

Addendum to Issue Alert 1: **Evaluation of the West-Wide Governance Pathways Initiative Step 2 Final Proposal**

This Issue Alert is part of an ongoing series highlighting the key governance and market design elements that differ between Markets+ and EDAM/WEIM and why these differences have important consequences for customers in terms of reliability, economic value, and environmental objectives.

On July 31, 2024, some of the Markets+ Phase 1 Funding Parties¹ (“Joint Authors”) released an issue alert concluding that in the Western Interconnection, the Markets+ governance framework is the best option given their principles and priorities for a multi-state day-ahead organized market. Since that issue alert, the Launch Committee of the West-Wide Governance Pathways Initiative (“Pathways Initiative”) approved its Step 2 Final Proposal.² In this Addendum to Issue Alert 1, Joint Authors reevaluate their comparison of the Markets+ and EDAM/EIM governance structures based on the Step 2 Final Proposal.

Key Take-Aways

- The Pathways Initiative Step 2 Final Proposal represents significant time, effort, and resources. If implemented, it will provide incremental benefits to all energy markets in the West.
- The Step 2 Final Proposal does not solve the independent governance concerns expressed in previous issue alerts and in comments to the Pathways Initiative.
- The success of the Step 2 Proposal depends on uncertain future events including legislation in California that has not yet been developed or approved and subsequent implementation of that legislation by the California ISO Board of Governors and other entities.
- Markets+ remains the only day-ahead energy market option available across the West that was both designed under, and will be operated under, a fully independent governance model.

Issue Alert 1 Recap: The Markets+ Governance Framework is the Best Option for a Multi-State Day-Ahead Organized Market in the West

[Issue Alert 1](#) identified the guiding principle that a durable, effective, and independent governance structure with fair representation for all market participants and stakeholders is a foundational requirement for a day-ahead market. Such a structure is best suited to provide customer benefits and equitable outcomes in a transparent manner. The Markets+ governance framework achieves those objectives through the combination of all four of these elements:

1. A geographically diverse board / panel fully independent of market participants and stakeholders with authority over all aspects of the market;
2. A transparent and consensus-based market development process led by stakeholders, with stakeholder voting rights to determine whether and how each specific market design proposal moves forward;
3. A fully independent and impartial market operator that does not also act as a participating balancing authority area (BAA); and

¹ Arizona Public Service Co, Chelan County PUD, Grant County PUD, Powerex Corp., Public Service Company of Colorado, Salt River Project, Snohomish PUD, Tacoma Power, Tri-State Generation and Transmission Association Inc. and Tucson Electric Power Company prepared this Addendum to Issue Alert 1.

² The Final Proposal is available at: <https://www.westernenergyboard.org/wwwgpi/>.

4. A participation framework where all generators, loads, and BAAs are participating in the same manner with equivalent rules, rights, charge codes, and responsibilities, and equal access to information when making decisions.

In Issue Alert 1, Joint Authors concluded that the Pathways Initiative was unlikely to result in a governance framework comparable to Markets+. Reasons included an initial market design and tariff developed under the CAISO legacy governance framework, a lack of formal stakeholder voting, insufficient assurance that the market operator will not be biased toward the CAISO BAA, and the uncertain future of full implementation of any Pathways Initiative proposal. Below, Joint Authors reevaluate that conclusion based on the Step 2 Final Proposal.

Evaluation of Pathways Step 2 Final Proposal

The Step 2 Final Proposal recommends a legislative change in California that would enable the establishment of a new Regional Organization (RO) that would set market policy for EDAM. CAISO would retain its current balancing authority and market operator roles. The RO would have sole Section 205 filing rights over market policy, but CAISO would maintain a single shared tariff between the two organizations.

Joint Authors recognize the significant work and progress of the Pathways Initiative in recommending a process for incremental independence of the governance of WEIM and EDAM. If successful, this will provide benefits for markets and participants throughout the Western Interconnection. But for entities considering long-term commitments to a day-ahead market, the Step 2 Final Proposal leads to two inescapable conclusions:

1. Implementation depends on future contingencies including state legislation in California, implementation actions by the CAISO Board of Governors and Formation Committee, efforts to explore separation of CAISO dual roles, and a feasibility analysis of expanded RO responsibility.
2. The Step 2 Final Proposal leaves unresolved key concerns identified by Western stakeholders, leading to a governance structure that does not satisfy the elements of durable, effective, and independent governance identified in Issue Alert 1.

Written comments³ submitted prior to the Step 2 Final Proposal focused heavily on the CAISO's dual roles of market operator and participating balancing authority for only a portion of the market, creating a potential conflict of interest. [Issue Alert 6: Market Operator Actions & Modeling](#) outlines negative consequences that have resulted from that dual role. The Step 2 Final Proposal recognizes the existence of that dual role but delays any action to address it to an uncertain future.

Another significant area of concern voiced in stakeholder comments reflects the limited independence of the proposed RO from the CAISO. This includes a single shared tariff and an intertwined relationship across numerous areas, such as shared staffing, and financial and regulatory responsibilities associated with the organization being borne by CAISO. In addition, CAISO would be responsible for day-to-day market operations with limited supervision by the RO.

³ Pathways Initiative comments, including comments by several of the Markets+ Phase 1 Funding Parties, are available at: <https://www.westernenergyboard.org/wwwgpi/>.

Other comments submitted to the Pathways Initiative that were not resolved by the Step 2 Final Proposal include the need for more transparency in the selection of the Formation Committee, and risks and uncertainty about how the RO structure will address costs and cost allocation. Additionally, the language in the Step 2 Final Proposal around Step 3, a pathway to additional services, is more aspirational than concrete. Preserving an option for a day-ahead market to expand to full RTO services is an important objective for many in the West that remains elusive at CAISO for policy, political, and practical reasons. It is not clear whether any future California legislation will enable the CAISO BAA to be part of any RTO governed by the RO. Markets+ already has the structure in place to achieve that evolution for the West in a straightforward way.

Considering the four independent governance elements that Issue Alert 1 ascribed to Markets+ and have been reiterated in this Addendum, the Step 2 Final Proposal outlines a path to meaningful progress on one of those: a transparent and consensus-based market development process led by stakeholders, with stakeholder voting rights to determine whether and how each specific market design proposal moves forward. If the Proposal's recommendations are fully implemented, EDAM's stakeholder process will be more transparent than the status quo. Even under the proposal, however, stakeholders will not have decision-making authority or voting rights like they do in the Markets+ stakeholder process. While indicative voting will be used to communicate stakeholder preferences, ultimately CAISO/RO staff will continue to make the final determination of the market design proposals and solutions that will be pursued.

The Step 2 Final Proposal does not provide the other advantages of the Markets+ independent governance model. While the RO selection process can result in geographic diversity and independence, the continuation of a single shared tariff between the RO and the CAISO will limit the RO's independence from the CAISO Board of Governors. And CAISO performing the dual roles of market operator and participating BAA will remain embedded within EDAM, precluding a scenario where all generators, loads, and BAAs can participate in the same manner with equivalent rules, rights, and responsibilities and equal access to information. Furthermore, the Step 2 Final Proposal also does not address the need to develop a market design that represents the interests of all stakeholders, and instead proposes to adopt the current EDAM/WEIM market design as its starting point. This approach embeds the numerous market design choices that were made under California-centric governance into the market and thus fails to address one of the most fundamental challenges of EDAM/WEIM.

Lastly, Pathway's incremental approach to governance means that EDAM will not have fully independent governance on day one, risking harm to Western ratepayers outside the CAISO BAA in the interim until a fully independent governance structure is eventually achieved (if ever). Furthermore, if those incremental steps towards more full independence are not achieved and no other market option exists, it will be very difficult to stand up an alternative market later. The development of Markets+ enables ongoing competition to provide stakeholders with an ability to choose the market that is best for their customers, while also providing continued pressure for CAISO to continue to improve both their governance framework and market design.

Conclusion

The Step 2 Final Proposal represents a significant expenditure of time, effort, and resources. If fully implemented, it will incrementally improve WEIM and EDAM in ways that will also benefit neighboring markets. And the Proposal *could* enable EDAM to *eventually* implement a transparent and consensus-based market development process led by stakeholders. However, many Western stakeholders, including Joint Authors, are currently facing impactful decisions about market choices and must objectively consider whether the accomplishments of the Pathways Initiative are sufficient to impact their decision-making processes and analyses. The challenges Pathways Initiative attempts to overcome are one of the reasons why many utilities in the Western Interconnection have invested substantial time, effort, and resources to develop Markets+, a market that has been designed under, and will also be operated under, a fully independent governance structure. Joint Authors remain committed to developing Markets+, particularly considering that the Step 2 Final Proposal does not outline a reliable path to a day-ahead energy market with fully independent governance.