

West-Wide Governance Pathways Initiative Phase 1 Straw Proposal

Submitted by	Company	Date Submitted
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Pacific Gas and Electric Company (PG&E) submits these initial comments on the Phase 1 Straw Proposal for the Pathways Initiative (Straw Proposal). PG&E appreciates the thoughtful and comprehensive Straw Proposal prepared by the Launch Committee and reiterates its support for regionalization of energy markets in the Western United States. The Straw Proposal is a well-considered and detailed proposal that maps out significant steps towards establishing equitable governance of a multi-state California Independent System Operator Corporation (CAISO) day-ahead and real-time markets.

The Straw Proposal includes two steps. Step 1 moves the existing governance of the CAISO’s Western Energy Imbalance Market (WEIM) and Extended Day-Ahead Market (EDAM) toward greater independence from the CAISO Board of Governors (CAISO Board) by revising the decision-making authority of the WEIM Governing Body (WEIM Body) and modifying current dispute resolution provisions that address the CAISO Board’s Section 205 filing rights. Step 2 would create a fully independent board that has sole authority to determine market rules for WEIM and EDAM. Step 2 may also offer optional services beyond energy markets such as reliability coordination, transmission functions and balancing authority consolidation.

Because Step 2 will be informed by and may be further modified based on the Step 1 experience, PG&E's comments are primarily focused on Step 1 of the Straw Proposal. Getting Step 1 right, and learning from the outcome of Step 1, is critical to ensuring the success of Step 2.

PG&E's Comments on Step 1

PG&E understands the importance of multi-state energy markets and the need for more independent governance of these markets. Step 1 is a positive step toward achieving this objective within the constraints of current California law. There are, however, several aspects of the Step 1 proposal that require clarification.

First, the Step 1 governance transition “would be triggered when a set of geographically diverse non-CAISO WEIM Entities equal to or greater than 70% of the CAISO balancing authority area (BAA) annual load for 2022 have executed EDAM implementation agreements.”¹ The “70% trigger” is roughly equivalent to the non-CAISO BAA load being 40% of the expected total load.² PG&E is concerned that after the trigger is reached, and the Step 1 governance transition occurs, non-CAISO WEIM entities may leave WEIM and/or EDAM under the implementation agreement terms. In that case, the total non-CAISO BAA load may be substantially less than 40% after the trigger has been reached and the transition activated. Step 1 should include a mechanism that allows the WEIM/EDAM market governance to revert back to the current *status quo* if the non-CAISO BAA load drops to or below 30% for more than six consecutive

¹ Straw Proposal at 7.

² $224,800 \text{ CAISO BAA GWh} \times 0.7 = 157,360 \text{ GWh}$ of Non-CAISO BAA load. Adding this load to CAISO BAA ($224,800 + 157,360$) results in 382,160 GWh of total load. $(157,360 / 382,160) \times 100 = \sim 41\%$ total expected EDAM load will be non-CAISO load when the Step 1 is triggered.

months. PG&E does not believe that governance should revert to the *status quo* immediately if the non-CAISO BAA load drops below 40% for a short period of time or only by a small percentage. However, if the non-CAISO BAA load drops to significantly below (e.g., 30%) for an extended period of time (e.g., 6 consecutive months), the current governance structure should be reinstated as this means that non-CAISO entities are not strongly participating in the WEIM/EDAM markets.

Second, Step 1 retains the “apply to” test to determine which tariff areas and rules the WEIM Body would have primary authority over, and which areas would remain within the CAISO Board’s authority.³ PG&E does not oppose the “apply to” test but believes that it may be subjective and subject to dispute. As a part of Step 1, PG&E recommends that the Launch Committee and the CAISO work together to identify as many areas as possible in the CAISO Tariff and indicate whether these areas would be subject to WEIM Governing Body primary authority or CAISO Board primary authority. The Launch Committee and the CAISO will not be able to identify every possible issue that will come up in the future. However, by evaluating and preliminarily designating CAISO Tariff provisions as being under the WEIM Body or CAISO Board primary authority at this early point in the process, there is a chance to reduce potential disputes down the road.

PG&E’s Comments on Step 2

PG&E supports the ultimate goal of regionalized energy markets as well as a CAISO-led west-wide Regional Transmission Organization (RTO). Step 2 provides a roadmap to achieve these goals. However, the Launch Committee should proceed slowly

³ Straw Proposal at 9.

in this matter and use Step 1 to obtain lessons learned and further refine Step 2.

Assuming a successful transition and experience in Step 1, PG&E will likely support Step 2. However, there will likely be additional modifications required to Step 2 based on the lessons learned in Step 1.