

**May 8, 2024**

## **The West-Wide Governance Pathway Initiative**

### **RE: Comments to Straw Proposal and Legal Memo**

SCE appreciates the opportunity to provide comments on the West-Wide Governance Pathway Initiative April 19<sup>th</sup> meeting. Overall, SCE believes the proposal provides a path towards independent governance and regionalization. SCE is very supportive of using a stepwise approach to enhance the existing governance of the Western Energy Imbalance Market and Extended Day Ahead Market. The stepwise approach allows for incremental improvements and the ability to learn and adapt from each step, reducing the risk of any large-scale issues. There are multiple options presented in the proposal and SCE prefers certain options. The proposed options that SCE supports are primarily based on effectiveness, the path of least resistance, cost effectiveness, and least overall risks. More details of SCE's preferred options are shown below:

1. Step 1: Step 1 is the first step toward fully independent governance of the markets. Recognizing that Step 1 is the result of stakeholder suggestions and support for a stepwise approach that demonstrates early commitment to the ultimate goal with a substantive increase in market independence, please provide input on support or concerns for Step 1 as it is proposed.

SCE agrees with Step 1 and the details proposed. Step 1 provides a good balance for moving forward with independent governance because while it provides more independence, it does not disrupt the current market construct and its authority. The approach also eases into independent governance. The first requirement for any change in authority would be to ensure that there is enough market participation that would warrant CAISO moving away from the existing "Joint Governance" model. The requirement is that implementation agreements from non-CAISO WEIM Entities must be greater than or equal to 70% of the CAISO BAA's annual load for 2022 and have regional diversity. After this requirement is met, the Governing Body would have primary authority over all future market-related matters which are currently shared through "Joint Authority" with the CAISO Board. However, Step 1 would still allow the CAISO Board of Governors the opportunity to challenge any proposed tariff rule. The challenge would go through a Modified Dispute Resolution Process, and if a common proposal was still not possible, the two proposals would be filed at FERC (one representing the preference of the Governing Body, and the other representing the preference of the CAISO Board), and a final decision would be made by FERC. SCE notes it expects that such a "jump ball" filing should be extremely rare, and it should be expected that the stakeholder process will almost always resolve issues before they reach this point.

Step 1 provides the safest approach with the least impact on today's market stakeholders. It allows market participants time to adapt, becoming more familiar with the changes to market authority while also giving the CAISO Board of Governors the authority to challenge proposals, as a safeguard, if necessary. SCE strongly supports the Step 1 proposal.

2. **Step 2 - Full Governance Independence:** The Launch Committee focused its work on evaluating and comparing Options 2 and 2.5. Both options give a new independent Regional Organization (RO) the sole authority over the regional market services that the CAISO currently offers or will offer (WEIM and EDAM), as well as the design and decision-making (governance) over any future tariff changes to those market rules and additional regional market services. In this context, the Launch Committee is looking at governance independence as the authority over the entire process for designing and filing changes to the market rules in the tariff. Both options propose a relationship with the CAISO likely either through an interface agreement (Option 2) or contract for services (Option 2.5) for execution and delivery of market services that includes some level of corporate protections for the CAISO as an institution. Please provide input on whether and how this level of governance independence would create opportunities or challenges for your organization and the broader Western region.

SCE supports Step 2 and prefers option 2 over option 2.5. Step 2 – option 2 presents a more streamlined and cost-effective approach to achieving full independent governance. It focuses on only the transfer of governance authority allowing the new Regional Organization to make decisions on tariff amendments while also allowing CAISO to maintain its role as Market Operator and allowing the CAISO Board continued authority over all of the CAISO BAA, transmission planning, generator interconnection and all market activities unique to the CAISO under its current tariff. This option appears to have the least impact on market participants, CAISO, and the new Regional Organization, requiring the least amount of administrative change (and cost).

Option 2.5 would be more difficult to implement due to the complexities regarding the new contractual and legal obligations created by this option. Market participants would likely need to sign new agreements with the new Regional Organization (RO). This could be labor-intensive for market participants due to some organizations' strict policies involving signed agreements which could result in multiple rounds of review and revisions before agreements can be signed. In addition, this would also be a burden for the new RO to review and approve all new agreements. Because of the fundamental change of the CAISO role – the market would then be under the authority of the RO – it could also prove more challenging politically to move in this direction. In sum, this option adds too many unnecessary layers to market governance and operations which could result in increased costs to customers in the West without providing clear or quantifiable benefits beyond those provided in Option 2. Said in another way, SCE questions what would be the incremental value of pursuing Step 2.5 rather than Step 2 and would that incremental value be worth the significant time and resources necessary to implement Step 2.5 as compared to Step 2.

3. **Step 2 - Institutional Independence:** There are tradeoffs between Options 2 and 2.5 related particularly to the amount of institutional independence the new Regional Organization (RO) will have and the amount of responsibility and liability the organization would have to take on, both of which could increase costs. In this context, the Launch Committee is looking at

institutional independence as how deep the organizational separation between the RO and the CAISO goes, including things like staffing, markets contracts, and legal and compliance obligations. Please provide input on whether and how these varying levels of institutional independence and responsibilities would create opportunities or challenges for your organization and the broader Western region.

See response to question #2 above.

4. Unexplored or new options: As described in the straw proposal document, the Launch Committee chose not to explore several of the options it originally identified. In addition, there may be other potential structures that the Launch Committee has not pursued, in part because of the scale and effort Options 2 and 2.5 took to develop so far. If you have ideas that the Launch Committee should consider that could potentially achieve the goal of the Pathways Initiative and meet the evaluation criteria the Launch Committee is using, please provide structural ideas with as much detail as possible.

SCE does not have any further comments.

5. Other considerations: Especially for Step 2, there are many outstanding questions and considerations that the Launch Committee will need to explore before coming up with a final recommendation. Please share any questions and considerations that you would like the Launch Committee to address in its work to refine and develop a recommendation, including legal risk and analysis.

Southern California Edison