



WEST-WIDE GOVERNANCE PATHWAY INITIATIVE

CALIFORNIA COMMUNITY CHOICE ASSOCIATION Comments on the Launch Committee's Straw Proposal

May 8, 2024

California Community Choice Association¹ (CalCCA) appreciates the opportunity to provide input on the Launch Committee's Straw Proposal (Proposal) for the West-Wide Governance Pathways Initiative (Pathways Initiative). CalCCA strongly supports the direction of the Pathways Initiative and the stepwise solution advanced by the Launch Committee in the Proposal. The Proposal carries the potential to enhance grid reliability and affordability while still respecting state climate policies. As stakeholders work through the Proposal, CalCCA encourages consideration of key issues outlined in the Proposal and within these comments.

1. Step 1 makes meaningful governance reforms that result in an incremental step toward a regional solution that meets the needs of Western stakeholders.

The Proposal aims to timely and substantively modify the existing California Independent System Operator (CAISO) Western Energy Imbalance Market (WEIM) and Extended Day-Ahead Market (EDAM) governing structure to one with greater independence from the CAISO Board of Governors (BOG) in Step 1. It would accomplish this aim by (1) providing the WEIM Governing Body (GB) with "Primary Authority" on decisions currently within the scope of "Joint Authority", (2) modifying the current dispute resolution process to include a dual filing structure when the WEIM GB and CAISO BOG cannot resolve disputes via the existing dispute resolution procedures, and (3) incorporating new responsibilities into the WEIM charter to protect consumer and state interests. The Proposal aims to expand the EDAM footprint, which would expand EDAM benefits, including reliability, affordability, and greenhouse gas (GHG)-reduction benefits, for California and other participating states' consumers.

CalCCA supports the three features of Step 1 as a means to make timely and substantive governance reforms that are consistent with existing California law and reflect similar structures previously approved by the Federal Energy Regulatory Commission (FERC). The Proposal outlines a logical development in regional markets that maximizes the autonomy and independence of the WEIM GB while still preserving California's ability to pursue its own priorities. Providing the WEIM GB with Primary Authority over market-related tariff provisions

¹ California Community Choice Association represents the interests of 24 community choice electricity providers in California: Apple Valley Choice Energy, Ava Community Energy, Central Coast Community Energy, Clean Energy Alliance, Clean Power Alliance, CleanPowerSF, Desert Community Energy, Energy For Palmdale's Independent Choice, Lancaster Energy, Marin Clean Energy, Orange County Power Authority, Peninsula Clean Energy, Pico Rivera Innovative Municipal Energy, Pioneer Community Energy, Pomona Choice Energy, Rancho Mirage Energy Authority, Redwood Coast Energy Authority, San Diego Community Power, San Jacinto Power, San José Clean Energy, Santa Barbara Clean Energy, Silicon Valley Clean Energy, Sonoma Clean Power, and Valley Clean Energy.

would make meaningful progress towards addressing a perceived lack of independence present under the Joint Authority model used for the WEIM and EDAM today, potentially attracting a broader set of Western Entities to the EDAM.

Step 1 provides an implementation timeline that can support broad market participation. As Western entities are considering which paths toward regional coordination they want to pursue, it is critically important that the Pathways initiative adjust governance in a timely manner to incent coordination with the Western region and avoid a shift to the Southwest Power Pool's "Markets +" over EDAM. The implementation timeline also allows the planned implementation of EDAM, a market enhancement critically important for the reliability, affordability, and decarbonization efforts of California and other Western states, to move forward as scheduled.

Step 1 addresses the desire to update the WEIM Charter to protect all customer interests. It states that "it is critical to consider how to carry the customer centered mandate forward" as it is "a critical through-line back to the enabling statutes that ensures the delegation and evolution carry forward a fundamental positive aspect of CAISO."² Ratepayers across the West, particularly in California, are already facing an energy affordability crisis. As ratepayers continue to face new and increasing cost pressures during the clean-energy transition a successful, well-structured EDAM holds a promising opportunity to meaningfully put downward pressure on rates. The Body of State Regulators should also continue to play an active role for state regulators to provide input into decision-making to ensure that each state and its interests are represented.

Finally, Step 1 proposes an implementation trigger, which is an important element of the Step 1 Proposal. Step 1 required compromises by California stakeholders on the governance of WEIM and EDAM. Ensuring that Step 1 *actually* expands the footprint of these markets before moving to the new governance structure provides assurance that the compromises had value.

As Step 1 moves forward, the Launch Committee may want to consider retaining the Joint Authority classification in some areas. California stakeholders need to be certain that giving the WEIM GB "primary" authority over the expansive list of issues does not in any way impair the CAISO's role as BA and Transmission Operator. A section-by-section tariff review to isolate any such issues would help provide this assurance. Stakeholders or the WEIM GB may also see value in coordinating with the CAISO BOG on policies with different implications on one set of stakeholders versus another.

CalCCA looks forward to further Step 1 development in the CAISO's stakeholder process.

2. The formation of an RO and the transition to an independent governing body, as outlined in Step 2, warrants further consideration and development.

In Step 2, the Proposal would create a governance structure with a fully independent board that has Sole Authority over market rules for the WEIM and EDAM. The governance structure formed in Step 2 could eventually be broadened to offer additional services such as

² Proposal at 42.

transmission functions, reliability coordination, or other services. Step 2 involves the following steps: (1) creating a Regional Organization (RO) separate from the current CAISO, (2) passing enabling legislation in California to narrow the CAISO's corporate scope and allow for the transfer of some of its responsibilities, (3) transitioning the WEIM GB's decision making authority from Primary Authority to Sole Authority, and (4) creating various pathways for the RO to offer future West-wide services beyond WEIM and EDAM.

The formation of an RO and the transition to this new independent governing body in Step 2 would bring greater independence and autonomy in governing and operating Western energy markets. It should provide the necessary independence and autonomy needed to advance regional coordination and attract broad participation from Western balancing authorities while also leveraging existing market structures to reduce costs.

Step 2 also allows for the opportunity to reach toward more holistic forms of regional coordination while enabling incremental steps to take place first. Ultimately, regional coordination discussions are likely to reach beyond regional market solutions to include other regional functions, such as transmission functions, reliability coordination, or other BAA functions. The Proposal's initial strategy of including a reasonably manageable scope to improve regional coordination in Step 1 and Step 2 is prudent for timely progress. As noted in the proposal, there are many variables to consider and unpack more fully, but ultimately an RO – as an overall concept – would accomplish the primary goal outlined in the July letter from states calling for the Pathways initiative.

3. The Launch Committee should balance independence with cost in examining the relative benefits of taking a broader step forward in Step 2 by pursuing Option 2.5.

The Proposal provides two paths forward for Step 2, Option 2 or Option 2.5. Both Options would result in a new non-profit corporation with Sole Authority over market design and decision-making. The CAISO would have the responsibility for administering an integrated tariff and operating the market and a contract would determine the relationship between the CAISO and the RO. The Options differ in the amount of authority transferred from the RO to the CAISO. Option 2 would provide for a narrower transfer of governance authority alone. Option 2.5 would provide a complete, or nearly complete, transfer of governance along with elements of institutional authority and responsibility.

The Proposal tentatively concludes that Option 2 may be the preferable option, noting that Option 2 is “probably the fastest and least-cost pathway.”³ Option 2 represents a logical, incremental step towards independent governance.

The Launch Committee should also consider adopting Option 2.5, which transfers all market responsibilities to the RO along with sole governance authority, contracting back operations to the CAISO. While the Proposal's accompanying legal analysis finds that Option 2.5 carries slightly more legal risk with respect to FERC approval, the distinctions between Option 2 and 2.5 are relatively narrow. Given the nature of resource retirements in the West, the additions of a new renewable and storage-based generation fleet, the reliability and cost

³ Proposal at 24.

challenges therein, and the need to move quickly to enable the largest regional footprint, it is reasonable for the Launch Committee to consider the most robust option for independent governance of an RO as a means to foster a market solution that can best aid in reliability and the delivery of cost-effective resources. While Option 2.5 may provide a greater degree of independence, it may also come with additional implementation costs relative to Option 2. The Launch Committee should focus on choosing the option that best balances the degree of independence achievable under each option with the costs associated with each option.

Regardless of the exact form a future RO takes, if and when an RO is ultimately formed, the CAISO should consider how its corporate structure must evolve to inform market design in its capacity as the balancing authority area (BAA), separate from its role as the market operator. For example, the CAISO could form a new team dedicated to its role as the BAA separate from its role as a market operator. This would allow the CAISO to provide input into market design in the same manner as other entities who participate in the market. This concept should be explored further in a CAISO stakeholder process initiated to implement the Pathways final proposal.

CalCCA looks forward to the opportunity to work with and support policymakers and other stakeholders to advance the Proposal as the West creates vehicles for capturing the benefits of regional coordination.