

Bonneville Power Administration Comments on Regional Organization Governance and Formation Workshop

Submitted August 8, 2024

1. Type of Organization: do you support the proposed 501(c)(3) organization of the RO? If there is another organization that you feel would be a stronger fit for the RO, please tell us which organization you prefer and the basis for your opinion.

Bonneville supports the proposed 501(c)(3) organization for the RO.

2. State of Incorporation: Do you support proposed incorporation of the RO in Delaware? If you think there is another state that you feel would be a more compelling option, please tell us which state and the basis for your opinion.

Bonneville supports incorporation in Delaware.

3. Principal Place of Business: Do you support co-locating the RO in Folsom with the CAISO as the principal place of business? If there is a different location that you feel would be a stronger fit, please tell us which location and the basis for your opinion.

Bonneville appreciates the efficiencies of having the RO located near the market operator. The Pathways proposal may consider locating the RO in Sacramento so that it is closer to the airport, but still reasonably close to Folsom.

4. Do you have any additional feedback you would like to share with the Launch Committee on these topics?

No.

Regional Organization Governance Questions:

1. The working proposal recommends there should be a collaborative relationship between the existing CAISO Board and the new RO Board. Where there are issues of joint authority for the two boards to consider, there should be joint meetings. Do you agree with the recommendation? If not, please share your thinking and an alternative proposal for how this issue can better be addressed.

Bonneville disagrees with this recommendation because it is contrary to the independent function of the RO. In the Step 2 paradigm, where the goal is fully independent governance, the RO Board should meet separately from the CAISO BOG.

Under the EIM paradigm—both currently and as anticipated under Pathways Step 1,—joint meetings are an important part of the process to allow the boards to meet together to facilitate a cooperative relationship because of the continued shared ownership of issues. Under the current WEIM structure, there are many issues that fall under joint authority. Even under the Pathways step 1 proposal, the Western Energy Markets (WEM) Board's decisions still need to go before the CAISO Board of Governors (BOG) on a consent agenda, consistent with the BOG's ultimate authority and when the BOG may make decisions for the market in exigent circumstances. Thus, joint meetings are important to ensure that the BOG understands the WEM Board's perspective before issues come before the BOG on the consent agenda.

The situation will be different under an RO structure that seeks to clearly delineate the RO board from the CAISO board. First, joint meetings will undercut independence. The BOG will have an undue influence, or the appearance of an undue influence, over the RO Board in the joint meeting. While the BOG's responsibilities should be limited to CAISO balancing authority management, the BOG will be representing the interests of the biggest participant in the RO's market. It is not appropriate for the board of one market participant to have a joint meeting with the RO Board when no other market participant is afforded such influence.

Second, the move to Sole Authority should negate the need for joint meetings. While the details of jurisdiction over the various parts of the current CAISO tariff structure still need to be fine-tuned, the intent, as Bonneville understands it, is to give the RO board jurisdiction over all EIM and EDAM market rules, with the BOG retaining jurisdiction over the parts of the CAISO tariff that are specific to the operation of the CAISO balancing authority function and other tariff provisions that are only effective within California. If this goal is achieved, there could be no tariff provisions that fall under joint authority, or only a very limited subset of tariff elements that are governed by both the RO board and the CAISO board. Therefore, there should be no need for joint meetings. If an issue arises that crosses over the jurisdiction of both boards, the chairs of each board could designate one member of each board to meet and provide each other's perspective on the issue. In specific instances where deemed necessary, the boards themselves are capable of deciding to hold a joint meeting. This would be a better outcome than having the Launch Committee prescribe joint meetings in the initial proposal.

Independence of the RO Board should be the touchstone of the Phase 2 proposal. The Phase 2 proposal should not prescribe joint meetings as such a feature will undercut the independence of the RO Board. One area where joint authority may become an issue is the prioritization of CAISO workload. Bonneville believes that a separate process or contractual tools will need to be developed to address the conflict inherent in this prioritization issue.

2. The working proposal recommends the RO Board should consist of seven members that meet the knowledge and skills requirements outlined in the RO Board selection procedure. Do you agree with the recommendation? If not, please share your thinking and an alternative proposal for how this issue can better be addressed.

Bonneville agrees with the recommendation.

3. The working proposal recommends seats on the RO Board should not be reserved per se. Do you agree with the recommendation? If not, please share your thinking and an alternative proposal for how this issue can better be addressed.

Bonneville disagrees with this recommendation for the transition period. Bonneville supports the proposed RO Board selection process but believes that terms of the existing WEM Governing Body members should be honored by allowing them to serve out the remainder of their existing terms on the RO board if they elect to continue their service. The WEIM participants have contracted with the WEM Governing Body members for specific terms and those contracts should be honored. The existing WEM Governing Body members have the expertise associated with being involved with the market for a number of years and that expertise will be essential for the RO board when it is first getting started. In addition, none of the terms of the existing WEM Governing Body members is extensively long and thus their seats will become open and subject to the selection process within the first couple of years after the RO board is seated.

The Pathways phase 2 proposal is currently planning on relying on the WEM Governing Body to help with the development details and incorporation of the RO and as such the WEM Governing Body members should be afforded seats on the RO board they are expected to help create. There will be a significant amount of time between the start of the process coming out of this phase 2 development stage, through tariff development, FERC approval, legislative development and passage, and the actual formation of the RO and seating of the RO board. During that time, the WEM Governing Body will be expected to continue to function and support the RO development effort. Many of the WEM Governing Body members' terms will expire during this time period. If there is no certainty regarding obtaining a seat on the RO Board, it may become very difficult to recruit or retain WEM Governing Body members for abbreviated terms, which would be to the detriment of both the WEIM functions and the RO formation.

Following the expiration of the terms of the WEM Governing Body members, Bonneville does not believe that seats should be reserved.

4. The working proposal recommends the details of the Transition Plan from the WEM GB to the new RO Board should be left to the Formation Committee. Do you agree with the recommendation? If not, please share your thinking and an alternative proposal for how this issue can better be addressed.

Bonneville questions this recommendation. Bonneville is concerned that leaving too many of the details to the later stages of the process will inject uncertainty into the proposal. Bonneville notes that Pathways Launch Committee members have cited uncertainty in previous proposals as a factor in the failure of past legislative efforts. The Workshop presentation, slide 15, states that the Formation Committee and the WEM Governing Body will be responsible for developing bylaws and the RO tariff. The bylaws and tariff are both very significant details that should be developed through an open stakeholder process, with enough time to consider a wide diversity

of interests and ensure that these operational documents meet the needs of the new entity and continuing and future market participants. Bonneville recommends conducting bylaw and tariff development in a publicly accessible and noticed process. Bonneville is concerned that the bylaw and tariff development as currently planned will be taking place simultaneously with the California Legislature deliberations on its own considerations for allowing the CAISO to participate in an independent market. There is risk that the bylaws and tariff development may become more of a negotiation for California legislative approval as opposed to these essential operational documents being developed in the interest of all participants and stakeholders.

5. The working proposal recommends that, based upon discussions to date, the Launch Committee has taken the position in the Phase 2 work plan that we will not launch the RO before the legislation is signed and the amended tariff is filed at FERC. There are formation efforts (e.g. type of corporation, tariff language development, bylaws development, board 2 selection process) that should be pursued by the Formation Committee in conjunction with the CAISO in advance of these milestones, but mindful of the legislative process. Do you agree with the recommendation? If not, please share your thinking and an alternative proposal for how this issue can better be addressed.

Bonneville agrees that progress should be made where possible, and that transparency is essential to the process. As expressed above, Bonneville has concerns regarding the proposal for the Bylaw and Tariff development. It should be acknowledged upfront that the outcome of the legislative process may require reworking some aspects of the proposal and of any work completed prior to the legislative outcome.

6. The working proposal recommends that startup funding for the RO will likely be required before any market supported funding is available. Due consideration should be given to identifying funding that would not be considered as compromising Board independence. Such sources might include DOE grant funding or ongoing support from the Pathways Initiative 501.c.3 funding via Global Impact. Do you agree with the recommendation? If not, please share your thinking and an alternative proposal for how this issue can better be addressed.

Bonneville does not have an opinion on the funding issue.

7. The Work Group is developing a draft RO Board selection procedure that started with the current WEM GB selection process. Specific issues for stakeholder input include:

- Number and definition of nominating committee sectors*
- Board knowledge and skills requirements*
- Use of Formation Committee as approval body for initial board selection*
- Restriction on number of current WEM GB members that can transition to the new RO Board*

Please share your thinking on the proposal and any alternative proposals for how these issues can better be addressed.

Bonneville generally agrees with these aspects of the proposal, with a few exceptions.

Bonneville recommends the limited use of an initial Formation Committee, but that members not necessarily be current Launch Committee members. Members of current Launch Committee sectors should determine their representation in a process that selects members to serve on the Formation Committee. The Formation Committee should include one state representative.

Bonneville disagrees with the last bullet regarding the restriction on the number of current WEM GB members that can transition to the new RO Board. Bonneville disagrees with the concept of existing WEM Board members having to compete for the new RO board seats. Those aspects make the seating of the new board more problematic than it needs to be. See comments above on issue 3.

8. Do you have any additional feedback you would like to share with the Launch Committee on these topics?

Not at this time. Thank you for the opportunity to comment.