

May 8, 2024

Launch Committee
West-Wide Governance Pathways Initiative
Comments@WestWidePathwaysInitiative.org

**Re: Comments of the Arizona Large Customer Group Regarding Steps 1 and 2
of West-Wide Governance Pathways Initiative**

Dear Pathways Initiative Launch Committee:

On October 2, 2023, the Arizona Large Customer Group (“AZLCG”)¹ joined a letter signed by representatives of large commercial and industrial customers in the West. That letter (attached as Exhibit A), lauded state regulators’ July 14, 2023 letter calling for the exploration and creation of an independently governed entity to deliver market services and benefits throughout the West. Since then, the AZLCG has followed the Launch Committee’s work closely and submits this letter in response to the Launch Committee’s call for comments associated with its April 10, 2024 Straw Proposal.

Through this letter, the AZLCG (1) details its interest in and support for the Launch Committee’s work and mission, (2) endorses Step 1 of the Launch Committee’s April 10, 2024 Straw Proposal, (3) presents items for the Launch Committee’s consideration when evaluating Options 2 and 2.5 in Step 2 of its April 10, 2024 Straw Proposal, and (4) responds to the Launch Committee’s proposed evaluation criteria.

The AZLCG appreciates the opportunity to submit these comments and looks forward to continued engagement on the Launch Committee’s increasingly important work.

I. The AZLCG Supports the Launch Committee’s Work and Mission.

The Launch Committee’s April 10, 2024 Straw Proposal sets forth a stepwise approach to development of a West-wide market based on achieving early success, obtaining a durable and independent governance model, and maintaining an eye toward eventual implementation of a regional transmission organization (“RTO”). The AZLCG strongly supports the Launch Committee’s focus on these guiding principles and encourages continued fidelity as its work continues.

The West is energy and capacity constrained, and customers and load serving entities alike are bearing the consequences from a cost and reliability perspective. Large electric customers wishing

¹ The AZLCG is an unincorporated organization of industrial and commercial utility customers formed for the purpose of providing a unified perspective on issues of importance to large energy consumers who play a substantial role in Arizona’s economy, including the development of markets. AZLCG members are some of the largest electricity consumers in Arizona and throughout the West.

to operate and expand their businesses are facing significant limitations in their ability to do so. Exploring, evaluating, and pursuing a pathway to a West-wide market is a critical tool in providing the greatest cost and reliability benefits to all electricity users. Rooted in the Launch Committee's guiding principles above, the AZLCG encourages the Launch Committee to:

1. Maintain the goal of achieving the largest market footprint possible to maximize the diversity of loads and resources available and to minimize seams with other markets;
2. Ensure any West-wide market is independently governed;
3. Utilize, to the extent practicable, existing market platforms to reduce costs for the market operator and market participants; and
4. Maintain flexibility in any market design to allow the market and the market operator to evolve to meet market needs (including establishing an RTO) and encourage participation.

II. The AZLCG Supports Step 1 of the Launch Committee's Straw Proposal.

The Launch Committee's April 10, 2024 Straw Proposal includes an initial step ("Step 1") towards an independent West-wide governance structure. Step 1 involves (1) elevating the Western Energy Imbalance Market ("WEIM") Governing Board—an independent entity—to having primary authority over the WEIM and Extended Day-Ahead Market ("EDAM"), (2) requiring any disagreements between the WEIM Governing Board and CAISO to be submitted to FERC for resolution, and (3) revising the WEIM Governing Board's charter to include a responsibility to make decisions in the public interest, respecting individual state policies and customers across the WEIM footprint.²

The AZLCG supports Step 1. As state regulators and load serving entities consider market participation, Step 1 accomplishes two important outcomes. First, Step 1 is a demonstration of good faith from CAISO that independent governance concerns are being addressed. With several failed past attempts to bring independence to CAISO governance, regulators and load serving entities in the West are justifiably skeptical of the feasibility of a West-wide option. Indeed, several state commissions have distanced themselves from the effort until progress on independent governance is made.³ Completion of Step 1 will hopefully bring those with governance concerns to the table. Second, Step 1 has the potential to be an early success. This is important to regulators

² West-Wide Governance Pathways Initiative, Phase 1 Straw Proposal, pp. 7-11 (Apr. 10, 2024).

³ Letter from Eric Anderson, President, John Hammond Jr. and Edward Lodge, Commissioners, to West-Wide Governance Pathways Initiative, Idaho Public Utilities Commission (Sep. 11, 2023); Letter from Thad LeVar, Chair, David Clark and John Harvey, Commissioners, to West-Wide Governance Pathways Initiative, Utah Public Service Commission (Sep. 11, 2023); Letter from Mary Throne, Charman, Christopher Petrie and Michael Robinson, Commissioners, to West-Wide Governance Pathways Initiative, Wyoming Public Service Commission (Sep. 12, 2023).

and load serving entities who are looking for progress and momentum as they meaningfully consider the various market options available. Without early success, a West-wide market option becomes increasingly less likely as load serving entities make commitments to different market operators.

In addition to its benefits, the AZLCG sees Step 1 as a “no regrets” move. Step 1 simply expands upon the independence of the WEIM and EDAM that recently occurred with the governance of the WEIM. In the end, Step 1 will provide WEIM and EDAM participants with greater insight and input into how the WEIM and EDAM are run.

The AZLCG’s only concern with Step 1 relates to its triggering event. Specifically, as proposed, Step 1 is not triggered until a certain threshold of megawatts commits to joining the EDAM. The Straw Proposal notes that based on existing commitments, only one Southwest balancing authority with a load of at least 10,000 GWh must join to trigger Step 1.⁴ While the AZLCG can appreciate the desire to have a critical mass prior to making the changes outlined in Step 1, the AZLCG also notes that the completion of Step 1 may incentivize load serving entities in the Southwest and elsewhere to commit as well. Waiting for load serving entities to decide that Step 1 is agreeable should not delay implementation of Step 1, and only risks impeding the Launch Committee’s goal of early success.

Therefore, the AZLCG supports Step 1 of the Launch Committee’s April 10, 2024 Straw Proposal and respectfully recommends the Launch Committee reconsider the triggering threshold for implementation.

III. Considerations for Evaluating Step 2.

The Launch Committee’s April 10, 2024 Straw Proposal goes beyond the incremental progress towards independent governance in Step 1 to proposing potential long-term governance structures for current, proposed, and future regional markets (“Step 2”). Step 2 involves considering two options for governance structures: Option 2 and Option 2.5. As stated in the Straw Proposal, the key differences between Options 2 and 2.5 are:

1. Option 2.5 contemplates the complete, or nearly complete, transfer of sole governance authority along with elements of institutional authority and responsibility to the independent Regional Organization (“RO”); Option 2 contemplates a narrower transfer of governance authority alone over decision-making on tariff amendments and tariff implementation.
2. Option 2.5 involves broader responsibilities for the RO, including, for example, compliance and penalty risk, with potential increased operational and administrative costs.

⁴ West-Wide Governance Pathways Initiative, Phase 1 Straw Proposal, pp. 11-12 (Apr. 10, 2024).

3. Option 2.5 may allow for limits to CAISO's corporate reservations.
4. Option 2 involves a contract between the RO and CAISO that would delineate the market governance versus operating authority of the RO and CAISO; the Option 2.5 contract would be a pure contract for services in which the CAISO operates only as a vendor.⁵

While the AZLCG does not have a concrete position on which option should be pursued, the AZLCG offers several observations.

First, Option 2.5, if properly constructed, appears to better achieve the Launch Committee's evaluation criteria and the AZLCG's interests above. Specifically, Option 2.5 envisions a more independent RO than Option 2. The greater the independence, the higher the potential for regulator and load serving entity interest and adoption.

Second, Option 2.5 appears better suited to address market progress beyond real-time and day-ahead energy markets. While implementation of either Option 2 or 2.5 can lead to benefits in governance over energy markets, RTO functions and responsibilities are likely to benefit from a higher level of independence. For example, Option 2.5 will provide greater autonomy over transmission planning and construction which currently saddle customers with inordinately high costs resulting from sub-optimal expansion of the transmission grid and the related sub-optimal dispatch of generation. Further, Option 2.5 appears to provide greater flexibility for operational aspects of any eventual RTO. With Option 2 premised on a governance agreement with CAISO, it is not clear whether and to what extent the RO would be able to implement a separate tariff for market services. Particularly, if CAISO retains control over its balancing authority, and other load serving entities outside of CAISO consolidate balancing authorities for purposes of optimizing RTO dispatch, separate tariffs are likely necessary. Maintaining such flexibility sets up the RO and participating entities to maximize the benefits of regional markets to be developed in the future.

Therefore, while the AZLCG does not express a clear preference between Option 2 and 2.5, the AZLCG is keenly interested in further exploration and development of Option 2.5, and welcomes the opportunity for further engagement.

IV. The Launch Committee's Evaluation Criteria is Comprehensive and Emphasizes the Public Interest.

Distilled, the Launch Committee's evaluation criteria is premised on (1) maximizing net benefits, (2) equitable representation across the participating region, (3) independence of governance, (4) RO flexibility to accommodate future markets, (5) optionality of market services, (6) ability to

⁵ *Id.* at pp. 14-15 (Apr. 10, 2024).

preserve control over existing balancing authorities, (7) a timeline that promotes broad market participation, and (8) respect for state policies.⁶

These evaluation criteria are comprehensive and consider the public interest of all stakeholders (i.e., regulators, load serving entities, and customers) across the region. These are helpful guideposts not only for the Launch Committee but also for stakeholders in evaluating the various market options being proposed and considered in the West.

Therefore, the AZLCG supports these criteria and their continued use in evaluation of Options 2 and 2.5, or any other market design that comes under consideration.

V. Conclusion

The AZLCG applauds the important work that the Launch Committee has completed thus far. The Launch Committee's thoughtful approach, transparency, and public engagement is greatly appreciated and serves as an example to all stakeholders considering regional market adoption. The AZLCG looks forward to further discussions regarding the Launch Committee's work and future developments as we continue to explore the benefits of an independent West-wide regional market design.

Very truly yours,

s/ Michelle Brandt King

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**ATTORNEYS FOR ARIZONA LARGE
CUSTOMER GROUP**

⁶ *Id.* at Appendix G (Apr. 10, 2024).

Comments of the Arizona Large Customer
Group Regarding Steps 1 and 2 of West-Wide
Governance Pathways Initiative

Exhibit A

October 2, 2023

Chair Megan Decker
Oregon Public Utility Commission
Co-Chair of Committee on Regional Electric Power Cooperation
Via email: megan.decker@puc.oregon.gov

Cabinet Secretary Sarah Cottrell Propst
New Mexico Energy, Minerals and Natural Resources Department
Co-Chair of Committee on Regional Electric Power Cooperation
Via email: sarah.propst@emnrd.nm.gov

Commissioner Andrew McAllister
California Energy Commission
Chair, Western Interstate Energy Board
Via email: andrew.mcallister@energy.ca.gov

Laura Rennick
Executive Director
Western Interstate Energy Board
Via email: LRennick@westernenergyboard.org

Re: Large and Industrial Electric Utility Customer Support for Western Market Development

Dear Chair Decker, Cabinet Secretary Propst, Commissioner McAllister, and Executive Director Rennick:

The undersigned group of large and industrial electric utility customer coalitions,¹ write to underscore the merits of exploring organized wholesale market structures in the West, including but not limited to the points expressed in the July 14, 2023 letter from state regulators² calling for the exploration and creation of an independently governed entity to deliver market services and benefits throughout the West. Indeed, the undersigned welcome the Western Interstate Energy Board (“WIEB”) to take a leadership role in creating a forum and inviting a process for stakeholders. This will allow stakeholders in the West to bring forth guiding principles critical to regional markets in the West, advance the dialogue on these issues, explore creative solutions to overcome challenges to market development, and create opportunity for consensus, all on neutral ground.

¹ Including large and industrial electric customer coalitions in Arizona (Arizona Large Customer Group or “AZLCG”), California (California Direct Access Customer Coalition or “CA DACC”), Colorado (Colorado Energy Consumers or “CEC”), Montana (Montana Large Customer Group or “Montana LCG”), New Mexico (New Mexico Affordable Reliable Energy Alliance or “NMAREA”), Utah (Utah Association of Energy Users or “UAE”), Wyoming (Wyoming Industrial Energy Consumers or “WIEC”), as well as Idaho, Oregon, and Washington (Alliance of Western Energy Consumers or “AWEC”).

² Including David Danner, Chair, Ann Rendahl, Commissioner, Milt Doumit, Commissioner, Washington Utilities and Transportation Commission; Letha Tawney, Commissioner, Mark Thompson, former Commissioner, Oregon Public Utility Commission; Alice Reynolds, President, California Public Utilities Commission; Siva Gunda, Vice Chair, California Energy Commission; Kevin Thompson, Commissioner, Arizona Corporation Commission; and Pat O’Connell, Chair, New Mexico Public Regulation Commission.

If properly designed, the development of an organized regional market has the potential to provide many and significant benefits for customers, whether reducing costs from coordinated and non-duplicative investments in market infrastructure, promoting reliability and enhancing integration services, increasing resiliency, and reducing emissions from a more efficient dispatch of energy including from intermittent renewable resources. For these reasons among others, Western market formation is worthy of exploration. It is in large and industrial customer groups' interest to lend support to the development of regional market structures, and likewise in the interest of the developing market to have the unique perspective and voice of customers operating in the West from its inception.

There are many details to be determined, both procedural and substantive. We recognize the validity and importance of the questions regarding scope, procedure, and key features, and look forward to engaging in the processes to come. In closing, we are committed to the conversation and welcome the opportunity to meaningfully participate in further discussions, whether formally or informally, and to shape the West's energy future. We welcome WIEB's engagement and leadership, remain committed to seeing where this leads, and look forward to the opportunity to participate in the ongoing evaluation of this important topic.

Very truly yours,

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