 2.13 “Compliance Staff” shall mean a compliance team, consisting of one or more members, led by the CO.
- 2.14 “FERC” shall mean the Federal Energy Regulatory Commission.
- 2.15 “General Manager” shall have the meaning described in Section 3.8 of this Charter.

2.16 “Internal Compliance Investigation” shall have the meaning described in Section 5.3 of this Charter.

2.17 “Internal Compliance Program” or “ICP” shall mean both the policy-level and program-level component documents and all implementing actions that are done in support of Compliance.

2.18 “Internal Compliance Program Charter” or “ICPC” shall mean the policy-level component document of the BANC Internal Compliance Program, approved by the Commission and implemented by the Compliance Officer to ensure Compliance.

2.19 “Internal Controls” shall have the same meaning as used in SMUD’s Internal Controls Evaluation Program for NERC Reliability Standards, as this definition may be amended from time to time.

2.20 “Joint Powers Agreement” or “JPA” shall mean the Second Amended Joint Exercise of Powers Agreement, effective July 1, 2013, as such agreement may be amended from time to time under its provisions.

2.21 “Member” shall mean a party to the JPA, as that agreement may be amended from time to time.

2.22 “NERC” shall mean the North American Electric Reliability Corporation.

2.23 “PC Participant” shall mean a Member signatory to the PC Participation Agreement.

2.24 “PC Participation Agreement” shall mean the agreement between BANC and certain Members who desire to have BANC serve as their PC.

2.25 “PC Services Agreement” shall mean the agreement between BANC and SMUD whereby SMUD has agreed to perform specified PC services for BANC in accordance with the terms of that agreement.

2.26 “PC Services Provider” shall mean the entity providing PC Services to BANC. SMUD is the contracted PC Services Provider pursuant to the terms set forth in the PC Services Agreement.

2.27 “Planning Coordinator” or “PC” shall have the same meaning as used in the NERC Glossary of Terms, as this definition may be amended from time to time.

2.28 “Reliability Standards” shall mean those NERC Reliability Standards and WECC Regional Reliability Standards that have been approved by FERC under Section 215 of the Federal Power Act and WECC applicable Regional Criterion referenced in FERC-approved Reliability Standards.

2.29 “Representative” shall mean a member of MCRC.

2.30 “Subject Matter Expert” or ‘SME” shall mean those responsible for maintaining compliance with applicable Reliability Standards.

2.31 “WECC” shall mean the Western Electricity Coordinating Council or its successor.

### **Section 3. BANC Internal Compliance Program Structure**

#### **3.1 BANC**

BANC is registered for the following NERC Functions:

- BA (Balancing Authority)
- PC (Planning Coordinator)

BANC Members and other relevant NERC functional registrations within the BANC BAA footprint are provided in Appendix C.

#### **3.2 Commission**

The Commission collaborates with and directs the CO as issues regarding BANC’s system reliability policies, strategies, and priorities are identified and addressed. The Commission shall ensure that necessary resources are provided to the BANC Operator to support compliance activities and the ICP. The Commission shall facilitate communication, the exchange of information, and coordination among Members on issues that impact electric reliability. It shall meet on compliance matters, as required by events and conditions. These meetings may be held in conjunction with regular meetings of the Commission.

#### **3.3 Compliance Officer**

The Compliance Officer reports directly to the Commission. The CO shall have authorized executive responsibility for the approval of all compliance certifications and submittals that are required of BANC. The CO shall ensure that BANC’s policies, decisions, and documentation regarding Reliability Standards are appropriate and effective. The CO, in coordination with Compliance Staff and the MCRC, interacts with the SMEs to ensure that the elements of the ICP are being met. The CO shall conduct independent reviews of processes and documentation prepared to demonstrate compliance. Specifically, the CO shall:

3.3.1 Assess the BANC Operator’s performance with respect to its adherence to applicable Reliability Standards.

3.3.2 Lead Internal Compliance Investigations and determine compliance with applicable Reliability Standards.

3.3.3 Ensure that the ICP is in place and effective in meeting BANC’s reliability obligations.

- 3.3.4 Approve all official compliance documents and certifications on behalf of BANC.
- 3.3.5 Periodically update the Commission on BANC's compliance efforts.
- 3.3.6 Ensure the General Manager and BANC Counsel are updated on an "as-needed" basis regarding compliance events or other matters impacting ICP objectives.
- 3.3.7 Request additional resources from the Commission, when necessary, to meet compliance obligations.
- 3.3.8 Monitor compliance performance data from the BANC Operator and recommend appropriate actions or mitigation procedures.
- 3.3.9 Ensure effective processes are in place to develop accurate and timely responses for compliance-related requests from a Compliance Enforcement Authority.
- 3.3.10 Act as an independent point of contact for the BANC Operator or Members to report potential violations of applicable Reliability Standards.
- 3.3.11 Develop and maintain ICP documents that outline more detailed internal reliability compliance processes.
- 3.3.12 Serve as Chair of the MCRC.

#### **3.4 Member Compliance Review Committee**

Under the direction of the CO, the Member Compliance Review Committee (MCRC) provides input with respect to the following: (1) the development of, and ongoing improvements to, the ICP; (2) ongoing updates to the BA/PC Compliance List; (3) ongoing compliance matters regarding BANC in its capacity as a BA and a PC; and (4) the review of notices or actions directed to BANC from a Compliance Enforcement Authority. A more detailed description of the roles and responsibilities of the MCRC is set forth in the "Member Compliance Review Committee Charter," which is provided as Appendix A to this ICPC.

#### **3.5 BANC Operator**

The BANC Operator is responsible for managing and generating the critical information to meet compliance requirements and respond to other regulatory obligations at the direction of the CO or the MCRC. The BANC Operator shall employ SMEs with the expertise to meet or exceed that which is necessary to ensure Compliance. BANC Operator SMEs shall provide documentation that demonstrates compliance with applicable Reliability Standards in accordance with specified timelines. In particular, the BANC Operator shall:

- 3.5.1 Promote the exchange of information through development of good practices and effective work processes that assist in achieving safe, reliable, and efficient operation.
- 3.5.2 Recognize the importance of improving or revising existing practices when necessary.

- 3.5.3 Report any potential violations to the CO for further investigation and cooperate with the CO during any such investigation.
- 3.5.4 Identify any resource issues associated with compliance with applicable Reliability Standards and work with the CO and MCRC to promptly address those concerns to ensure Compliance.
- 3.5.5 Upon request, provide a position, and, if further requested, propose language to the MCRC with respect to applicable Reliability Standards under development.

### **3.6 BANC Planning Coordinator**

BANC is the registered PC for its Members who have executed the PC Participation Agreement. As the registered PC for PC Participants, BANC is responsible for managing and generating the critical information to meet compliance requirements and respond to other regulatory obligations at the direction of the CO or the MCRC. To support this obligation, BANC has contracted with a PC Services Provider. The PC Services Provider is required to employ SMEs with the expertise to meet or exceed that which is necessary to ensure Compliance with all applicable Reliability Standards. Specifically, the PC Services Provider shall:

- 3.6.1 Promote the exchange of information through development of good practices and effective work processes that assist in achieving safe, reliable, and efficient operation.
- 3.6.2 Recognize the importance of improving or revising existing practices when necessary.
- 3.6.3 Report any potential violations to the CO for further investigation and cooperate with the CO during any such investigation.
- 3.6.4 Identify any resource issues associated with compliance with applicable Reliability Standards and work with the CO and MCRC to promptly address those concerns to ensure Compliance.
- 3.6.5 Upon request, provide a position, and, if further requested, propose language to the MCRC with respect to applicable Reliability Standards under development.

### **3.7 BANC Counsel**

BANC Counsel shall advise the Commission, Compliance Officer, and MCRC on NERC reliability compliance and enforcement matters, regulatory proceedings before FERC involving the development of NERC standards, and all other issues involving NERC Reliability Standards and compliance as they relate to BANC. BANC Counsel shall assist with Internal Compliance Investigations and determinations. BANC Counsel shall coordinate with the Commission, MCRC, BANC Operator and General Manager to develop BANC comments on Reliability Standards before FERC, if so requested.

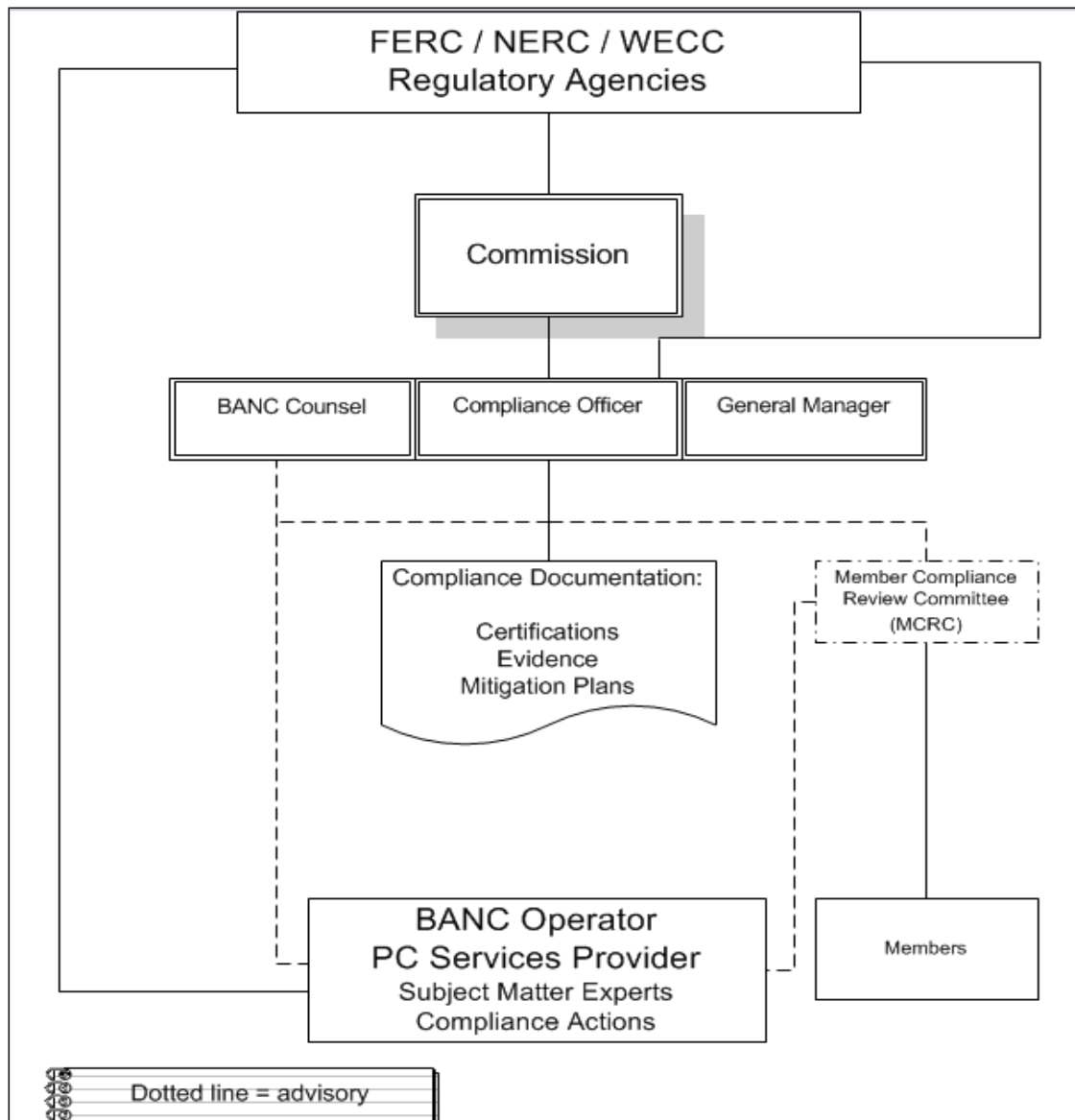
### **3.8 General Manager**

The General Manager is the chief executive officer of BANC. The General Manager is responsible for implementing the directives of the Commission, providing executive support for the ICP and supporting a culture of compliance within the organization.

#### Section 4. Compliance Reporting Structure

The ICP is organized to ensure that appropriate and effective processes, policies, and practices related to Balancing Authority and Planning Coordinator reliability are established and executed. It is structured to keep the execution of work as close to the primary implementers and experts as possible. The relationship of these components is illustrated in Diagram 2.

**Diagram 2: Illustration of BANC Internal Compliance Program Relationships**



## **Section 5. Elements of BANC Internal Compliance Program**

The ICP promotes coordination, communication, efficiency, and effectiveness to ensure Compliance.

### **5.1 Operational Independence**

The CO, in coordination with the MCRC and Compliance Staff, implements the ICP. The CO, Compliance Staff, and the MCRC do not manage or perform line functions or make operational decisions. The BANC Operator and PC Services Provider perform line functions and operational actions in accordance with the Balancing Authority Operation Services Agreement. The PC Services Provider performs PC functions in accordance with the PC Services Agreement. The MCRC reports directly to the CO, who in turn reports directly to the Commission.

### **5.2 Compliance Monitoring and Training**

The CO, in coordination with the MCRC and Compliance Staff, shall proactively monitor compliance.

#### **5.2.1 Continuous Self-Assessment and Correction**

The CO, in coordination with the MCRC and Compliance Staff, may direct periodic assessments of BANC compliance efforts, generally with an emphasis on those Reliability Standards that pose the greatest risk to the reliability of the BES and BANC BAA. These assessment(s) aim to identify and address reliability risks that may lead to potential violation(s). The CO may share the results of these assessments with the General Manager and with the Commission in closed session, as directed by BANC Counsel. An example of continuous review may include ensuring that the BANC Operator and/or PC Services Provider completes and documents a rigorous analysis of potentially compliance-related events. The need for such assessment shall be determined by the CO; however, such assessment(s) may be also requested by the Commission.

#### **5.2.2 Compliance Communication and Training**

The CO, in coordination with the MCRC, shall disseminate to the BANC Operator and PC Services Provider “lessons learned,” compliance application notices, compliance application reports, and other issuances related to BANC’s compliance obligations. The BANC Operator and Planning Coordinator SMEs and staff shall receive annual compliance training, which shall include the process for self-reporting potential violations. The BANC Operator and Planning Coordinator SMEs shall have access to an internal compliance website with a link available to any SME or staff member to report any potential violation of a Reliability Standard.

The CO, in coordination with the MCRC, shall review the need for a meeting no less frequently than once per quarter. Meetings may be held either in person or via

teleconference. During any such meeting, the MCRC shall receive an update on BANC compliance activities. The CO shall keep the MCRC apprised of the status of any potential violations.

The CO shall regularly update the Commission on BANC compliance activities. Such updates shall be held in closed session to the extent that the discussion requires disclosure of critical infrastructure information, personnel matters or information regarding pending or threatened litigation. The determination as to whether all or a portion of the update on other compliance activities should be held in closed session shall be determined by BANC Counsel.

### **5.3 Internal Compliance Investigations**

Upon learning of any circumstance of potential non-compliance, the CO shall first confirm with the BANC Operator and/or PC Services Provider that any ongoing possible reliability risks have been removed and will then commence an investigation to determine whether a potential violation of one or more applicable Reliability Standards occurred. The CO may consult with BANC Counsel and notify the General Manager and the MCRC regarding items reviewed at any point during the investigation. Further, the CO may seek review and recommendations from the MCRC on any matter undergoing an Internal Compliance Investigation. The role of the MCRC regarding an Internal Compliance Investigation is set forth in more detail in Section 6 of the MCRC Charter.

Upon conclusion of the investigation, if the CO believes that a potential violation of an applicable Reliability Standard occurred, the CO shall file either a self-report or a self-logged issue<sup>1</sup> with a Compliance Enforcement Authority. If the CO concludes that no potential violation occurred, the CO shall close the matter and maintain relevant documentation, including a Compliance Investigation Report, in BANC's compliance files. Further, the CO may recommend that the BANC Operator or PC Services Provider conduct a review and/or revision of related processes and procedures to ensure that full compliance is reinforced.

### **5.4 Process for Handling Potential Non-Compliance**

The CO may be notified of a potential violation by any compliance monitoring method utilized by a Compliance Enforcement Authority including: (1) Audit; (2) Self-Certification; (3) Spot Checks; (4) Periodic Data Submittals; (5) Exception Reporting; (6) Compliance Violation Investigations; (7) Self-Report/Self-Log; and (8) Complaint.

Upon receipt of a notice of potential violation and/or Compliance Exception<sup>2</sup> issued by a Compliance Enforcement Authority, the CO shall notify BANC Counsel and

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<sup>1</sup> Following the 2016 NERC Compliance Audit, BANC was awarded self-logging privileges for minor issues that pose minimal risk to the reliability of the BES.

<sup>2</sup> The Compliance Exception process is set forth in §3A.0 of the NERC Compliance Monitoring and Enforcement Program ("CMEP"), Appendix 4C to the NERC Rules of Procedure.

the General Manager. The CO shall ensure that such notice is also provided to the BANC Operator and/or PC Services Provider and the MCRC. The CO shall coordinate with BANC Counsel, the General Manager, the MCRC and the Commission in responding to any notices of potential violation.

The CO shall follow and adhere to all of the processes described in the CMEP-IP regarding the processing of violations. The CMEP-IP is included in Appendix B of this ICPC.

## **5.5 Internal Controls Evaluations Program**

The CO shall oversee the implementation of an Internal Controls Evaluation (ICE) Program that describes how BANC identifies, documents, and evaluates internal controls. The ICE Program incorporates internal controls guidance provided by NERC and WECC and is consistent with established industry best practices. ICE Program activities support BANC's participation in the ICE process that WECC conducts as a part of its CMEP activities.

The ICE Program integrates with other Internal Compliance Program elements related to BANC's reliability, security, and compliance objectives. The identification and documentation of internal controls primarily focus on areas that are determined to have higher levels of inherent risk. The ICE Program includes a transparent and repeatable process to evaluate the effectiveness of internal controls, resulting in reports that convey control effectiveness, residual risk, areas of strength, and recommendations for consideration. These reports are utilized as a part of the overall ICP to facilitate a better understanding of residual risk associated with applicable Reliability Standards. Updates regarding ICE Program activities are communicated in accordance with Section 5.2.2 of this charter.

## **5.6 Review of BANC Internal Compliance Program and Internal Compliance Program Charter**

The CO shall conduct an annual audit of the ICP. The CO may request that such an audit be performed by a third-party. A copy of the final annual ICP audit report shall be provided to the Commission. The MCRC shall have an opportunity to review the ICP audit report prior to the report going to the Commission.

Additionally, at any time, the CO, the Commission, any MCRC Representative or BANC Counsel may propose any appropriate or necessary changes to ensure the effectiveness of the ICP or the accuracy of this ICPC. Such changes may include incorporating elements proposed by FERC in its policy statements, rules, or orders, or any other guidance proposed by a Compliance Enforcement Authority. The CO shall document the date of any review, as well as any changes made to the ICP or this ICPC. Changes to the ICPC are reflected through a change to its version number.

**Review and Approval - BANC Internal Compliance Program Charter Version 6.0**

*Prepared by:*

\_\_\_\_\_ Date \_\_\_\_\_  
James Leigh-Kendall  
BANC Compliance Officer

*Legal Concurrence:*

\_\_\_\_\_ Date \_\_\_\_\_  
C. Anthony Braun  
BANC General Counsel

*General Manager Concurrence:*

\_\_\_\_\_ Date \_\_\_\_\_  
James R. Shetler  
BANC General Manager

*Commission Approval:*

\_\_\_\_\_ Date \_\_\_\_\_  
BANC Chairperson  
BANC Commission

## Revision History

<b>Balancing Authority of Northern California Internal Compliance Program</b>			
<b>Version</b>	<b>Issue Date</b>	<b>Approved</b>	<b>Remarks</b>
1.0	March 18, 2011	March 4, 2011	Approved by Commission as to Substance
2.0	May 16, 2012	May 23, 2012	Approved by Commission as to Substance
3.0	May 23, 2014	May 28, 2014	Approved by Commission as to Substance
4.0	April 29, 2016	June 22, 2016	Approved by Commission as to Substance
5.0	July 31, 2017	August 23, 2017	Approved by Commission as to Substance
6.0	March 21, 2019		

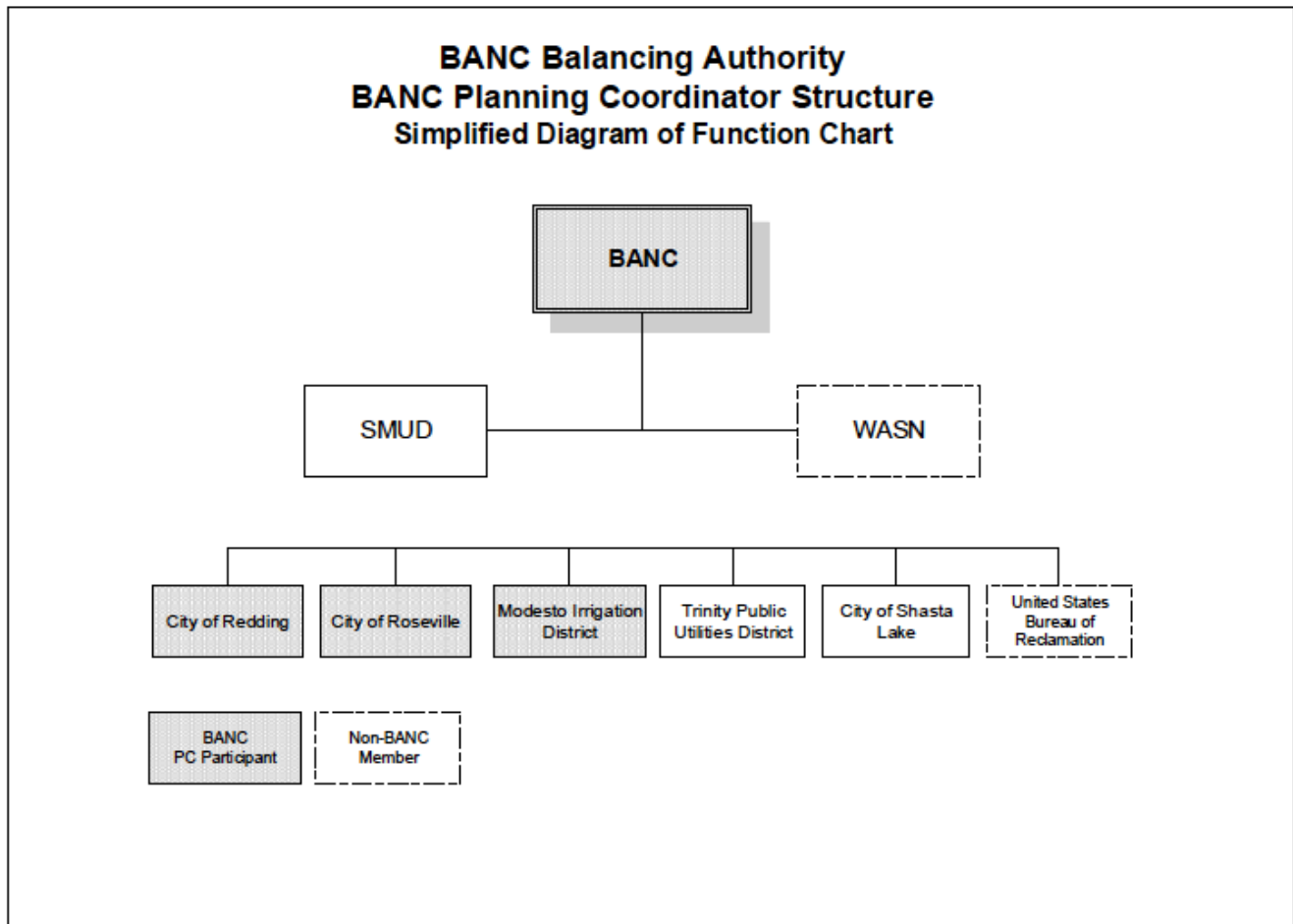
**Appendix A**  
Member Compliance Review Committee Charter

**Appendix B**  
NERC Compliance Monitoring and Enforcement Program  
Implementation Plan

# Appendix C

## General Structure and Relevant NERC Functional Registrations within the BANC Balancing Authority Area Footprint

Figure 1: General BANC BA/PC Structure



**Figure 2: Relevant NERC Functional Registrations within the BANC BA Area Footprint**

	BANC	SMUD	WASN	WASN - Merchant	City of Redding	City of Roseville	Modesto Irrigation District	Bureau of Reclamation	City of Shasta Lake	Trinity Public Utilities District
BANC Member	X	X			X	X	X		X	X
BANC PC Participant	X	X			X	X	X			
Western SBA Member					X	X	X	X	X	X
Functional Entity										
BA	X									
TO		X	X				X	X		
TOP		X	X				X			
TP		X	X				X			
TSP		X	X							
PC	X		X							
IA										
RP		X		X	X	X	X			
GO		X			X		X	X		
GOP		X			X		X	X		
DP		X			X	X	X			

(**Note:** Western Area Power Administration -- Sierra Nevada Region (WASN) operates under the BANC BA as a sub-Balancing Authority (SBA), and many utilities operate under the WASN SBA. However, not all utilities are members of BANC. The table above shows the utilities, their operational relationship(s), BANC membership and functional registration(s).

**BALANCING AUTHORITY OF  
NORTHERN CALIFORNIA**

**Internal Compliance Program Charter**

Version **6.0**

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**BANC Members:**

Modesto Irrigation District  
City of Redding  
City of Roseville  
City of Shasta Lake  
Sacramento Municipal Utility District  
Trinity Public Utilities District

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## Internal Compliance Program Charter

### TABLE OF CONTENTS

Section 1.	Overview .....	3	Deleted: 1
Section 2.	Definitions and Terms .....	1	Deleted: 3
Section 3.	BANC Internal Compliance Program Structure .....	4	Deleted: 6
3.1	BANC .....	4	Deleted: 6
3.2	Commission .....	4	Deleted: 6
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Appendix B -	NERC Compliance Monitoring and Enforcement Program Implementation Plan .....	B-1	
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## Section 1. Overview

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The ICPC has been reviewed by the MCRC and provided to Compliance Staff and Subject Matter Experts (SMEs) responsible for maintaining compliance with the NERC Reliability Standards requirements and the mandatory Western Electricity Coordinating Council (WECC) Regional Reliability Standards (NERC/WECC collectively, “Reliability Standards”) requirements applicable to the functions for which BANC is registered. Diagram 1, below, shows the general framework of the ICP.

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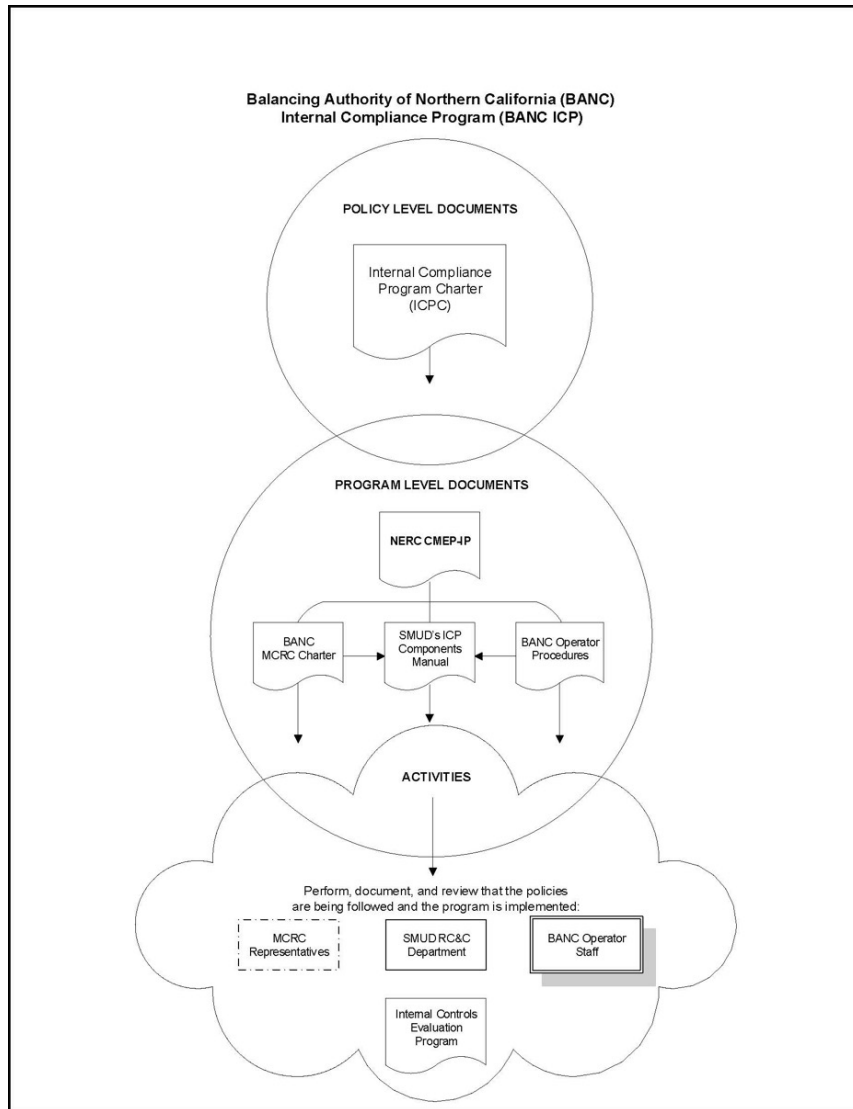
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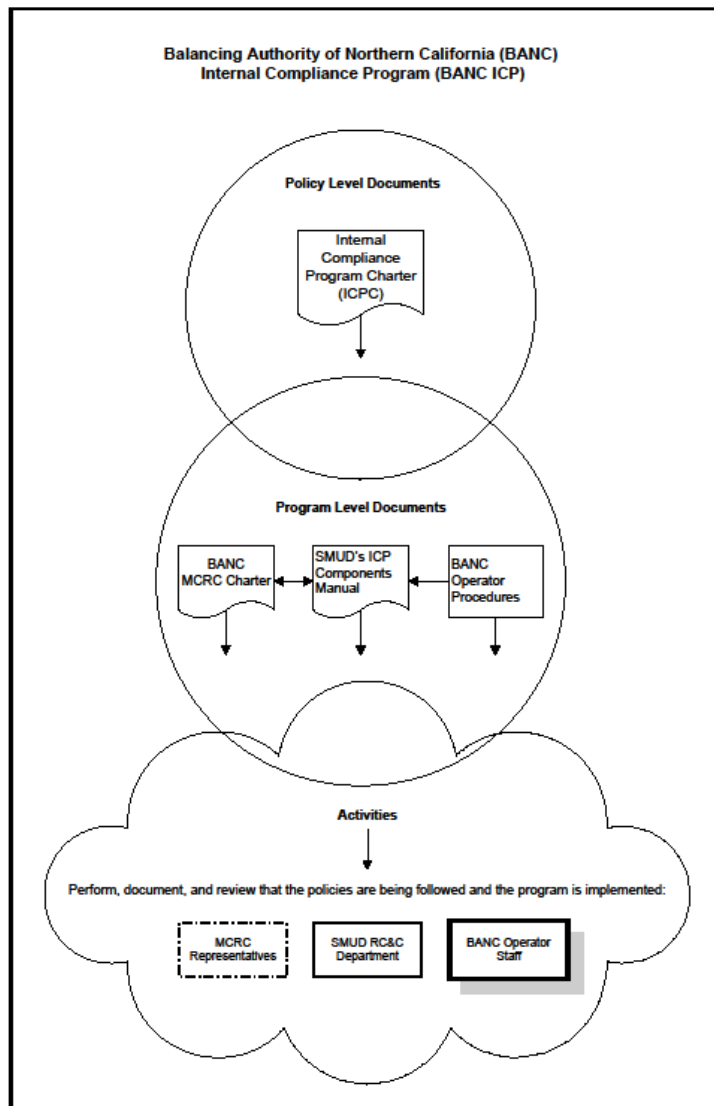
**Diagram 1: BANC ICP Framework**



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The ICP is comprised of six elements:

1. A Commission, comprised of an executive from each BANC Member (Member) agency, which is responsible for directing the program to meet the Reliability Standards applicable to BANC in its capacity as a NERC-registered Balancing Authority (BA) and Planning Coordinator (PC).
2. An independent BANC Compliance Officer (CO), appointed by the Commission and responsible for reviewing compliance processes and plans, investigating potential violations of applicable Reliability Standards, self-reporting determined violations of those standards, directing the overall program goals, and providing periodic briefings and updates to the Commission, MCRC and BANC management.
3. A Member Compliance Review Committee (MCRC), comprised of representatives from each Member and a participant from the Western Area Power Administration -- Sierra Nevada Region (WASN), that is responsible for consulting with the CO with respect to compliance with applicable Reliability Standards.
4. The BANC Operator, who employs the SMEs responsible for meeting, maintaining, and providing the relevant documentation and technical expertise required to demonstrate compliance with all applicable Reliability Standards and who supports the compliance efforts of the CO and the MCRC.
5. BANC Counsel that provides legal support to the ICP.
6. A General Manager who implements the directives of the Commission and supports the ICP.

## Section 2. Definitions and Terms

Unless otherwise defined herein, capitalized terms when used with initial capitalization, whether singular or plural, shall have the meaning set forth in the FERC-approved Glossary of Terms used in NERC Reliability Standards, the NERC Functional Model, the WECC/NERC Delegation Agreement, including the WECC Compliance Monitoring and Enforcement Program (CMEP).

2.1 “BA/PC Compliance List” shall mean the informational list of Reliability Standards applicable to BANC in its capacity as a NERC-registered Balancing Authority and Planning Coordinator maintained by Compliance Staff and made available to Members from time to time.

2.2 “Balancing Authority” or “BA” shall be defined by the prevailing FERC-approved definition of the term as published in the NERC Glossary of Terms.

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2.3 “Balancing Authority Area” or “BAA” shall mean the collection of generation, transmission, and loads within the metered electrical boundaries of the Balancing Authority.

2.4 “Balancing Authority Operation Services Agreement” shall mean the Agreement between BANC and SMUD as the BANC Operator whereby SMUD shall perform specified services for BANC in accordance with the terms of that Agreement.

2.5 “BANC Operator” is the role that shall be filled by the entity contracted as operator of the BANC BAA.

2.6 “Bulk Electric System” shall be defined by the prevailing FERC-approved definition of the term as published in the NERC Glossary of Terms.

2.7 “Commission” shall mean the BANC Commission as established in the JPA, as that agreement may be amended from time to time.

2.8 “Compliance” shall mean the full performance of the duties and obligations necessary to comply with applicable Reliability Standards.

2.9 “Compliance Enforcement Authority” shall mean FERC, NERC, WECC, and any other agency, court, organization, or other entity or person duly authorized pursuant to law or regulation to: (a) audit or determine compliance with applicable Reliability Standards; or (b) impose, enforce, excuse, or rescind Penalties or otherwise take action binding on one or more Parties with respect to a finding of failure to comply with a Reliability Standard.

2.10 “Compliance Investigation Report” shall mean a formal report resulting from an Internal Compliance Investigation or other documentation as approved by the Compliance Officer for the purposes of documenting such an investigation, pursuant to Section 5.3 of this Charter.

2.11 “Compliance Monitoring and Enforcement Program Implementation Plan” or “CMEP-IP” shall mean the program used by WECC to monitor, assess, and enforce compliance with Reliability Standards for entities within its footprint.

2.12 “Compliance Officer” or “CO” shall mean the individual appointed by the Commission to establish and direct the implementation of the BANC Internal Compliance Program approved by the Commission.

2.13 “Compliance Staff” shall mean a compliance team, consisting of one or more members, led by the CO.

2.14 “FERC” shall mean the Federal Energy Regulatory Commission.

2.15 “General Manager” shall have the meaning described in Section 3.8 of this Charter.

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2.10 “Compliance Monitoring and Enforcement Program Implementation Plan” or “CMEP-IP” shall mean the program used by WECC to monitor, assess, and enforce compliance with Reliability Standards for entities within its footprint.

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2.16 “Internal Compliance Investigation” shall have the meaning described in Section 5.3 of this Charter.

2.17 “Internal Compliance Program” or “ICP” shall mean both the policy-level and program-level component documents and all implementing actions that are done in support of Compliance.

2.18 “Internal Compliance Program Charter” or “ICPC” shall mean the policy-level component document of the BANC Internal Compliance Program, approved by the Commission and implemented by the Compliance Officer to ensure Compliance.

2.19 “Internal Controls” shall have the same meaning as used in SMUD’s Internal Controls Evaluation Program for NERC Reliability Standards, as this definition may be amended from time to time.

2.20 “Joint Powers Agreement” or “JPA” shall mean the Second Amended Joint Exercise of Powers Agreement, effective July 1, 2013, as such agreement may be amended from time to time under its provisions.

2.21 “Member” shall mean a party to the JPA, as that agreement may be amended from time to time.

2.22 “NERC” shall mean the North American Electric Reliability Corporation.

2.23 “PC Participant” shall mean a Member signatory to the PC Participation Agreement.

2.24 “PC Participation Agreement” shall mean the agreement between BANC and certain Members who desire to have BANC serve as their PC.

2.25 “PC Services Agreement” shall mean the agreement between BANC and SMUD whereby SMUD has agreed to perform specified PC services for BANC in accordance with the terms of that agreement.

2.26 “PC Services Provider” shall mean the entity providing PC Services to BANC. SMUD is the contracted PC Services Provider pursuant to the terms set forth in the PC Services Agreement.

2.27 “Planning Coordinator” or “PC” shall have the same meaning as used in the NERC Glossary of Terms, as this definition may be amended from time to time.

2.28 “Reliability Standards” shall mean those NERC Reliability Standards and WECC Regional Reliability Standards that have been approved by FERC under Section 215 of the Federal Power Act and WECC applicable Regional Criterion referenced in FERC-approved Reliability Standards.

2.29 “Representative” shall mean a member of MCRC.

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2.30 “Subject Matter Expert” or “SME” shall mean those responsible for maintaining compliance with applicable Reliability Standards.

2.31 “WECC” shall mean the Western Electricity Coordinating Council or its successor.

### Section 3. BANC Internal Compliance Program Structure

#### 3.1 BANC

BANC is registered for the following NERC Functions:

- BA (Balancing Authority)
- PC (Planning Coordinator)

BANC Members and other relevant NERC functional registrations within the BANC BAA footprint are provided in Appendix C.

#### 3.2 Commission

The Commission collaborates with and directs the CO as issues regarding BANC’s system reliability policies, strategies, and priorities are identified and addressed. The Commission shall ensure that necessary resources are provided to the BANC Operator to support compliance activities and the ICP. The Commission shall facilitate communication, the exchange of information, and coordination among Members on issues that impact electric reliability. It shall meet on compliance matters, as required by, events and conditions. These meetings may be held in conjunction with regular meetings of the Commission.

#### 3.3 Compliance Officer

The Compliance Officer reports directly to the Commission. The CO shall have authorized executive responsibility for the approval of all compliance certifications and submittals that are required of BANC. The CO shall ensure that BANC’s policies, decisions, and documentation regarding Reliability Standards are appropriate and effective. The CO, in coordination with Compliance Staff and the MCRC, interacts with the SMEs to ensure that the elements of the ICP are being met. The CO shall conduct independent reviews of processes and documentation prepared to demonstrate compliance. Specifically, the CO shall:

- 3.3.1 Assess the BANC Operator’s performance with respect to its adherence to applicable Reliability Standards,
- 3.3.2 Lead Internal Compliance Investigations and determine compliance with applicable Reliability Standards,
- 3.3.3 Ensure that the ICP is in place and effective in meeting BANC’s reliability obligations.

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3.3.4 Approve all official compliance documents and certifications on behalf of BANC.

3.3.5 Periodically update the Commission on BANC's compliance efforts.

3.3.6 ~~Ensure the General Manager and BANC Counsel are updated on an "as-needed" basis regarding compliance events or other matters impacting ICP objectives.~~

3.3.7 Request additional resources from the Commission, when necessary, to meet compliance obligations.

3.3.8 Monitor compliance performance data from the BANC Operator and recommend appropriate actions or mitigation procedures.

3.3.9 Ensure effective processes are in place to develop accurate and timely responses for compliance-related requests from a ~~Compliance Enforcement Authority~~.

3.3.10 Act as an independent point of contact for the BANC Operator or Members to report potential violations of applicable Reliability Standards.

3.3.11 Develop and maintain ICP documents that outline more detailed internal reliability compliance processes.

3.3.12 Serve as Chair of the ~~MCRC~~.

### 3.4 Member Compliance Review Committee

Under the direction of the CO, the ~~Member Compliance Review Committee (MCRC)~~ provides input with respect to the following: (1) the development of, and ongoing improvements to, the ICP; (2) ongoing updates to the BA/PC Compliance List; (3) ongoing compliance matters regarding BANC in its capacity as a BA and a PC; and (4) the review of notices or actions directed to BANC from a Compliance Enforcement Authority. A more detailed description of the roles and responsibilities of the MCRC is set forth in the "Member Compliance Review Committee Charter," which is provided as Appendix A to this ICPC.

### 3.5 BANC Operator

The BANC Operator is responsible for managing and generating the critical information to meet compliance requirements and respond to other regulatory obligations at the direction of the CO or the MCRC. The BANC Operator shall employ SMEs with the expertise to meet or exceed that which is necessary to ensure Compliance. BANC Operator SMEs shall provide documentation that demonstrates compliance with applicable Reliability Standards in accordance with specified timelines. In particular, the BANC Operator shall:

3.5.1 Promote the exchange of information through development of good practices and effective work processes that assist in achieving safe, reliable, and efficient operation.

3.5.2 Recognize the importance of improving or revising existing practices when necessary.

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3.5.3 Report any potential violations to the CO for further investigation and cooperate with the CO during any such investigation.

3.5.4 Identify any resource issues associated with compliance with applicable Reliability Standards, and work with the CO and MCRC to promptly address those concerns to ensure Compliance.

3.5.5 Upon request, provide a position, and, if further requested, propose language to the MCRC with respect to applicable Reliability Standards under development.

### 3.6 BANC Planning Coordinator

BANC is the registered PC for its Members who have executed the PC Participation Agreement. As the registered PC for PC Participants, BANC is responsible for managing and generating the critical information to meet compliance requirements and respond to other regulatory obligations at the direction of the CO or the MCRC. To support this obligation, BANC has contracted with a PC Services Provider. The PC Services Provider is required to employ SMEs with the expertise to meet or exceed that which is necessary to ensure Compliance with all applicable Reliability Standards. Specifically, the PC Services Provider shall:

3.6.1 Promote the exchange of information through development of good practices and effective work processes that assist in achieving safe, reliable, and efficient operation.

3.6.2 Recognize the importance of improving or revising existing practices when necessary.

3.6.3 Report any potential violations to the CO for further investigation and cooperate with the CO during any such investigation.

3.6.4 Identify any resource issues associated with compliance with applicable Reliability Standards, and work with the CO and MCRC to promptly address those concerns to ensure Compliance.

3.6.5 Upon request, provide a position, and, if further requested, propose language to the MCRC with respect to applicable Reliability Standards under development.

### 3.7 BANC Counsel

BANC Counsel shall advise the Commission, Compliance Officer, and MCRC on NERC reliability compliance and enforcement matters, regulatory proceedings before FERC involving the development of NERC standards, and all other issues involving NERC Reliability Standards and compliance as they relate to BANC. BANC Counsel shall assist with Internal Compliance Investigations and determinations. BANC Counsel shall coordinate with the Commission, MCRC, BANC Operator and General Manager to develop BANC comments on Reliability Standards before FERC, if so requested.

### 3.8 General Manager

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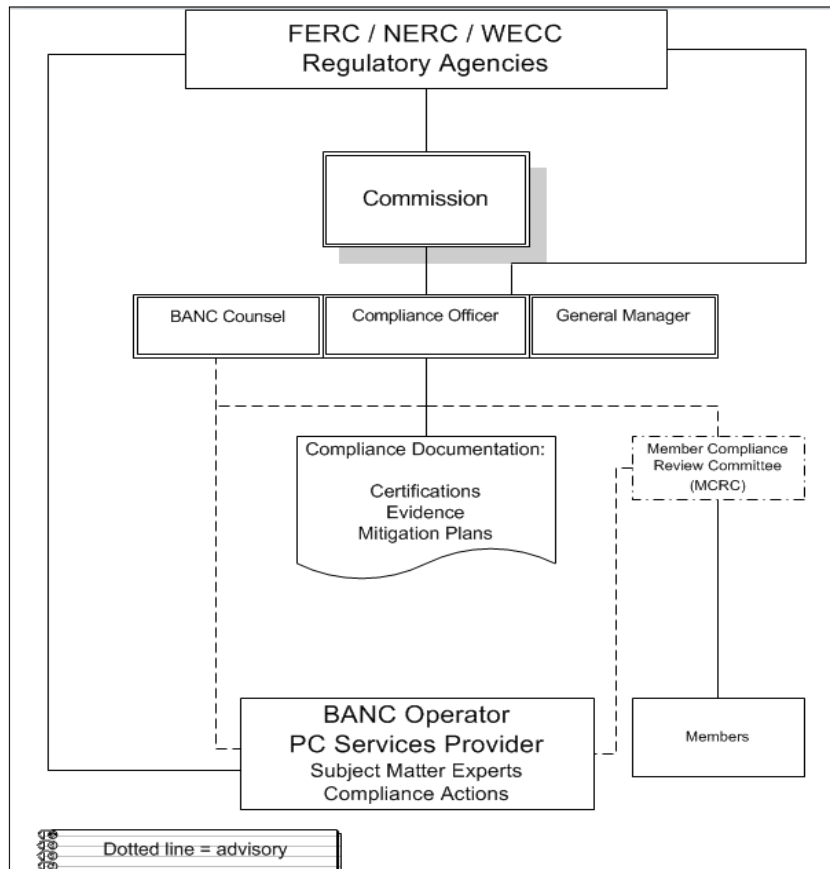
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The General Manager is the chief executive officer of BANC. The General Manager is responsible for implementing the directives of the Commission, providing executive support for the ICP and supporting a culture of compliance within the organization.

#### Section 4. Compliance Reporting Structure

The **ICP** is organized to ensure that appropriate and effective processes, policies, and practices related to **Balancing Authority and Planning Coordinator reliability** are established and executed. It is structured to keep the execution of work as close to the primary implementers and experts as possible. The relationship of these components is illustrated in Diagram 2.

**Diagram 2: Illustration of BANC Internal Compliance Program Relationships**



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## Section 5. Elements of BANC Internal Compliance Program

The ICP promotes coordination, communication, efficiency, and effectiveness to ensure Compliance.

### 5.1 Operational Independence

The CO, in coordination with the MCRC and Compliance Staff, implements the ICP. The CO, Compliance Staff, and the MCRC do not manage or perform line functions or make operational decisions. The BANC Operator and PC Services Provider perform line functions and operational actions in accordance with the Balancing Authority Operation Services Agreement. The PC Services Provider performs PC functions in accordance with the PC Services Agreement. The MCRC reports directly to the CO, who in turn reports directly to the Commission.

### 5.2 Compliance Monitoring and Training

The CO, in coordination with the MCRC and Compliance Staff, shall proactively monitor compliance.

#### 5.2.1 Continuous Self-Assessment and Correction

The CO, in coordination with the MCRC and Compliance Staff, may direct periodic assessments of BANC compliance efforts, generally with an emphasis on those Reliability Standards that pose the greatest risk to the reliability of the BES and BANC BAA. These assessment(s) aim to identify and address reliability risks that may lead to potential violation(s). The CO may share the results of these assessments with the General Manager and with the Commission in closed session, as directed by BANC Counsel. An example of continuous review may include ensuring that the BANC Operator and/or PC Services Provider completes and documents a rigorous analysis of potentially compliance-related events. The need for such assessment shall be determined by the CO; however, such assessment(s) may be also requested by the Commission.

#### 5.2.2 Compliance Communication and Training

The CO, in coordination with the MCRC, shall disseminate to the BANC Operator and PC Services Provider “lessons learned,” compliance application notices, compliance application reports, and other issuances related to BANC’s compliance obligations. The BANC Operator and Planning Coordinator SMEs and staff shall receive annual compliance training, which shall include the process for self-reporting potential violations. The BANC Operator and Planning Coordinator SMEs shall have access to an internal compliance website with a link available to any SME or staff member to report any potential violation of a Reliability Standard.

The CO, in coordination with the MCRC, shall review the need for a meeting no less frequently than once per quarter. Meetings may be held either in person or via

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The CO shall lead the compliance team consisting of one or more members. The CO compliance staff shall not manage or perform line functions or make operational decisions. ¶

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teleconference. During any such meeting, the MCRC shall receive an update on BANC compliance activities. The CO shall keep the MCRC apprised of the status of any potential violations.

The CO shall regularly update the Commission on BANC compliance activities. Such updates shall be held in closed session to the extent that the discussion requires disclosure of critical infrastructure information, personnel matters or information regarding pending or threatened litigation. The determination as to whether all or a portion of the update on other compliance activities should be held in closed session shall be determined by BANC Counsel.

### 5.3 Internal Compliance Investigations

Upon learning of any circumstance of potential non-compliance, the CO shall first confirm with the BANC Operator and/or PC Services Provider that any ongoing possible reliability risks have been removed and will then commence an investigation to determine whether a potential violation of one or more applicable Reliability Standards occurred. The CO may consult with BANC Counsel and notify the General Manager and the MCRC regarding items reviewed at any point during the investigation. Further, the CO may seek review and recommendations from the MCRC on any matter undergoing an Internal Compliance Investigation. The role of the MCRC regarding an Internal Compliance Investigation is set forth in more detail in Section 6 of the MCRC Charter.

Upon conclusion of the investigation, if the CO believes that a potential violation of an applicable Reliability Standard occurred, the CO shall file either a self-report or a self-logged issue<sup>1</sup> with a Compliance Enforcement Authority. If the CO concludes that no potential violation occurred, the CO shall close the matter and maintain relevant documentation, including a Compliance Investigation Report, in BANC's compliance files. Further, the CO may recommend that the BANC Operator or PC Services Provider conduct a review and/or revision of related processes and procedures to ensure that full compliance is reinforced.

### 5.4 Process for Handling Potential Non-Compliance

The CO may be notified of a potential violation by any compliance monitoring method utilized by a Compliance Enforcement Authority including: (1) Audit; (2) Self-Certification; (3) Spot Checks; (4) Periodic Data Submittals; (5) Exception Reporting; (6) Compliance Violation Investigations; (7) Self-Report/Self-Log; and (8) Complaint.

Upon receipt of a notice of potential violation and/or Compliance Exception<sup>2</sup> issued by a Compliance Enforcement Authority, the CO shall notify BANC Counsel and

<sup>1</sup> Following the 2016 NERC Compliance Audit, BANC was awarded self-logging privileges for minor issues that pose minimal risk to the reliability of the BES.

<sup>2</sup> The Compliance Exception process is set forth in §3A.0 of the NERC Compliance Monitoring and Enforcement Program ("CMEP"), Appendix 4C to the NERC Rules of Procedure.

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the General Manager. The CO shall ensure that such notice is also provided to the BANC Operator and/or PC Services Provider and the MCRC. The CO shall coordinate with BANC Counsel, the General Manager, the MCRC and the Commission in responding to any notices of potential violation.

The CO shall follow and adhere to all of the processes described in the CMEP-IP regarding the processing of violations. The CMEP-IP is included in Appendix B of this ICPC.

### 5.5 **Internal Controls Evaluations Program**

The CO shall oversee the implementation of an Internal Controls Evaluation (ICE) Program that describes how BANC identifies, documents, and evaluates internal controls. The ICE Program incorporates internal controls guidance provided by NERC and WECC and is consistent with established industry best practices. ICE Program activities support BANC's participation in the ICE process that WECC conducts as a part of its CMEP activities.

The ICE Program integrates with other Internal Compliance Program elements related to BANC's reliability, security, and compliance objectives. The identification and documentation of internal controls primarily focus on areas that are determined to have higher levels of inherent risk. The ICE Program includes a transparent and repeatable process to evaluate the effectiveness of internal controls, resulting in reports that convey control effectiveness, residual risk, areas of strength, and recommendations for consideration. These reports are utilized as a part of the overall ICP to facilitate a better understanding of residual risk associated with applicable Reliability Standards. Updates regarding ICE Program activities are communicated in accordance with Section 5.2.2 of this charter.

### 5.6 **Review of BANC Internal Compliance Program and Internal Compliance Program Charter**

The CO shall conduct an annual audit of the ICP. The CO may request that such an audit be performed by a third-party. A copy of the final annual ICP audit report shall be provided to the Commission. The MCRC shall have an opportunity to review the ICP audit report prior to the report going to the Commission.

Additionally, at any time, the CO, the Commission, any MCRC Representative or BANC Counsel may propose any appropriate or necessary changes to ensure the effectiveness of the ICP or the accuracy of this ICPC. Such changes may include incorporating elements proposed by FERC in its policy statements, rules, or orders, or any other guidance proposed by a Compliance Enforcement Authority. The CO shall document the date of any review, as well as any changes made to the ICP or this ICPC. Changes to the ICPC are reflected through a change to its version number.

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Review and Approval - BANC Internal Compliance Program Charter Version 6.0	
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James Leigh-Kendall BANC Compliance Officer	Date _____
Legal Concurrence:	
C. Anthony Braun BANC General Counsel	Date _____
General Manager Concurrence:	
James R. Shetler BANC General Manager	Date _____
Commission Approval:	
BANC Chairperson BANC Commission	Date _____

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## Revision History

Balancing Authority of Northern California Internal Compliance Program			
Version	Issue Date	Approved	Remarks
1.0	March 18, 2011	March 4, 2011	Approved by Commission as to Substance
2.0	May 16, 2012	May 23, 2012	Approved by Commission as to Substance
3.0	May 23, 2014	May 28, 2014	Approved by Commission as to Substance
4.0	April 29, 2016	June 22, 2016	Approved by Commission as to Substance
5.0	July 31, 2017	<u>August 23, 2017</u>	Approved by Commission as to Substance
<u>6.0</u>	<u>March 21, 2019</u>		

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**Appendix A**  
**Member Compliance Review Committee Charter**

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**Appendix B**  
NERC Compliance Monitoring and Enforcement Program  
Implementation Plan

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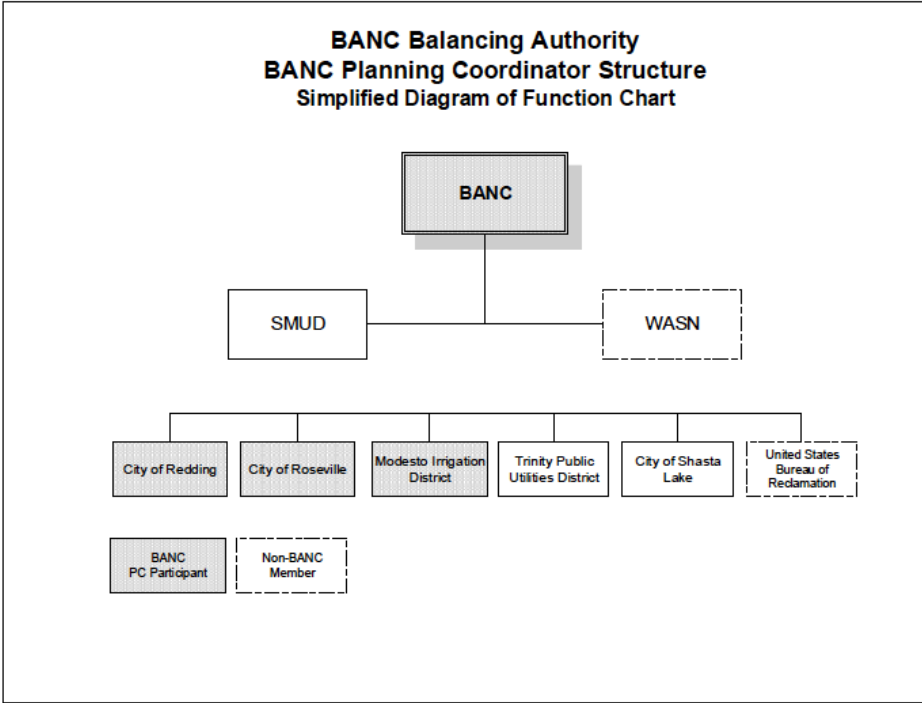
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Appendix C

General Structure and Relevant NERC Functional Registrations within the BANC Balancing Authority Area Footprint

Figure 1: General BANC BA/PC Structure



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**Figure 2: Relevant NERC Functional Registrations within the BANC BA Area Footprint**

	BANC	SMUD	WASN	WASN - Merchant	City of Redding	City of Roseville	Modesto Irrigation District	Bureau of Reclamation	City of Shasta Lake	Trinity Public Utilities District
BANC Member	X	X			X	X	X		X	X
BANC PC Participant	X	X			X	X	X			
Western SBA Member					X	X	X	X	X	X
Functional Entity										
BA	X									
TO		X	X				X	X		
TOP		X	X				X			
TP		X	X				X			
TSP		X	X							
PC	X		X							
IA										
RP		X		X	X	X	X			
GO		X			X		X	X		
GOP		X			X		X	X		
DP		X			X	X	X			

(Note: Western Area Power Administration -- Sierra Nevada Region (WASN) operates under the BANC BA as a sub-Balancing Authority (SBA), and many utilities operate under the WASN SBA. However, not all utilities are members of BANC. The table above shows the utilities, their operational relationship(s), BANC membership and functional registration(s).)

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# Balancing Authority of Northern California

Appendix A to the BANC Internal Compliance Program Charter

## **Member Compliance Review Committee Charter**

**Version 6.0**

# Member Compliance Review Committee Charter

## TABLE OF CONTENTS

General Statement of Purpose of MCRC .....	1
Section 1. Definitions and Terms .....	1
Section 2. Functions .....	4
Section 3. Membership .....	5
Section 4. Meetings .....	6
Section 5. Officers .....	7
Section 6. Reports, Recommendations and Segment Voting .....	7
Section 7. Interaction with BANC Operator and PC Services Provider .....	9
Section 8. Interaction with Commission .....	9
Section 9. External Communications .....	9
Section 10. Confidentiality .....	9

## **Introduction**

Pursuant to Section 6.2 of the Balancing Authority Operation Services Agreement (BOSA) between the Balancing Authority of Northern California (BANC) and the Sacramento Municipal Utility District (SMUD), the BANC Commission authorized the Compliance Officer (CO) to form the Member Compliance Review Committee (MCRC), which serves in an advisory role to the CO. This BANC MCRC Charter (Charter) sets forth the general roles and responsibilities of the MCRC, consistent with this authorization.

## **General Statement of Purpose of MCRC**

The MCRC will consult with the BANC CO with respect to: (1) the development and ongoing improvements to the BANC Internal Compliance Program (ICP); (2) ongoing updates to the list of Reliability Standards applicable to the BANC in its capacity as a NERC-registered Balancing Authority (BA) and Planning Coordinator (PC) (BA/PC Compliance List); (3) ongoing compliance matters regarding the BANC BA and PC functions; and (4) the review of notices or actions directed to the BANC from the Compliance Enforcement Authority.

## **Section 1. Definitions and Terms**

Unless otherwise defined herein, capitalized terms when used with initial capitalization, whether singular or plural, shall have the meaning set forth in the FERC-approved Glossary of Terms Used in NERC Reliability Standards, the NERC Functional Model, the WECC/NERC Delegation Agreement, including the WECC Compliance Monitoring and Enforcement Program (CMEP).

1.1 “BA/PC Compliance List” shall mean the informational list of Reliability Standards applicable to BANC in its capacity as a NERC-registered Balancing Authority and Planning Coordinator maintained by Compliance Staff and made available to Members from time to time.

1.2 “Balancing Authority” or “BA” shall be defined by the prevailing FERC-approved definition of the term as published in the NERC Glossary of Terms.

1.3 “Balancing Authority Area” or “BAA” shall mean the collection of generation, transmission, and loads within the metered electrical boundaries of the Balancing Authority.

1.4 “Balancing Authority Operation Services Agreement” shall mean the Agreement between the BANC and SMUD as the BANC Operator whereby SMUD shall perform specified BA services for the BANC in accordance with the terms of that Agreement.

1.5 “BANC Member Agreement” or “Member Agreement” shall mean the Agreement between BANC and its participating members that sets forth the roles,

obligations, and responsibilities of the Parties to one another with regard to the operation of the Balancing Authority.

1.6 “BANC Operator” is the role that shall be filled by the entity contracted as the operator of the BANC BAA.

1.7 “Bulk Electric System” shall be defined by the prevailing FERC-approved definition of the term as published in the NERC Glossary of Terms.

1.8 “Commission” shall mean the BANC Commission as established in the JPA, as that agreement may be amended from time to time.

1.9 “Compliance” shall mean the full performance of the duties and obligations necessary to comply with applicable Reliability Standards.

1.10 “Compliance Enforcement Authority” shall mean FERC, NERC, WECC, and any other agency, court, organization, or other entity or person duly authorized pursuant to law or regulation to: (a) audit or determine compliance with applicable Reliability Standards; or (b) impose, enforce, excuse, or rescind Penalties or otherwise take action binding on one or more Parties with respect to a finding of failure to comply with a Reliability Standard.

1.11 “Compliance Investigation Report” shall mean a formal report resulting from an Internal Compliance Investigation or other documentation as approved by the Compliance Officer for the purposes of documenting such an investigation, pursuant to Section 5.3 of the BANC Internal Compliance Program Charter (ICPC).

1.12 “Compliance Monitoring and Enforcement Program Implementation Plan” or “CMEP-IP” shall mean the program used by WECC to monitor, assess, and enforce compliance with Reliability Standards for entities within its footprint.

1.13 “Compliance Officer” or “CO” shall mean the individual appointed by the Commission to establish and direct the implementation of the BANC ICP approved by the Commission.

1.14 “Confidential Information” shall mean: (a) all written materials marked “Confidential,” “Proprietary,” or with words of similar import provided to the Representative by another Representative, the CO, the BANC Operator, the PC Services Provider, or a Member; and (b) all observations of equipment (including computer screens) and oral disclosures related to a Representative’s, the BANC Operator’s, the PC Services Provider’s, or Member’s systems, operations, or activities that are indicated as such at the time of observation or disclosure (or identified as “confidential” or “proprietary” in a letter sent to the Representative, the MCRC or the CO no later than five (5) calendar days after the disclosure), respectively. Confidential Information includes portions of documents, records, and other material forms or representations that the Representative(s), the CO, the BANC Operator, the PC Services Provider, or Member(s)

may create, including but not limited to, handwritten notes or summaries that contain or are derived from such Confidential Information.

1.13 “FERC” shall mean the Federal Energy Regulatory Commission.

1.14 “Identified Member” shall mean any entity that is a member of the MCRC (inclusive of the Western Area Power Administration, Sierra Nevada Region or “WASN”) and identified in an incident subject to an Internal Compliance Investigation.

1.15 “Internal Compliance Investigation” shall have the meaning described in Section 5.3 of the BANC ICPC.

1.16 “Internal Compliance Program” or “ICP” shall mean both the policy-level and program-level component documents and all implementing actions that are done in support of Compliance.

1.17 “Internal Compliance Program Charter” or “ICPC” shall mean the policy-level component document of the BANC ICP, approved by the Commission and implemented by the CO to ensure Compliance. The BANC ICPC is the governing document for the BANC ICP, and the MCRC is a functional component of that program. MCRC roles and responsibilities are defined in this Charter.

1.18 “Joint Powers Agreement” or “JPA” shall mean the Second Amended Joint Exercise of Powers Agreement, effective July 1, 2013, as such agreement may be amended from time to time under its provisions.

1.19 “Member” shall mean a party to the JPA, as that agreement may be amended from time to time.

1.20 “NERC” shall mean the North American Electric Reliability Corporation.

1.21 “PC Services Agreement” shall mean the agreement between BANC and SMUD whereby SMUD has agreed to perform specified PC services for BANC in accordance with the terms of that agreement.

1.22 “PC Services Provider” shall mean the entity providing PC Services to BANC. SMUD is the contracted PC Services Provider pursuant to the terms set forth in the PC Services Agreement.

1.23 “Planning Coordinator” or “PC” shall have the same meaning as used in the NERC Glossary of Terms, as this definition may be amended from time to time.

1.24 “Reliability Standards” shall mean those NERC Reliability Standards and WECC Regional Reliability Standards that have been approved by FERC under Section 215 of the Federal Power Act 2005, and WECC-applicable Regional Criterion referenced in FERC-approved Reliability Standards.

1.25 “Representative” shall mean a member of the MCRC.

1.26 “Segment” shall have the meaning and include the qualifications set forth in Appendix 3D [Registered Ballot Body Criteria — Development of the Registered Ballot Body]<sup>1</sup> of the NERC Rules of Procedure, as that procedure may be periodically updated by NERC and approved by FERC.

1.27 “Subject Matter Expert” or “SME” shall mean those responsible for maintaining compliance with applicable Reliability Standards.

1.28 “WECC” shall mean the Western Electricity Coordinating Council or its successor.

## **Section 2. Functions**

2.1 General Forum. The MCRC provides a general forum for members to discuss and address issues relating to applicable Reliability Standards compliance matters. The MCRC assists the CO in the implementation of the ICP, the development of BANC’s positions on proposed Reliability Standards, and all compliance regulation matters affecting BANC as directed by the CO.

2.2 Consultation. The MCRC consults with the CO with respect to:

2.2.1 Development and Ongoing Improvements to the ICP. Upon request by the CO, the MCRC will review specific elements of the ICP and provide its recommendations to the CO.

2.2.2 Development and Ongoing Improvements to the ICPC. Upon request by the CO, the MCRC will conduct periodic reviews of the ICPC and provide its recommendations to the CO. The MCRC will have the opportunity to review and make recommendations on all proposed changes to the ICPC.

2.2.3 Ongoing Updates to the BA/PC Compliance List. At the direction of the CO, an updated list of current and near-term future enforceable applicable Reliability Standards shall be provided to MCRC members for their review, use, and reference.

2.2.4 Ongoing BANC Compliance Matters. The CO will apprise the MCRC regarding any compliance matters directed towards the BA and/or PC, and the MCRC will provide the CO with its input on such matters in accordance with Section 6 of this Charter.

2.2.5 Review of Notices or Actions Directed to BANC. At the direction of the CO, the MCRC will review any notices or actions directed to BANC from a Compliance Enforcement Authority, including actions resulting from the CMEP-IP.

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<sup>1</sup>[http://www.nerc.com/FilingsOrders/us/RuleOfProcedureDL/Appendix\\_3D\\_BallotBodyCriteria\\_20140701\\_updated\\_20131004.pdf](http://www.nerc.com/FilingsOrders/us/RuleOfProcedureDL/Appendix_3D_BallotBodyCriteria_20140701_updated_20131004.pdf)

### **Section 3. Membership**

3.1 Selection. Each Member shall have one Representative serve on the MCRC. Each Member may select one or more alternate Representatives meeting the requirements of Section 3.2 to serve in the primary Representative's absence.

3.1.1 WASN may have a non-voting Representative and alternate(s).

3.2 Qualifications. The MCRC is a technical committee and requires competency to review materials prepared by SMEs regarding electric utility BA operations, PC activities, and/or Reliability Standards compliance matters. The CO may interview or seek additional information regarding the Representatives put forward by the Members. In the event that the CO believes that a particular Representative advanced by a Member is unqualified and the Member has a more qualified candidate to be the Member Representative, the CO shall raise (either verbally or in writing) his or her concerns directly with the appropriate member of the Commission.

3.3 Expectations of Representatives. Each Representative is expected to:

3.3.1 Be or become competent to review materials prepared by SMEs for the MCRC's use in preparing or reviewing compliance-related responses.

3.3.2 Attend and/or participate regularly in MCRC meetings and/or teleconferences.

3.3.3 Provide input that looks beyond the individual Member's interests and attempts to advocate and advise in the best interest of BANC.

3.3.4 Complete any assignment or review requested by the CO in a timely and professional manner.

3.3.5 Remain apprised of developments regarding applicable Reliability Standards as those developments are brought to the attention of the MCRC.

3.4 Expectations of the Compliance Officer. The CO shall also serve as the official contact to and from MCRC Representatives for the purpose of gathering and disseminating BANC compliance-related information. With respect to the MCRC, the CO is expected to:

3.4.1 Attend and/or participate in MCRC meetings and/or teleconferences.

3.4.2 Consult with MCRC Representatives on all required compliance-related matters as described in Section 6.2 of the BOSA.

3.4.3 Make recommendations that are in the best interest of BANC. In making these recommendations, the CO shall consider individual Members' concerns and interests after consulting with the MCRC.

3.4.4 Investigate and report to WECC and to the MCRC any potential violation of a Reliability Standard as required in Section 7.3 of the Member Agreement.

3.4.5 Convene a meeting of the MCRC upon receipt of a written notice of an alleged violation as required in Section 7.4 of the Member Agreement.

3.4.6 Notify the MCRC of any scheduled compliance audit as required in Section 7.5 of the Member Agreement.

3.4.7 Develop and maintain a BA/PC Compliance List in consultation with the MCRC as required in Section 6.3 of the BOSA.<sup>2</sup>

3.5 Term. Each Representative serves at the will of the appointing Member, or, in the case of WASN, at the discretion of its internal selection process.

## **Section 4. Meetings**

4.1 Formal Actions. The MCRC serves in a consultative role to the CO. From time to time, the MCRC may desire, or be asked by the CO, to adopt a formal position or decision while serving in this capacity. Any formal action taken by the MCRC shall require the affirmative vote of a majority of the Member Representatives (thus, the determination of a majority does not include the CO, the BANC Operator representative(s), or the PC Services Provider representative(s)). Positions and/or decisions from the MCRC adopted pursuant to this Section 4.1 are not binding upon the CO; however, should the CO take action contrary to an adopted position and/or decision of the MCRC, the CO will follow the process described in Section 6.3.

4.2 Voting. Each Member Representative shall have one vote.

4.3 WASN. WASN may serve as a non-voting Representative at all MCRC meetings. Should WASN become a voting member on the Commission, its Representative will become eligible to vote on MCRC matters.

4.4 BANC Counsel will provide legal support to the CO and the MCRC.

4.5 The BANC Operator and/or the PC Services Provider shall attend meetings and provide updates as to relevant performance when requested by the CO.

4.6 The General Manager will provide executive support to the CO and the MCRC.

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<sup>2</sup> Section 6.3 of the BOSA specifically references the “BA Compliance List” and not the “BA/PC Compliance List.” This has been changed to address the expanded role of BANC as a registered Planning Coordinator. The authority of the CO to make such a change resides in this same section, which provides that : “[t]he Compliance Officer, in consultation with the MCRC, shall update the BA Compliance List from time to time to reflect changes in Reliability Standards applicable to a BA, *or for any other reason deemed appropriate by the Compliance Officer*” (emphasis added).

4.7 Teleconferencing may be used for all purposes in connection with any meeting. Voting Representatives attending a meeting by teleconference shall be included in the calculation of a quorum. All votes taken during a teleconferenced meeting shall be by roll call.

## **Section 5. Officers**

5.1 Chairperson. The CO shall be the Chairperson of MCRC meetings.

5.2 Vice Chair. The Representatives may select from among themselves a Vice Chair who shall work to direct any work product or other tasks assigned to Representatives. The Vice Chair shall also be responsible for communicating to the CO the MCRC's adopted formal position on a newly proposed Reliability Standard and/or modifications to an existing Reliability Standard, as set forth in Section 6.4 below.

5.3 Secretary. The Representatives may select a Secretary to record minutes of MCRC meetings, provide meeting notices, and address other administrative matters as directed by the Chairperson. In the absence of the specific selection of a Secretary, the Chairperson will ensure that meeting minutes, notices and other administrative matters required to support the MCRC are provided.

5.4 Term. Except for the Chairperson, Officers shall serve at the pleasure of the MCRC.

## **Section 6. Reports, Recommendations and Segment Voting**

6.1 Reports. At the direction of the CO, the MCRC will develop reports from time to time regarding specific compliance matters. Except for any reports provided directly to the Commission pursuant to Section 8, all reports are directed to the CO and are to be treated as Confidential Information in accordance with Section 10. The BANC Operator and/or PC Services Provider shall provide assistance to the MCRC in the development of any reports as requested by the CO.

6.2 Recommendations of MCRC to the Compliance Officer.

6.2.1 General Recommendations of MCRC. The CO will submit a self-log or file a self-report with WECC for any violation of a NERC Reliability Standard. During the investigation of events or other reviews, except as provided in Section 6.2.1.1, the CO may seek a recommendation from the MCRC regarding a specific compliance matter, including, but not limited to, whether to submit a self-log or self-report to a Compliance Enforcement Authority the potential violation of an applicable Reliability Standard. Such matters include MCRC review of draft Compliance Investigation Reports, subject to the process further described in Section 6.2.1.1, resulting from an Internal Compliance Investigation by the CO. Recommendations may require voting in accordance with Section 4 of this Charter, and such recommendations may be given verbally or, if requested by the

CO, in writing. Recommendations are not binding on the CO; however, they should be afforded proper deference.

6.2.1.1 Identified Member(s) Initial Review of Draft Compliance Investigation Report. An Identified Member or Identified Members shall be afforded an opportunity to review and comment on the draft Compliance Investigation Report prior to its distribution to the full MCRC in accordance with the following:

6.2.1.1 Identified Member(s) shall be afforded an opportunity to review the *initial* draft Compliance Investigation Report prior to its distribution to the full MCRC.

6.2.1.2 A reasonable time for review shall be provided to the Identified Member(s) to review the *initial* draft Compliance Investigation Report.

6.2.1.3 The CO shall address the Identified Member's (or Members') comments and create a *revised* draft for review by the entire MCRC.

6.2.1.4 The CO shall distribute the *revised* draft Compliance Investigation Report and Identified Member comments to the entire MCRC.

6.2.1.5 A final decision as to the content of the Report, although subject to Identified Member's (or Members') review, resides with the CO.

6.2.2 All exchanges of Compliance Investigation Reports under this Section 6.2 shall be through BANC Counsel.

6.3 CO Actions Contrary to the Position or Decision of the MCRC. If the CO takes any action contrary to a position and/or decision of the MCRC adopted pursuant to Section 4.1, the CO shall provide a report to the Commission providing the details of the discussions with the MCRC on the subject, the details of the CO's action, and rationale for such action. A copy of such report shall be provided to the MCRC Representatives.

6.4 MCRC Segment Voting in NERC Reliability Standard Development Process. BANC will join the appropriate NERC Registered Ballot Body and self-select the segment(s) for which BANC qualifies. At the direction of the CO, the MCRC may be required to determine its position specific to a newly proposed Reliability Standard and/or modifications to an existing Reliability Standard. The MCRC's formal position shall be adopted by consensus, or, if requested by a Representative, a vote of the Representatives pursuant to Section 4.1. It shall be the responsibility of the CO to ensure BANC's position, as communicated to the CO by the MCRC, is properly registered with NERC.

## **Section 7. Interaction with BANC Operator and PC Services Provider**

7.1 **Advisory Role.** The BANC Operator and PC Services Provider serve in an advisory role to review or make recommendations on materials prepared by the MCRC for proposed compliance actions. The BANC Operator's and PC Services Provider's SMEs should help to develop and expand the knowledge base of the MCRC by maintaining and providing the base documentation and technical expertise required to demonstrate compliance and respond to other regulatory obligations at the direction of the CO. This may further include offering recommendations upon request regarding various matters, including, but not limited to, the MCRC's responses to the CMEP-IP, the adoption of a position as to a revision to an existing Reliability Standard, the adoption of a new Reliability Standard, or modifications to the BANC ICP.

7.2 **MCRC Contact with BANC Operator and PC Services Provider.** It is expected that the primary interaction between Representatives and the BANC Operator and PC Services Provider will occur at MCRC meetings.<sup>3</sup> Questions or concerns from Representatives outside of an approved process or inquiry shall be directed to the CO. In the case of inquiries providing evidence or in reviewing or developing reports agreed upon by the CO and the MCRC, the BANC Operator and/or PC Services Provider shall use reasonable efforts to respond to the CO in a timely manner.

## **Section 8. Interaction with Commission**

Unless specifically requested by the CO or the Commission, the MCRC shall not provide direct reports to the Commission. If so requested, the Vice Chair or his or her designee shall make such a report. However, an individual Representative may consult with his or her internal legal counsel or Commission member.

## **Section 9. External Communications**

Representatives shall abide and are bound by all of the Confidentiality provisions of this Charter and shall not provide or disseminate any Confidential Information obtained through participation on the MCRC. Further, Representatives shall not initiate or respond to requests for information from third parties, including but not limited to a Compliance Enforcement Authority or media outlets unless otherwise directed by the Commission or the CO.

## **Section 10. Confidentiality**

10.1 **Confidentiality.** Representatives recognize that for the purposes of performing their role on the MCRC, which may include advising the CO as to how BANC should respond to any report or notice of potential violation of a Reliability Standard, Representatives may receive information from Members, the BANC Operator, the PC Services Provider, and/or the CO that has been marked as Confidential Information.

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<sup>3</sup> The PC Services Provider also interacts with participating BANC PC member representatives through a separate working committee to address their respective functional obligations.

Representatives agree to keep in confidence and not to copy, disclose, or distribute any Confidential Information or any part thereof, unless directed, in writing, by the CO or the Commission. Any requests for the disclosure of Confidential Information made to the MCRC or an individual Representative shall be directed to the CO. Any questions relating to Confidentiality as applied to the MCRC shall be directed to BANC Counsel. Consultation with the Representative's internal counsel or Commission member is not a violation of Confidentiality.

10.2 Survival of Obligation. Obligations regarding Confidentiality shall continue after a Representative ends his or her role on the MCRC.

## Revision History

<b>Balancing Authority of Northern California Member Compliance Review Committee Charter</b>	
<b>Version</b>	<b>Issue Date</b>
1.0	February 21, 2011
2.0	October 27, 2011
3.0	April 25, 2012
4.0	May 23, 2014
5.0	July 31, 2017
6.0	March 7, 2019

# Balancing Authority of Northern California

Appendix A to the BANC Internal Compliance Program Charter

## **Member Compliance Review Committee Charter**

**Version 6.0**

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## Member Compliance Review Committee Charter

### TABLE OF CONTENTS

General Statement of Purpose of MCRC .....	3
Section 1. Definitions and Terms .....	3
Section 2. Functions .....	6
Section 3. Membership .....	7
Section 4. Meetings .....	8
Section 5. Officers .....	9
Section 6. Reports, Recommendations and Segment Voting .....	9
Section 7. Interaction with BANC Operator and PC Services Provider .....	11
Section 8. Interaction with Commission .....	11
Section 9. External Communications .....	11
Section 10. Confidentiality .....	12

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## Introduction

Pursuant to Section 6.2 of the Balancing Authority Operation Services Agreement (BOSA) between the Balancing Authority of Northern California (BANC) and the Sacramento Municipal Utility District (SMUD), the BANC Commission authorized the Compliance Officer (CO) to form the Member Compliance Review Committee (MCRC), which serves in an advisory role to the CO. This BANC MCRC Charter (Charter) sets forth the general roles and responsibilities of the MCRC, consistent with this authorization.

## General Statement of Purpose of MCRC

The MCRC will consult with the BANC CO with respect to: (1) the development and ongoing improvements to the BANC Internal Compliance Program (ICP); (2) ongoing updates to the list of Reliability Standards applicable to the BANC in its capacity as a NERC-registered Balancing Authority (BA) and Planning Coordinator (PC) (BA/PC Compliance List); (3) ongoing compliance matters regarding the BANC BA and PC functions; and (4) the review of notices or actions directed to the BANC from the Compliance Enforcement Authority.

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Unless otherwise defined herein, capitalized terms when used with initial capitalization, whether singular or plural, shall have the meaning set forth in the FERC-approved Glossary of Terms Used in NERC Reliability Standards, the NERC Functional Model, the WECC/NERC Delegation Agreement, including the WECC Compliance Monitoring and Enforcement Program (CMEP).

1.1 “BA/PC Compliance List” shall mean the informational list of Reliability Standards applicable to BANC in its capacity as a NERC-registered Balancing Authority and Planning Coordinator maintained by Compliance Staff and made available to Members from time to time.

1.2 “Balancing Authority” or “BA” shall be defined by the prevailing FERC-approved definition of the term as published in the NERC Glossary of Terms.

1.3 “Balancing Authority Area” or “BAA” shall mean the collection of generation, transmission, and loads within the metered electrical boundaries of the Balancing Authority.

1.4 “Balancing Authority Operation Services Agreement” shall mean the Agreement between the BANC and SMUD as the BANC Operator whereby SMUD shall perform specified BA services for the BANC in accordance with the terms of that Agreement.

1.5 “BANC Member Agreement” or “Member Agreement” shall mean the Agreement between BANC and its participating members that sets forth the roles,

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obligations, and responsibilities of the Parties to one another with regard to the operation of the Balancing Authority.

1.6. "BANC Operator" is the role that shall be filled by the entity contracted as the as operator of the BANC BAA.

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1.8. "Commission" shall mean the BANC Commission as established in the JPA, as that agreement may be amended from time to time.

1.9. "Compliance" shall mean the full performance of the duties and obligations necessary to comply with applicable Reliability Standards.

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1.17 “Internal Compliance Program Charter” or “ICPC” shall mean the policy-level component ~~document~~ of the BANC ~~ICP~~, approved by the Commission and implemented by the ~~CO~~ to ensure ~~Compliance~~. The BANC ICPC is the governing document for the BANC ~~ICP~~, and the MCRC is a functional component of that program. MCRC roles and responsibilities are defined in ~~this~~ Charter.

1.18 “Joint Powers Agreement” or “JPA” shall mean the ~~Second Amended Joint Exercise of Powers Agreement, effective July 1, 2013, as such agreement may be amended from time to time under its provisions.~~

1.19 “Member” shall mean a party to the ~~JPA, as that agreement may be amended from time to time.~~

1.20 “NERC” shall mean the North American Electric Reliability Corporation.

1.21 “PC Services Agreement” shall mean the agreement between BANC and SMUD whereby SMUD has agreed to perform specified PC services for BANC in accordance with the terms of that agreement.

1.22 “PC Services Provider” shall mean the entity providing PC Services to BANC. ~~SMUD is the contracted PC Services Provider pursuant to the terms set forth in the PC Services Agreement.~~

1.23 “Planning Coordinator” or “PC” shall ~~have the same meaning as used in the NERC Glossary of Terms, as this definition may be amended from time to time.~~

1.24 “Reliability ~~Standards~~” shall mean those NERC ~~Reliability Standards and WECC Regional~~ Reliability Standards that have been approved by FERC under Section 215 of the Federal Power Act 2005, and WECC-applicable ~~Regional Criterion referenced in FERC-approved Reliability Standards.~~

1.25 “Representative” shall mean a member of ~~the~~ MCRC.

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1.26 “Segment” shall have the meaning and include the qualifications set forth in Appendix 3D [Registered Ballot Body Criteria — Development of the Registered Ballot Body]<sup>2</sup> of the NERC Rules of Procedure, as that procedure may be periodically updated by NERC and approved by FERC.

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1.27 “Subject Matter Expert” or “SME” shall mean those responsible for maintaining compliance with applicable Reliability Standards.

1.28 “WECC” shall mean the Western Electricity Coordinating Council or its successor.

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## Section 2. Functions

2.1 General Forum. The MCRC provides a general forum for members to discuss and address issues relating to applicable Reliability Standards compliance matters. The MCRC assists the CO in the implementation of the ICP, the development of BANC’s positions on proposed Reliability Standards, and all compliance regulation matters affecting BANC, as directed by the CO.

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2.2 Consultation. The MCRC consults with the CO with respect to:

2.2.1 Development and Ongoing Improvements to the ICP. Upon request by the CO, the MCRC will review specific elements of the ICP and provide its recommendations to the CO.

2.2.2 Development and Ongoing Improvements to the ICPC. Upon request by the CO, the MCRC will conduct periodic reviews of the ICPC and provide its recommendations to the CO. The MCRC will have the opportunity to review and make recommendations on all proposed changes to the ICPC.

2.2.3 Ongoing Updates to the BA/PC Compliance List. At the direction of the CO, an updated list of current and near-term future enforceable applicable Reliability Standards shall be provided to MCRC members for their review, use, and reference.

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2.2.4 Ongoing BANC Compliance Matters. The CO will apprise the MCRC regarding any compliance matters directed towards the BA, and/or PC, and the MCRC will provide the CO with its input on such matters in accordance with Section 6 of this Charter.

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2.2.5 Review of Notices or Actions Directed to BANC. At the direction of the CO, the MCRC will review any notices or actions directed to BANC from a

<sup>2</sup>[http://www.nerc.com/FilingsOrders/us/RuleOfProcedureDL/Appendix\\_3D\\_BallotBodyCriteria\\_20140701\\_updated\\_20131004.pdf](http://www.nerc.com/FilingsOrders/us/RuleOfProcedureDL/Appendix_3D_BallotBodyCriteria_20140701_updated_20131004.pdf)

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Compliance Enforcement Authority, including actions resulting from the CMEP-  
~~IP~~.

### Section 3. Membership

3.1 Selection. Each Member shall have one Representative serve on the MCRC. Each Member may select one ~~or more~~ alternate ~~Representatives~~ meeting the requirements of Section 3.2 to serve in the primary Representative's absence.

3.1.1 ~~WASN~~ may have a non-voting Representative ~~and alternate(s)~~.

3.2 Qualifications. ~~The~~ MCRC is a technical committee and requires competency to review materials prepared by ~~SMEs~~ regarding electric utility ~~BA~~ operations, ~~PC~~ activities, and/or Reliability Standards compliance matters. The CO may interview ~~or seek additional information regarding~~ the Representatives put forward by the Members. In the event that the CO believes that a particular Representative advanced by a Member is unqualified and the Member has a more qualified candidate to be the Member Representative, the CO shall raise (either verbally or in writing) his or her concerns directly with the appropriate member of the Commission.

3.3 Expectations of Representatives. Each Representative is expected to:

3.3.1 Be or become competent to review materials prepared by ~~SMEs~~ for the MCRC's use in preparing or reviewing compliance-related responses.

3.3.2 Attend and/or participate ~~regularly~~ in MCRC meetings ~~and/or teleconferences~~.

3.3.3 Provide input that looks beyond the individual Member's interests and attempts to advocate and advise in the best interest of BANC.

3.3.4 Complete any assignment or review requested by the CO in a timely and professional manner.

3.3.5 Remain apprised of developments regarding ~~applicable~~ Reliability Standards ~~as those developments~~ are brought to the attention of ~~the~~ MCRC.

3.4 Expectations of the Compliance Officer. The CO shall also serve as the official contact to and from MCRC Representatives for the purpose of gathering and disseminating BANC compliance-related information. With ~~respect~~ to the MCRC, the CO is expected to:

3.4.1 Attend and/or participate in MCRC meetings ~~and/or teleconferences~~.

3.4.2 Consult with MCRC Representatives on all required compliance-related matters ~~as described in~~ Section 6.2 of the BOSA.

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3.4.3 Make recommendations that are in the best interest of BANC. In making these recommendations, the CO shall consider individual Members' concerns and interests after consulting with the MCRC.

3.4.4 Investigate and report to WECC and to the MCRC any potential violation of a Reliability Standard as required in Section 7.3 of the Member Agreement.

3.4.5 Convene a meeting of the MCRC upon receipt of a written notice of an alleged violation as required in Section 7.4 of the Member Agreement.

3.4.6 Notify the MCRC of any scheduled compliance audit as required in Section 7.5 of the Member Agreement.

3.4.7 Develop and maintain a BA/PC Compliance List in consultation with the MCRC as required in Section 6.3 of the BOSA.<sup>3</sup>

3.5 Term. Each Representative serves at the will of the appointing Member, or, in the case of WASN, at the discretion of its internal selection process.

#### Section 4. Meetings

4.1 Formal Actions. The MCRC serves in a consultative role to the CO. From time to time, the MCRC may desire, or be asked by the CO, to adopt a formal position or decision while serving in this capacity. Any formal action taken by the MCRC shall require the affirmative vote of a majority of the Member Representatives (thus, the determination of a majority does not include the CO, the BANC Operator representative(s), or the PC Services Provider representative(s)). Positions and/or decisions from the MCRC adopted pursuant to this Section 4.1 are not binding upon the CO; however, should the CO take action contrary to an adopted position and/or decision of the MCRC, the CO will follow the process described in Section 6.3.

4.2 Voting. Each Member Representative shall have one vote.

4.3 WASN. WASN may serve as a non-voting Representative at all MCRC meetings. Should WASN become a voting member on the Commission, its Representative will become eligible to vote on MCRC matters.

4.4 BANC Counsel will provide legal support to the CO and the MCRC.

<sup>3</sup> Section 6.3 of the BOSA specifically references the "BA Compliance List" and not the "BA/PC Compliance List." This has been changed to address the expanded role of BANC as a registered Planning Coordinator. The authority of the CO to make such a change resides in this same section, which provides that: "[t]he Compliance Officer, in consultation with the MCRC, shall update the BA Compliance List from time to time to reflect changes in Reliability Standards applicable to a BA, or for any other reason deemed appropriate by the Compliance Officer" (emphasis added).

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4.5 The BANC Operator and/or the PC Services Provider shall attend meetings and provide updates as to relevant performance when requested by the CO.

4.6 The General Manager will provide executive support to the CO and ~~the~~ MCRC.

4.7 Teleconferencing may be used for all purposes in connection with any meeting. Voting Representatives attending a meeting by teleconference shall be included in the calculation of a quorum. All votes taken during a teleconferenced meeting shall be by roll call.

## Section 5. Officers

5.1 ~~Chairperson~~. The CO shall be the ~~Chairperson~~ of MCRC meetings.

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5.2 Vice Chair. The Representatives may select from among themselves a Vice Chair who shall work to direct any work product or other tasks assigned to Representatives. The Vice Chair shall also be responsible for communicating to the CO ~~the~~ MCRC's adopted formal position on a newly proposed Reliability Standard and/or modifications to an existing Reliability Standard, as set forth in Section 6.4 below.

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5.3 Secretary. The Representatives may select a Secretary to record minutes of MCRC meetings, provide meeting notices, and address other administrative matters as directed by the ~~Chairperson~~. In the absence of the specific selection of a Secretary, the ~~Chairperson~~ will ensure that meeting minutes, notices and other administrative matters required to support ~~the~~ MCRC are provided.

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5.4 Term. Except for the ~~Chairperson~~, Officers shall serve at the pleasure of the MCRC.

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## Section 6. Reports, Recommendations and Segment Voting

6.1 Reports. At the direction of the CO, ~~the~~ MCRC will develop reports from time to time regarding specific compliance matters. Except ~~for~~ any reports provided directly to the Commission pursuant to Section 8, all reports are directed to the CO and are to be treated as Confidential Information in accordance with Section 10. The BANC Operator and/or PC Services Provider shall provide assistance to ~~the~~ MCRC in the development of any reports as requested by the CO.

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6.2 Recommendations of MCRC to the Compliance Officer.

6.2.1 General Recommendations of MCRC. The CO will ~~submit a self-log or~~ file a self-report with WECC for any violation of a NERC Reliability Standard. During the investigation of events or other reviews, except as provided in Section 6.2.1.1, the CO may seek a recommendation from ~~the~~ MCRC regarding a specific compliance matter, including, but not limited to, whether to ~~submit a self-log or~~ self-report to a Compliance Enforcement Authority the potential violation of an applicable Reliability Standard. Such matters include MCRC review of draft

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Compliance Investigation Reports, subject to the process further described in Section 6.2.1.1, resulting from an Internal Compliance Investigation by the CO. Recommendations may require voting in accordance with Section 4 of this Charter, and such recommendations may be given verbally or, if requested by the CO, in writing. Recommendations are not binding on the CO; however, they should be afforded proper deference.

6.2.1.1 Identified Member(s) Initial Review of Draft Compliance Investigation Report. An Identified Member or Identified Members shall be afforded an opportunity to review and comment on the draft Compliance Investigation Report prior to its distribution to the full MCRC in accordance with the following:

6.2.1.1 Identified Member(s) shall be afforded an opportunity to review the *initial* draft Compliance Investigation Report prior to its distribution to the full MCRC.

6.2.1.2 A reasonable time for review shall be provided to the Identified Member(s) to review the *initial* draft Compliance Investigation Report.

6.2.1.3 The CO shall address the Identified Member's (or Members') comments and create a *revised* draft for review by the entire MCRC.

6.2.1.4 The CO shall distribute the *revised* draft Compliance Investigation Report and Identified Member comments to the entire MCRC.

6.2.1.5 A final decision as to the content of the Report, although subject to Identified Member's (or Members') review, resides with the CO.

6.2.2 All exchanges of Compliance Investigation Reports under this Section 6.2 shall be through BANC Counsel.

6.3 CO Actions Contrary to the Position or Decision of the MCRC. If the CO takes any action contrary to a position and/or decision of the MCRC adopted pursuant to Section 4.1, the CO shall provide a report to the Commission providing the details of the discussions with the MCRC on the subject, the details of the CO's action, and rationale for such action. A copy of such report shall be provided to the MCRC Representatives.

6.4 MCRC Segment Voting in NERC Reliability Standard Development Process. BANC will join the appropriate NERC Registered Ballot Body and self-select the segment(s) for which BANC qualifies. At the direction of the CO, the MCRC may be required to determine its position specific to a newly proposed Reliability Standard and/or modifications to an existing Reliability Standard. ~~The~~ MCRC's formal position

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shall be adopted by consensus, or, if requested by a Representative, a vote of the Representatives pursuant to Section 4.1. It shall be the responsibility of the CO to ensure BANC's position, as communicated to the CO by ~~the~~ MCRC, is properly registered with NERC.

## Section 7. Interaction with BANC Operator and PC Services Provider

7.1 Advisory Role. The BANC Operator and PC Services Provider serve in an advisory role to review or make recommendations on materials prepared by the MCRC for proposed compliance actions. The BANC Operator's and PC Services Provider's ~~SMEs~~ should help to develop and expand the knowledge base of the MCRC by maintaining and providing the base documentation and technical expertise required to demonstrate compliance and respond to other regulatory obligations at the direction of the CO. This may further include offering recommendations upon request regarding various matters, including, but not limited to, the MCRC's responses to the ~~CMEP-IP~~, the adoption of a position as to a revision to an existing Reliability Standard, the adoption of a new Reliability Standard, or modifications to the BANC ~~ICP~~.

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7.2 MCRC Contact with BANC Operator and PC Services Provider. It is expected that the primary interaction between Representatives and the BANC Operator and PC Services Provider will occur at MCRC meetings.<sup>4</sup> Questions or concerns from Representatives outside of an approved process or inquiry shall be directed to the CO. In the case of inquiries providing evidence or in reviewing or developing reports agreed upon by the CO and the MCRC, the BANC Operator and/or PC Services Provider shall use reasonable efforts to respond to the CO in a timely manner.

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## Section 8. Interaction with Commission

Unless specifically requested by the CO or the Commission, ~~the~~ MCRC shall not provide direct reports to the Commission. If so requested, the Vice Chair or his or her designee shall make such a report. However, an individual Representative may consult with his or her internal legal counsel or Commission member.

## Section 9. External Communications

Representatives shall abide and are bound by all of the Confidentiality provisions of this Charter and shall not provide or disseminate any Confidential Information obtained through participation on ~~the~~ MCRC. Further, Representatives shall not initiate or respond to requests for information from third parties, including but not limited to a Compliance Enforcement Authority or media outlets unless otherwise directed by the Commission or the CO.

<sup>4</sup> The PC Services Provider also interacts with participating BANC PC member representatives through a separate working committee to address their respective functional obligations.

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## Section 10. Confidentiality

10.1 Confidentiality. Representatives recognize that for the purposes of performing their role on the MCRC, which may include advising the CO as to how BANC should respond to any report or notice of potential violation of a Reliability Standard, Representatives may receive information from Members, the BANC Operator, the PC Services Provider, and/or the CO that has been marked as Confidential Information. Representatives agree to keep in confidence and not to copy, disclose, or distribute any Confidential Information or any part thereof, unless directed, in writing, by the CO or the Commission. Any requests for the disclosure of Confidential Information made to ~~the~~ MCRC or an individual Representative shall be directed to the CO. Any questions relating to Confidentiality as applied to ~~the~~ MCRC shall be directed to BANC Counsel. Consultation with the Representative's internal counsel or Commission member is not a violation of Confidentiality.

10.2 Survival of Obligation. Obligations regarding Confidentiality shall continue after a Representative ends his or her role on ~~the~~ MCRC.

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### Revision History

#### **Balancing Authority of Northern California Member Compliance Review Committee Charter**

<u>Version</u>	<u>Issue Date</u>
1.0	<del>February 21, 2011</del>
2.0	<del>October 27, 2011</del>
3.0	<del>April 25, 2012</del>
4.0	<del>May 23, 2014</del>
5.0	<del>July 31, 2017</del>
<u>6.0</u>	<u>March 7, 2019</u>

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## Balancing Authority of Northern California

### Agenda Item 5E

- 1. Report to Management and Governing Body.**
- 2. Audited Financial Statements for 2018.**

**BALANCING AUTHORITY OF  
NORTHERN CALIFORNIA**

Sacramento, California

COMMUNICATION TO THOSE CHARGED  
WITH GOVERNANCE AND MANAGEMENT

As of and for the Year Ended December 31, 2018

# BALANCING AUTHORITY OF NORTHERN CALIFORNIA

## TABLE OF CONTENTS

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	<u>Page No.</u>
Required Communications by the Auditor to Those Charged with Governance	1 – 3
Management Representations	

**REQUIRED COMMUNICATIONS BY THE AUDITOR TO THOSE CHARGED WITH GOVERNANCE**

To the Commissioners  
Balancing Authority of Northern California  
Sacramento, CA

Thank you for using Baker Tilly Virchow Krause, LLP as your auditor.

We have completed our audit of the financial statements of the Balancing Authority of Northern California for the years ended December 31, 2018 and 2017, and have issued our report thereon dated February 15, 2019. This letter presents communications required by our professional standards.

***OUR RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED  
IN THE UNITED STATES OF AMERICA***

The objective of a financial statement audit is the expression of an opinion on the financial statements. We conducted the audit in accordance with auditing standards generally accepted in the United States of America. These standards require that we plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements prepared by management with your oversight are free of material misstatement, whether caused by error or fraud. Our audit included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit does not relieve management or those charged with governance of their responsibilities.

As part of the audit we obtained an understanding of the entity and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing and extent of further audit procedures. The audit was not designed to provide assurance on internal control or to identify deficiencies in internal control.

***OTHER INFORMATION IN DOCUMENTS CONTAINING AUDITED FINANCIAL STATEMENTS***

Our responsibility does not extend beyond the audited financial statements identified in this report. We do not have any obligation to and have not performed any procedures to corroborate other information contained in client prepared documents, such as official statements related to debt issues.

***PLANNED SCOPE AND TIMING OF THE AUDIT***

We performed the audit according to the planned scope and timing previously communicated to you at the presentation of the 2017 audit report.

***QUALITATIVE ASPECTS OF THE ENTITY'S SIGNIFICANT ACCOUNTING PRACTICES***

***Accounting Policies***

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Balancing Authority of Northern California are described in Note 2 to the financial statements.

We noted no transactions entered into by the Balancing Authority of Northern California during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

## ***QUALITATIVE ASPECTS OF THE ENTITY'S SIGNIFICANT ACCOUNTING PRACTICES (cont.)***

### ***Accounting Estimates***

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. There were no significant sensitive estimates.

### ***Financial Statement Disclosures***

The disclosures in the financial statements are neutral, consistent, and clear.

### ***DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT***

We encountered no significant difficulties in dealing with management in performing our audit.

### ***CORRECTED AND UNCORRECTED MISSTATEMENTS***

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management.

There were no such misstatements identified.

### ***DISAGREEMENTS WITH MANAGEMENT***

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### ***CONSULTATIONS WITH OTHER INDEPENDENT ACCOUNTANTS***

In some cases, management may decide to consult with other accountants about auditing and accounting matters. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### ***MANAGEMENT REPRESENTATIONS***

We have requested certain representations from management that are included in the management representation letter. This letter follows this required communication.

### ***SIGNIFICANT ISSUES***

Professional standards require us to communicate any significant issues that were discussed, or were the subject of correspondence with management. There were no additional communications or correspondence with management that have not been disclosed in this letter.

### ***INDEPENDENCE***

We are not aware of any relationships between Baker Tilly Virchow Krause, LLP and the Balancing Authority of Northern California that, in our professional judgment, may reasonably be thought to bear on our independence.

Relating to our audit of the financial statements of Balancing Authority of Northern California for the year ended December 31, 2018, Baker Tilly Virchow Krause, LLP hereby confirms that we are, in our professional judgment, independent with respect to the Balancing Authority of Northern California in accordance with the Code of Professional Conduct issued by the American Institute of Certified Public Accountants. We provided no services to the Balancing Authority of Northern California other than audit services provided in connection with the audit of the current year's financial statements.

### ***OTHER AUDIT FINDINGS OR ISSUES***

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Balancing Authority of Northern California's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

### ***OTHER MATTERS***

We applied certain limited procedures to the required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance of the RSI.

### ***RESTRICTION ON USE***

This information is intended solely for the use of the Balancing Authority of Northern California and management and is not intended to be, and should not be, used by anyone other than these specified parties.

We welcome the opportunity to discuss the information included in this letter and any other matters. Thank you for allowing us to serve you.

*Baker Tilly Virchow Krause, LLP*

Madison, Wisconsin  
February 15, 2019

## **MANAGEMENT REPRESENTATIONS**



# BALANCING AUTHORITY OF NORTHERN CALIFORNIA

RELIABILITY • COLLABORATION • SUSTAINABILITY

February 15, 2019

Baker Tilly Virchow Krause, LLP  
Ten Terrace Court  
P.O. Box 7398  
Madison, WI 53707-7398

Dear Baker Tilly Virchow Krause, LLP:

We are providing this letter in connection with your audit of the financial statements of Balancing Authority of Northern California (the Agency) as of December 31, 2018 and 2017 and for the years then ended for the purpose of expressing an opinion as to whether the financial statements present fairly, in all material respects, the financial position, results of operations, cash flows of the Agency in conformity with accounting principles generally accepted in the United States of America. We confirm that we are responsible for the fair presentation of the previously mentioned financial statements in conformity with accounting principles generally accepted in the United States of America. We are also responsible for adopting sound accounting policies, establishing and maintaining internal controls over financial reporting, and preventing and detecting fraud.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm, to the best of our knowledge and belief, the following representations made to you during your audit.

## *Financial Statements*

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter.
2. The financial statements referred to above are fairly presented in conformity with accounting principles generally accepted in the United States of America and include all properly classified funds and other financial information of the primary government and all component units required by accounting principles generally accepted in the United States of America to be included in the financial reporting entity.
3. We acknowledge our responsibility for the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.
4. We acknowledge our responsibility for the design, implementation, and maintenance of internal controls to prevent and detect fraud.
5. Significant assumptions we used in making accounting estimates, if any, are reasonable.

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A JOINT POWERS AUTHORITY BETWEEN

Modesto Irrigation District, City of Redding, City of Roseville, Trinity Public Utilities District,  
City of Shasta Lake and Sacramento Municipal Utility District

6001 S STREET, MS D109, SACRAMENTO, CA 95852-1830  
WWW.THEBANC.ORG

6. All events subsequent to the date of the financial statements and for which accounting principles generally accepted in the United States of America require adjustment or disclosure have been adjusted or disclosed. No other events, including instances of noncompliance, have occurred subsequent to the balance sheet date and through the date of this letter that would require adjustment to or disclosure in the aforementioned financial statements.
- 7 All material transactions have been recorded in the accounting records and are reflected in the financial statements.
8. The effects of all known actual or possible litigation, claims, and assessments have been accounted for and disclosed in accordance with accounting principles generally accepted in the United States of America.

*Information Provided*

9. We have provided you with:
  - a. Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements, such as financial records and related data, documentation, and other matters.
  - b. Additional information that you have requested from us for the purpose of the audit.
  - c. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
  - d. Minutes of the meetings of the Agency or summaries of actions of recent meetings for which minutes have not yet been prepared.
10. We have disclosed to you results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
11. We have no knowledge of any fraud or suspected fraud that affects the entity and involves:
  - a. Management,
  - b. Employees who have significant roles in internal controls, or
  - c. Others where the fraud could have a material effect on the financial statements.
12. We have no knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, former employees, regulators, or others.
13. We have no knowledge of known instances of noncompliance or suspected noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse, whose effects should be considered when preparing financial statements.
14. There are no known related parties or related party relationships and transactions of which we are aware.

*Other*

15. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
16. We have a process to track the status of audit findings and recommendations.

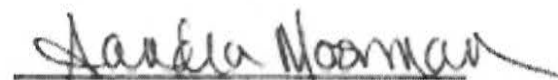
17. We are responsible for compliance with federal, state, and local laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits, debt contracts, and IRS arbitrage regulations; and we have identified and disclosed to you all federal, state, and local laws, regulations and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts or other financial data significant to the audit objectives, including legal and contractual provisions for reporting specific activities in separate funds.
18. There are no:
- a. Violations or possible violations of budget ordinances, federal, state, and local laws or regulations (including those pertaining to adopting, approving and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency, or for reporting on noncompliance, except those already disclosed in the financial statement, if any.
  - b. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by accounting principles generally accepted in the United States of America.
19. The Agency has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.
20. The Agency has complied with all aspects of contractual agreements that would have a material effect on the financial statement in the event of noncompliance.
21. Components of net position (net investment in capital assets; restricted; and unrestricted) and equity amounts are properly classified and, if applicable, approved.
22. Deposits are properly classified as to risk, and are properly valued. Collateralization agreements with financial institutions, if any, have been properly disclosed.
23. We acknowledge our responsibility for the required supplementary information (RSI). The RSI is measured and presented within prescribed guidelines and the methods of measurement and presentation have not changed from those used in the prior period. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the RSI.

Sincerely,

Balancing Authority of Northern California

Signed:   
Jim Shetler, General Manager

Signed:   
Russell Mills, Treasurer

Signed:   
Sandra Moorman, Controller

# Balancing Authority of Northern California

**Financial Statements**  
as of December 31, 2018 and 2017  
and  
**Report of  
Independent Auditors**

**BALANCING AUTHORITY OF NORTHERN CALIFORNIA**  
**TABLE OF CONTENTS**  
**As of and for the Years Ended December 31, 2018 and 2017**

Report of Independent Auditors	1
Management's Discussion and Analysis (Unaudited)	3
Financial Statements	7
Notes to Financial Statements	
Note 1. Organization and Operations	10
Note 2. Summary of Significant Accounting Policies	10
Note 3. Contingencies	13



## INDEPENDENT AUDITORS' REPORT

To the Commissioners  
Balancing Authority of Northern California  
Sacramento, California

We have audited the accompanying financial statements of the Balancing Authority of Northern California as of and for the years ended December 31, 2018 and 2017, and the related notes to the financial statements, as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Balancing Authority of Northern California's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Balancing Authority of Northern California's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Balancing Authority of Northern California as of December 31, 2018 and 2017, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matter***

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis as listed in the table of contents be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Baker Tilly Virchow Krause, LLP*

Madison, Wisconsin  
February 15, 2019

**BALANCING AUTHORITY OF NORTHERN CALIFORNIA  
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED  
For the Years Ended December 31, 2018 and 2017**

**Using this Financial Report**

This annual financial report for Balancing Authority of Northern California (Agency) consists of management's discussion and analysis and the financial statements, including notes to the financial statements. The basic Financial Statements consist of the Statements of Net Position, the Statements of Revenues, Expenses and Changes in Net Position and the Statements of Cash Flows.

The Agency's accounting records are maintained in accordance with Generally Accepted Accounting Principles for proprietary funds as prescribed by the Governmental Accounting Standards Board. The Agency's accounting records generally follow the Uniform System of Accounts for Public Utilities and Licensees prescribed by the Federal Energy Regulatory Commission (FERC).

**Overview of the Financial Statements**

The following discussion and analysis of the financial performance of the Agency provides an overview of the financial activities for the years ended December 31, 2018 and 2017. This discussion and analysis should be read in conjunction with the Agency's financial statements and accompanying notes, which follow this section.

The Statements of Net Position provide information about the nature and amount of resources and obligations at a specific point in time.

The Statements of Revenues, Expenses and Changes in Net Position report all of the Agency's revenues and expenses during the periods indicated.

The Statements of Cash Flows report the cash provided and used by operating activities, as well as other cash sources such as investment income and debt financing, and other cash uses such as payments for debt service and capital additions.

The Notes to Financial Statements provide additional detailed information to support the financial statements.

**Nature of Operations**

The Agency is a joint powers authority consisting of the following California publicly owned utilities: the Sacramento Municipal Utility District (SMUD), the Modesto Irrigation District, the City of Redding, the City of Roseville, the Trinity Public Utilities District, and the City of Shasta Lake (collectively, Members). The Agency performs FERC approved Balancing Authority Area (BAA) reliability functions that are overseen by North American Electric Reliability Corporation, nationally, and by Western Electricity Coordinating Council (WECC) in the West. The Agency also has the ability to acquire, construct, maintain, operate and finance projects for the Agency and for the benefit of any one or more of the Members. The Agency has no employees. The Agency has a contract with an industry professional to serve as the general manager. The Agency also has a contract with a legal firm to provide legal services for the Agency. An Agency Member, SMUD, serves as the Treasurer and Controller, Compliance Officer, and BAA Operator.

## Operational Highlights

The Agency continues to support the Members' desire to have the BAA provide a strong base for maintaining their independence and ability for self-determination. In 2018, the Agency's Commission reinforced its strategic direction for this goal with a focus on initiatives in the areas of:

- *Independence*
- *Assets*
- *Outreach*
- *Customer Services*

In the area of *Independence*, the Agency has been proactive at ensuring BAA operations are maintained in full compliance with industry standards. This has been accomplished through the proactive use of the Agency's Operations Committee and Member Compliance Review Committee. The Agency, through its compliance group, has been proactive in taking a risk-based approach to evaluating operational incidents, including near miss lessons-learned. The Agency has been actively engaged in evaluating market alternatives for its Members. This included the Northwest Power Pool (NWPP) market evaluation efforts. With the termination of the NWPP effort in late 2015, the Agency formally evaluated participation in the California Independent System Operator Corporation (CAISO) Energy Imbalance Market (EIM). This evaluation resulted in a decision for the Agency to become an EIM entity and allow phased-in participation by its Members. SMUD has decided to be the first Member to become a Participating Resource Provider. The Agency has executed an EIM Implementation Agreement with the CAISO and is currently forecasting EIM go-live in April 2019. In addition, three other Members (Modesto Irrigation District, City of Redding, and City of Roseville) will be evaluating in 2019 EIM participation with a potential go-live in April 2021. The Agency is also an active participant with other EIM Entities in evaluating the Extended Day Ahead Market (EDAM) with the CAISO. As proposed, EDAM will allow an expansion of CAISO participation for EIM entities into the day ahead market. Like EIM, EDAM participation would be voluntary, maintains the independence of the Agency BAA, and will not involve Members turning over operational control of their transmission or generation facilities to the CAISO.

Regarding *Assets*, the Agency has finalized the arrangement with its BAA Operator, which is also a registered transmission operator, to determine relative responsibilities for funding facility assets. The Agency has started funding its fair share of these assets. The Agency also worked with the BAA Operator and WECC to finalize compliance responsibilities for any joint violations that might be imposed on the Agency and the BAA Operator. The Agency hired an outside consultant to develop a consolidated and integrated resource plan view for the Agency's footprint, which was completed in early 2018. This will assist the Agency in determining any operational impacts to the BAA with increased intermittent resources and potential assets that may be needed to manage the increased intermittency.

In the area of *Outreach*, the Agency has been reaching out to the appropriate state and federal agencies regarding its BAA role. The Agency has been proactive in its engagement with WECC and the reliability coordinator, Peak Reliability (Peak). This includes involvement with such issues as data sharing, alternative funding for Peak, and the transition of Reliability Coordinator (RC) services from Peak to other providers. The Agency will be transitioning to the CAISO for RC services in mid-2019. The Agency has also been proactive in reaching out to other Publicly Owned Utilities BAAs in the West, engaging in the EIM Regional Issues Forum, and in CAISO regionalization discussions.

Regarding *Customer Services*, the Agency has worked with its Members to take on the role of planning coordinator (PC) for a part of the Agency's footprint. The Agency has contracted with SMUD to provide the PC services for participating Members. The initial study work was completed in 2017 and the Agency was fully compliant as a PC by January 1, 2018, for those Members that have elected to take PC service.

## **FINANCIAL POSITION**

<b>Statements of Net Position Summary</b> (Dollars in thousands)							
	December 31,			Change			
	2018	2017	2016	2018 vs. 2017		2017 vs. 2016	
<b>Assets</b>							
Current assets	\$ 3,994	\$ 2,092	\$ 1,594	\$ 1,902	90.9%	\$ 498	31.2%
Total assets	<u>\$ 3,994</u>	<u>\$ 2,092</u>	<u>\$ 1,594</u>	<u>\$ 1,902</u>	90.9%	<u>\$ 498</u>	31.2%
<b>Liabilities</b>							
Current liabilities	\$ 3,994	\$ 2,092	\$ 1,594	\$ 1,902	90.9%	\$ 498	31.2%
Total liabilities	<u>3,994</u>	<u>2,092</u>	<u>1,594</u>	<u>1,902</u>	90.9%	<u>498</u>	31.2%
<b>Net position</b>							
Unrestricted	-0-	-0-	-0-	-0-	0.0%	-0-	0.0%
Total net position	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	0.0%	<u>-0-</u>	0.0%
Total liabilities and net position	<u>\$ 3,994</u>	<u>\$ 2,092</u>	<u>\$ 1,594</u>	<u>\$ 1,902</u>	90.9%	<u>\$ 498</u>	31.2%

## **2018 Compared to 2017**

### **ASSETS**

Current Assets increased by \$1.9 million primarily due to the Credit Support Collateral and Minimum Participation Deposits posted by the Agency to CAISO for EIM.

### **LIABILITIES**

Current Liabilities increased by \$1.9 million primarily due to the Credit Support Collateral Obligation and Advances from Members related to EIM activities.

## **2017 Compared to 2016**

### **ASSETS**

Current Assets increased by \$498.0 thousand primarily due to Account Receivables from Members for EIM expenses, partially offset by cash used to pay EIM expenses.

### **LIABILITIES**

Current Liabilities increased by \$498.0 thousand primarily due to higher balances in Accounts Payable for EIM expenses.

## **RESULTS OF OPERATIONS**

### **Summary of Revenues, Expenses and Changes in Net Position**

(Dollars in thousands)

	December 31,			Change			
	2018	2017	2016	2018 vs. 2017		2017 vs. 2016	
Operating revenues	\$ 3,653	\$ 3,210	\$ 2,017	\$ 443	13.8%	\$ 1,193	59.1%
Operating expenses	(3,653)	(3,210)	(2,017)	(443)	-13.8%	(1,193)	-59.1%
Operating income	-0-	-0-	-0-	-0-	0.0%	-0-	0.0%
Change in net position	-0-	-0-	-0-	-0-	0.0%	-0-	0.0%
Net position - beginning of year	-0-	-0-	-0-	-0-	0.0%	-0-	0.0%
Net position - end of year	\$ -0-	\$ -0-	\$ -0-	\$ -0-	0.0%	\$ -0-	0.0%

### **2018 Compared to 2017**

Operating Revenues increased by \$443.0 thousand primarily due to higher billings to Members for EIM expenses.

Operating Expenses increased by \$443.0 thousand primarily due to higher payments for EIM expenses.

### **2017 Compared to 2016**

Operating Revenues increased by \$1.2 million primarily due to higher billings to Members for EIM expenses.

Operating Expenses increased by \$1.2 million primarily due to higher payments for EIM expenses.

**BALANCING AUTHORITY OF NORTHERN CALIFORNIA  
STATEMENTS OF NET POSITION**

	December 31,	
	2018	2017
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Unrestricted cash	\$ 1,018,248	\$ 1,208,753
Receivable from Members	1,475,334	883,291
Total current assets	2,493,582	2,092,044
<b>NONCURRENT ASSETS</b>		
Prepayments	500,000	-0-
Credit support collateral deposits	1,000,000	-0-
Total noncurrent assets	1,500,000	-0-
<b>TOTAL ASSETS</b>	<b>\$ 3,993,582</b>	<b>\$ 2,092,044</b>
<b>LIABILITIES AND NET POSITION</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 652,402	\$ 402,853
Advances from Members	2,341,180	1,689,191
Total current liabilities	2,993,582	2,092,044
<b>NONCURRENT LIABILITIES</b>		
Credit support collateral obligation	1,000,000	-0-
Total noncurrent liabilities	1,000,000	-0-
<b>TOTAL LIABILITIES</b>	<b>3,993,582</b>	<b>2,092,044</b>
<b>NET POSITION</b>		
Unrestricted	-0-	-0-
<b>TOTAL NET POSITION</b>	<b>-0-</b>	<b>-0-</b>
<b>CONTINGENCIES (Note 3)</b>		
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$ 3,993,582</b>	<b>\$ 2,092,044</b>

The accompanying notes are an integral part of these financial statements.

**BALANCING AUTHORITY OF NORTHERN CALIFORNIA**  
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**

	Years Ended December 31,	
	2018	2017
<b>OPERATING REVENUES</b>		
Member revenues	\$ 3,652,672	\$ 3,209,669
Total operating revenues	3,652,672	3,209,669
<b>OPERATING EXPENSES</b>		
Operations	1,989,195	1,582,980
Administrative and general	1,663,477	1,626,689
Total operating expenses	3,652,672	3,209,669
<b>OPERATING INCOME</b>	-0-	-0-
CHANGE IN NET POSITION	-0-	-0-
NET POSITION - BEGINNING OF YEAR	-0-	-0-
NET POSITION - END OF YEAR	\$ -0-	\$ -0-

The accompanying notes are an integral part of these financial statements.

**BALANCING AUTHORITY OF NORTHERN CALIFORNIA  
STATEMENTS OF CASH FLOWS**

	Years Ended December 31,	
	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from Members	\$ 3,712,618	\$ 2,495,275
Payments to vendors	(3,903,123)	(2,880,659)
Net cash used in operating activities	(190,505)	(385,384)
Net decrease in cash	(190,505)	(385,384)
Cash - beginning of the year	1,208,753	1,594,137
Cash - end of the year	\$ 1,018,248	\$ 1,208,753
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH USED IN OPERATING ACTIVITIES</b>		
Operating income	\$ -0-	\$ -0-
Adjustments to reconcile operating income to net cash provided by operating activities:		
Changes in operating assets and liabilities:		
Receivable from Members	(592,043)	(883,291)
Prepayment	(500,000)	-0-
Credit support collateral deposit	(1,000,000)	-0-
Accounts payable	249,549	329,010
Advances from Members	651,989	168,897
Credit support collateral obligation	1,000,000	-0-
Net cash used in operating activities	\$ (190,505)	\$ (385,384)

The accompanying notes are an integral part of these financial statements.

**BALANCING AUTHORITY OF NORTHERN CALIFORNIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**As of and for the Years Ended December 31, 2018 and 2017**

**NOTE 1. ORGANIZATION AND OPERATIONS**

The Balancing Authority of Northern California (Agency) is a joint powers authority (JPA) consisting of the following California publicly owned utilities: the Sacramento Municipal Utility District (SMUD), the Modesto Irrigation District, the City of Redding, the City of Roseville, the Trinity Public Utilities District, and the City of Shasta Lake (collectively, Members). The Agency performs Federal Energy Regulatory Commission approved Balancing Authority Area (BAA) reliability functions that are overseen by the North American Electric Reliability Corporation, nationally, and by the Western Electricity Coordinating Council in the West. The Agency also has the ability to acquire, construct, maintain, operate and finance projects for the Agency and for the benefit of any one or more of the Members.

The Agency has no employees. The Agency has a contract with an industry professional to serve as the general manager. An Agency Member, SMUD, serves as the Treasurer and Controller, Compliance Officer, and BAA Operator.

The Agency's Commission is comprised of one commissioner from each Member. The Members pay its participation percentage share of the costs associated with the operation of the Agency, with a minimum cost share of \$25.0 thousand per calendar year. The participation percentage of each Member is based on their proportional share of the annual retail load from the previous calendar year.

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Method of Accounting.** The accounting records of the Agency are maintained in accordance with Generally Accepted Accounting Principles for proprietary funds as prescribed by the Governmental Accounting Standards Board (GASB). The Agency's accounting records generally follow the Uniform System of Accounts for Public Utilities and Licensees prescribed by the Federal Energy Regulatory Commission. The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

**Use of Estimates.** The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Actual results could differ from those estimates.

**Cash and Cash Equivalents.** Cash and cash equivalents include all debt instruments purchased with an original maturity of 90 days or less.

**Custodial Credit Risk.** This is the risk that in the event of the failure of a depository financial institution or counterparty to a transaction, the Agency's deposits may not be returned or the Agency will not be able to recover the value of its deposits, investments or collateral securities that are in the possession of another party. The Agency does not have a deposit policy for custodial credit risk. At December 31, 2018 and 2017, \$1.0 million of the Agency's bank balance were uninsured.

**Prepayments.** To meet minimum requirements for the Energy Imbalance Market (EIM) participants not having enough asset value, the Agency deposited \$0.5 million with the California Independent System Operator (CAISO). The amount is recorded as noncurrent asset.

**Credit Support Collateral Deposits.** The Agency entered into an EIM participation agreement with CAISO which allows participants to buy and sell power close to the time electricity is consumed. In 2018, the Agency posted \$1.0 million for collateral deposit to cover the EIM settlement activity credit requirements. The amount is recorded as noncurrent asset with an associated noncurrent liability.

**Receivable from Member.** The Agency records as a Receivable from Member the costs incurred related to the Energy Imbalance Market activities.

**Advances from Members.** Members provide cash to the Agency in advance for operations costs. These advances are recognized as operating revenue as expenses are incurred.

**Net Position.** The Agency classifies its net position as unrestricted.

**Operating Revenues.** The Agency invoices its Members for their respective participation percentage in accordance with the JPA agreement.

**Operating Expenses.** Operating expenses include the operations and administrative expenses of the Agency.

**Subsequent Events.** Subsequent events for the Agency have been evaluated through February 15, 2019, which is the date that the financial statements were available to be issued.

**Reclassifications.** Certain amounts in 2017 financial statements have been reclassified in order to conform to the 2018 presentation.

**Recent Accounting Pronouncements.** In January 2017, GASB issued SGAS No. 84, *“Fiduciary Activities”* (GASB No. 84). This statement establishes standards of accounting and financial reporting for fiduciary activities. GASB No. 84 establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. Governments with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position. The statement of fiduciary net position reports the assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fiduciary net position of the fiduciary activities. The statement of changes in fiduciary net position reports the additions to and deductions from the fiduciary fund(s). This statement also provides for the recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. This statement is effective for the Agency in 2019. The Agency is currently assessing the financial statement impact of adopting this statement but does not expect it to be material.

In March 2017, GASB issued SGAS No. 85, *“Omnibus 2017”* (GASB No. 85). GASB No. 85 addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits). This statement is effective for the Agency in 2018. The Agency has assessed the financial statement impact of adopting the new statement, and its impact is not material.

In May 2017, GASB issued SGAS No. 86, “***Certain Debt Extinguishment Issues***” (GASB No. 86). The primary objective of this statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources (resources other than the proceeds of refunding debt) are placed in an irrevocable trust for the sole purpose of extinguishing debt. GASB No. 86 also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. This statement is effective for the Agency in 2018. The Agency has assessed the financial statement impact of adopting the new statement, and since the Agency has no debt, this statement has no impact on the Agency.

In June 2017, GASB issued SGAS No. 87, “***Leases***” (GASB No. 87). The objective of this statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. GASB No. 87 requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under GASB No. 87, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. The lease liability should be measured at the present value of payments expected to be made during the lease term. As payments are made the lease liability is reduced and an outflow of resources (interest expense) is recognized for the interest on the liability. The lease asset should be amortized in a systematic and rational manner over the shorter of the lease term or the useful life of the underlying asset. The lease receivable should be measured at the present value of the lease payments expected to be received during the lease term. Any payments received are first allocated to accrued interest receivable and then to lease receivable. The deferred inflow of resources should be recognized as inflows of resources (revenue) in a systematic and rational manner over the term of the lease. The lessor should not derecognize the asset underlying the lease. A lease is defined as a contract that conveys control of the right to use another entity’s nonfinancial asset (the underlying asset) as specified in the contract for a period of time in an exchange or exchange-like transaction. Examples of nonfinancial assets include buildings, land, vehicles, and equipment. Any contract that meets this definition should be accounted for under the leases guidance, unless specifically excluded in this statement. The lease term is defined as the period during which a lessee has a noncancellable right to use an underlying asset, plus the following periods, if applicable. A short-term lease is defined as a lease that, at the commencement of the lease term, has a maximum possible term under the lease contract of 12 months (or less), including any options to extend, regardless of their probability of being exercised. Lessees and lessors should recognize short-term lease payments as outflows of resources (expenses) or inflows of resources (revenues), respectively, based on the payment provisions of the lease contract. This statement is effective for the Agency in 2020. The Agency is currently assessing the financial statement impact of adopting this statement.

In March 2018, GASB issued SGAS No. 88, “***Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements***” (GASB No. 88). The primary objective of this statement is to improve the information that is disclosed in notes to financial statements related to debt, including direct borrowings and direct placements. GASB No. 88 also clarifies which liabilities should be included when disclosing information related to debt. This statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. GASB No. 88 also requires additional information related to debt be disclosed, including unused lines of credits; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. This statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. This statement is effective for the Agency in 2019. The Agency has

assessed the financial statement impact of adopting the new statement, and since the Agency has no debt, this statement has no impact on the Agency.

In June 2018, GASB issued SGAS No. 89, “***Accounting for Interest Cost Incurred before the End of a Construction Period***” (GASB No. 89). The objectives of this statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. GASB No. 89 establishes accounting requirements for interest cost incurred before the end of a construction period. This statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity. The GASB has allowed that provided the criteria for regulated operations are met and the entity has elected regulatory accounting, qualifying interest cost may be capitalized as a regulatory asset. This statement is effective for the Agency in 2020. The Agency has assessed the financial statement impact of adopting the new statement, and since the Agency has no borrowings for construction, this statement has no impact on the Agency.

In August 2018, GASB issued SGAS No. 90, “***Majority Equity Interests***” (GASB No. 90). The objectives of this statement are to improve the consistency and comparability of reporting a government’s majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. GASB No. 90 defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government’s holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method. For all other holdings of a majority equity interest, a government should report the legally separate organization as a component unit. The government should report an asset related to the majority equity interest using the equity method. This statement is effective for the Agency in 2019. The Agency is currently assessing the financial statement impact of adopting this statement but does not expect it to be material.

### **NOTE 3. CONTINGENCIES**

**General Contingencies.** In the normal course of operations, the Agency may be party to various claims, disputes and litigation. There are no such matters pending. Thus, there are no such actions that could have a material adverse impact on the Agency's financial position or results of operations.

## Balancing Authority of Northern California

### Agenda Item 5F

1. **Resolution 19-03-20 *Accepting and Adopting the BANC Member Participation Percentages for 2019.***
2. **Attachment A to Resolution 19-03-20.**

**Balancing Authority of Northern California  
Resolution 19-03-20**

**ACCEPTING AND ADOPTING THE BANC MEMBER  
PARTICIPATION PERCENTAGES FOR 2019**

NOW, THEREFORE, BE IT RESOLVED that the Commissioners of the Balancing Authority of Northern California hereby:

1. Accept the 2019 Participation Percentages, attached hereto as Exhibit A, to be effective January 1, 2019.

PASSED AND ADOPTED by the Commissioners of the Balancing Authority of Northern California this 27<sup>th</sup> day of March, 2019, by the following vote:

		Aye	No	Abstain	Absent
Modesto ID	Greg Salyer				
City of Redding	Dan Beans				
City of Roseville	Michelle Bertolino				
City of Shasta Lake	James Takehara				
SMUD	Steve Lins				
TPUD	Paul Hauser				

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Greg Salyer  
Chair

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Attest by: C. Anthony Braun  
Secretary

## Attachment A to Resolution 19-03-20

### 2019 (based on 2017 numbers)

Member	2017 Retail Sales	2017 Retail Sales %	Rounded for 2019	Final for 2018	Diff	Final for 2019
MID	2562	16.41%	16.40%	16.50%	-0.10%	16.50%
Redding	764	4.89%	4.90%	5.00%	-0.10%	5.00%
Roseville	1200	7.69%	7.70%	7.80%	-0.10%	7.80%
SMUD	10776	69.02%	69.00%	68.80%	0.20%	68.80%
Trinity	111	0.71%	0.70%	0.70%	0.00%	0.70%
Shasta	200	1.28%	1.30%	1.20%	0.10%	1.20%
	<u>15613</u>	<u>100.0%</u>	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>

Conclusion for 2019: because there is no change of more than 0.2% in any Member's share from the 2018 participation percentage, there is no need to revise the participation percentage for 2019.