

COVER PAGE

Wholesale Electricity Market Engagement in the West

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Lead Organization: Global Impact

States: Washington Utilities and Transportation Commission, Public Utility Commission of Oregon, California Public Utilities Commission, California Energy Commission, New Mexico Public Regulation Commission, Utah Office of Consumer Services

Western Freedom, Western Resource Advocates, Northwest Energy Coalition, Environmental Defense Fund, Union of Concerned Scientists, Advanced Energy United, Clean Energy Buyers Association, Northwest & Intermountain Power Producers Coalition, Interwest Energy Alliance, Western Power Trading Forum, Southern California Edison, Pacific Gas & Electric Company, Balancing Authority of Northern California, Northern California Power Agency, California Community Choice Association, Renewable Northwest, Regulatory Assistance Project, Portland General Electric, Seattle City Light, PacifiCorp, Arizona Public Service Company

Project Description Topic Area 2

Section 1. Project Motivation

The U.S. energy sector is in the midst of an unprecedented transformation, nowhere more apparent than in the electricity sector. With increasing electrification of sectors including transportation and buildings, more demand to support data centers and manufacturing necessary to power and develop the items we use every day, and retirement of older, often thermal generation fleets that have been the backbone of our electricity system for many decades, more coordination and more energy infrastructure are necessary across the country. Recent laws, including the Bipartisan Infrastructure Law and the Inflation Reduction Act, are making historic investments to modernize the electric grid, reduce carbon emissions, and spur new, diverse energy development. Western power providers are responding by building out new and diverse energy resources in ways that maximize local advantages and local resources.

The West itself is experiencing a rapidly changing energy landscape. Western states face reliability challenges due to issues such as an aging grid, widespread electrification, and the complex impacts of a variable climate such as wildfire risk, extreme heat impacts, and higher demand variability. These challenges can be faced more effectively, efficiently, and affordably through a regional wholesale electricity market operating across a widespread geographic footprint by optimizing the use of energy resources on a regional basis—not just balancing across seams between markets but doing away with the seams altogether. Organized electricity markets operating through multi-state coordination can help the West achieve a successful electric sector transformation. Well-functioning energy markets will support intentional, timely, cost-effective clean energy deployment while buttressing system reliability, to the benefit of energy consumers across states. To accomplish these goals, the West needs to enhance existing processes and create forums that build collaboration, trust, and transparency.

Section 2: Project Context

The Western Interconnection is the largest and most geographically diverse in the US. It reflects the most transmission miles and largest number of entities registered under the NERC functional model. It is also an aggregation of 38 balancing authorities, each largely retaining its discretion for dispatch and control of individual systems and responsibility for meeting federal reliability standards. This decentralization enables some local and state benefits but does not always produce the most efficient, cost-effective and reliable system operation outcomes.

In collaboration with the California Independent System Operator (CAISO), utilities and stakeholders in the West have taken an incremental approach to market development. The CAISO's Western Energy Imbalance Market (WEIM) has saved its participants over \$5.49 billion since its inception in 2014 (see [WEIM 2024 Benefits Report](#)). CAISO received approval from FERC for an Extended Day Ahead Market (EDAM) in December, 2023, which could see estimated benefits of approximately \$1.2 billion annually if implemented interconnection-wide.¹ Five utilities (PacifiCorp, Balancing Authority of Northern California, Los Angeles Department of Water and Power, Portland General Electric, and Nevada Energy) have committed to join or seek regulatory

¹ CAISO EDAM Benefits Study at 13 (Nov. 4, 2022), available at: <https://www.caiso.com/Documents/Presentation-CAISO-Extended-Day-Ahead-Market-Benefits-Study.pdf>

approval to join EDAM, and Idaho Power has indicated a leaning towards joining EDAM. All studies show that a larger geographic footprint and increased diversity of supply and demand resources drives larger benefits. The more robust the market footprint is and the more comprehensive the grid services are, the greater the benefits to consumers. However, expanding the footprint and grid services remains a challenge until a path to independent governance (that reflects the diversity, priorities and opportunities in the West) is identified.

As stated, longstanding efforts to create a coordinated western RTO to more efficiently deploy resources and manage the transmission system have been unsuccessful for several reasons, including challenges developing an equitable governance structure. Recognizing this history, in July 2023, a group of five western state regulators sent a letter to the Western Interstate Energy Board and the Committee on Regional Electric Power Cooperation, advancing a proposal “for ensuring that the benefits of wholesale electricity markets are maximized for customers across the entire Western U.S.”² The regulators contemplated that the creation of a new non-profit regional entity could “serve as a means of delivering a market that includes all states in the Western Interconnection, including California, with independent governance.” Their vision included the eventual assumption by the new entity of the CAISO’s EDAM and WEIM, “avoiding a duplication of the investments and expenses of the market infrastructure that has already been created, and avoiding a deterioration of the benefits of those programs [...]”

With this guidance, a group of interested stakeholders created the West-Wide Governance Pathways Initiative (Pathways Initiative) and formed a 26-member Launch Committee comprising a diverse set of utilities, consumer advocates, public power, generators and power marketers, public interest organizations, and others. Since October 2023, the Launch Committee has completed a series of administrative and technical tasks, including retaining a fiscal sponsor, Global Impact, which is the primary applicant for this grant on behalf of the Launch Committee. In addition, the Launch Committee developed a range of potential market design options along with evaluation criteria, obtained legal expertise to help identify legal challenges, and began to pose potential solutions to the associated legal and technical questions related to independent governance for the existing and developing markets. One guiding principle for the Launch Committee was to ensure that a governance structure could evolve to allow market participants to voluntarily participate in an RTO, but not to mandate that any entity join an RTO.

The Launch Committee conducted several rounds of stakeholder feedback which resulted in the recommendation for a stepwise approach with three incremental steps in the market evolution:

Step 1: Early success. This step demonstrates early commitment to the regulators’ vision of independent governance through substantive changes in decision-making authority within the current regulatory regime and within the scope of existing law, while continuing to develop more ambitious pathways towards greater independence.

Step 2: Durable, independent governance of markets and other potential services. This step includes formation of a new governing entity and aims to implement the

² Letter available at: <https://www.westernenergyboard.org/wp-content/uploads/Letter-to-CREPC-WIEB-Regulators-Call-for-West-Wide-Market-Solution-7-14-23-1.pdf>.

regulators' vision of a regional energy market with a large and inclusive footprint, maximizing independence while retaining and leveraging the existing market infrastructure to minimize costs. Step 2 is designed to be able to evolve and accommodate the addition of new, voluntary services as the framework matures.

Step 3: Toward an RTO. As Step 2 matures, the Launch Committee contemplates further evolution toward services of an RTO for balancing authorities (BAs) and other market participants to join voluntarily. Proposing a particular design for these subsequent incremental stages goes beyond the scope of the Launch Committee's work, but Steps 1 and 2 have been developed with a clear line of sight to enable those potential voluntary future services to be extended beyond the scope of existing energy markets. The Launch Committee refers to this later evolution of additional services, inclusive of a full suite of RTO services, as Step 3.

Section 3: Project Activity, Goals, Stakeholders, and Topics for Convenings

Project Activities. As of June 2024, the Launch Committee has completed Phase I of its efforts, which resulted in the unanimous recommendation for an initial Step 1 proposal that would enhance the WEIM Governing Body's oversight of the CAISO real-time and day-ahead markets from the current joint authority model to the primary authority model. The Launch Committee has submitted the Step 1 Proposal to the CAISO for consideration and implementation. The Phase I effort also proposed an initial concept for a Step 2 governance structure that would involve the creation of a "Regional Organization" (RO) that would include an independent board to oversee the market functions. The Launch Committee has identified another two phases of the Pathways Initiative effort to move Step 2 forward as follows:

Phase II: Develop the details for the Step 2 proposal to include board structure, stakeholder processes, cost of implementation, and related matters (July – Fall 2024)

Phase III: Creation of a "Formation" Committee including Launch Committee members and a subset of the WEIM Governing Body to work with the CAISO to develop the operational details of implementing the RO, such as drafting tariff language and bylaws, engaging in a process for board selection, and stakeholder engagement. (Fall 2024 – Spring 2026)

This proposal for Pathways Initiative Phase III activities includes the following:

- Creation of a Formation Committee;
- Refining the Step 2 recommendation to include development of draft language for potential CAISO tariff amendments, RO corporation bylaws, and stakeholder process;
- Developing a transition plan for the WEIM Governing Body and new RO Board including recommendations for a board nominating committee structure;
- Coordination with the CAISO on the implementation plan for the CAISO stakeholder process, Board of Governors approval, and implementation of Step 2;
- Seating a nominating committee to work with a placement firm to select initial candidates for the RO Board;
- Recruitment of a new RO Board and RO executive team; and
- Ongoing stakeholder engagement, facilitation, and fiscal sponsorship support.

Goals. The Pathways Initiative's goals are to develop a new, independent West-wide entity capable of:

- enabling the largest footprint possible that includes California and maximizes overall consumer benefits;
- including independent governance for all market operations;
- and preserving and building upon existing CAISO market structures, including the WEIM, which serves over 80% of the Western interconnect, and EDAM which offers additional day-ahead services.

A primary goal will be to minimize duplication and incurrence of costs for both the market operator and the market participants and to offer a flexible structure to accommodate the future voluntary provisions of full RTO services for those entities that desire to do so, without any mandate to enhance the scope to include a more fulsome suite of RTO services.

With Phase I complete and Phase II underway, Phase III will have the underlying foundation for success based on extensive input from stakeholders and relevant outside independent expertise at the outset in late 2024. The goals of Phase III include:

- refinement and formalization of the stakeholder process, including the evolution of the WEIM Body of State Regulators to support the new RO;
- final governance documents and tariff language for the new RO; and
- identification and hiring of RO Board and staff members.

Stakeholders. This effort will include a diverse set of stakeholders across the western U.S., as described previously above. A list of public and private entities currently participating in the Pathways Initiative is provided in the Addendum.

Discussion Topics. A wide array of topics will be addressed, most centrally: 1) Nature of the nominating committee and independent board and their membership; 2) Participation in the new RO by various stakeholder groups including state representatives; and 3) Interest in and ability to offer a path forward to full-scale RTO implementation, including discussion of the nexus with other collaborative regionalization efforts across the West (e.g. Western Power Pool's Western Resource Adequacy Program and Western Transmission Expansion Coalition). Specifics could include hearing priorities and concerns from different stakeholders to inform initial RO priorities.

Needs and Resources. The Pathways Initiative requires resources to support inclusive outreach and participation from western states and non-state entities, as well as to support the formation of the initial structure of the RO. Engaged stakeholders provided Initial funding for the Launch Committee, but DOE resources will be critical to implement a new independent RO and to ensure that the RO can enable participation by those who may otherwise be under-resourced or under-represented (e.g., state-level entities, tribal governments, representatives of underserved constituencies and public interest groups). These needs can be organized into four categories:

1. Technical and educational materials. Support from consultants to finalize governance and tariff documents, as well as materials for broader stakeholder information.
2. Personnel resources. Board members and key staff to implement stakeholder engagement and policy structures imperative to the stakeholder-based RO governance.

3. Participation at gatherings. Funding to support travel and inclusion at in-person meetings and gatherings.
4. Facilitation. Additional support for Launch Committee and stakeholder participation.

Funding through the FOA grant is essential to further the creation of a structure and process that is inclusive and accessible to a diverse set of stakeholders, serving as one of the critical foundations of the new independent governance entity.

Section 4: How the proposed convening process would address the knowledge gaps, limitations, and challenges facing the electricity industry.

This effort is necessary to build inclusive participation in a new West-wide, independent entity from the ground up. Enhanced outreach and engagement will ensure that entities wishing to participate in the RO decision-making processes are provided the means and opportunity to engage meaningfully. Supporting the foundational infrastructure that will enable the level of independence required by Western market participants, states, and other stakeholders through an inclusive stakeholder process is critical to the RO's ability to operationalize the Western region's reliability, affordability, and climate goals.

Section 5: Funding

This application is for \$750,000 for a two-year period. This funding is necessary for major Pathways Initiative support functions and initial costs for the RO—development of institutional materials; outreach to and materials for key stakeholders; regular convenings through virtual and in-person gatherings; support for key board and personnel required to execute the policy and stakeholder functions necessary for the success of the RO; and facilitation to ensure meaningful participation by those who wish to engage. This includes:

- Facilitation and administrative support for the Formation Committee and Launch Committee including extensive stakeholder engagement and supporting materials;
- Recruitment and hiring of key board and personnel for the new RO; and
- Funding for key stakeholder participation in new RO including state representatives and consumer advocates.

It is impossible to overstate the importance and impact of DOE funding for this critical phase of the Pathways Initiative; without these resources, these urgent governance changes will be delayed and engagement from key stakeholder groups like states and consumer advocates will be limited if not cost-prohibitive. **Funding for the stakeholder engagement structure and initial staff and board members for the RO is critical to ensure the infrastructure is in place to execute on the independent governance required by RO participants. This will enable the future development and expansion of market and grid services and the maximum footprint and participation.** Launch Committee members (see Addendum for list of members and organizations) and other stakeholders are investing major in-kind resources in support of their own participants' engagement time and many have contributed organizational funding to support the Pathways Initiative work to date.³

³ See Pathways Pledge Summary Table, available at: https://www.westernenergyboard.org/wp-content/uploads/Pledge-Summary_04152024.pdf.

Addendum

Global Impact submits this concept paper on behalf of the Westwide Governance Pathways Initiative Association (the “Association”). The Association is made up of all of the voting members of the Pathways Initiative Launch Committee. Under the terms of a contract between the Association and Global Impact, the Association conducts fundraising and directs all expenditures of funds collected to support the Pathways Initiative. Global Impact does not have any control over the Launch Committee discussions, proposals, or evaluation regarding governance structures for western energy market functions. The Launch Committee activities will not include promoting specific legislation and will fall under IRS 501(c)(3) guidelines.

The California Independent System Operator (CAISO) has agreed to provide technical input and feedback into the Pathways Initiative to support the work of the Launch Committee. Since the Step 1 and 2 recommendations will require changes to the CAISO’s tariff and potentially some staff and governance structure, the CAISO will conduct its own stakeholder and technical processes to evaluate and adopt the changes as appropriate.

State regulators and energy offices: The Arizona Corporations Commission, California Energy Commission, California Public Utilities Commission, Oregon Public Utility Commission, Washington Utilities and Transportation Commission, and New Mexico Public Regulation Commission have actively engaged in regional collaborations, such as the WEIM and development of the [Western Resource Adequacy Program \(WRAP\)](#). These state entities have deep expertise on issues related to regulation of the electricity sector. They have convened and facilitated key conversations such as reliability, building and transportation electrification, climate impacts on energy supply and demand. By fostering cross-state partnerships and sharing best practices, these commissions and agencies play a crucial role in advancing sustainable and efficient energy solutions across the western United States.

Other members of the Launch Committee have also participated in regional collaborations including the WEIM and WRAP, as well as the CAISO Governance Review Committee, CAISO Regional Issues Forum, WEIM Governing Body Nominating Committee, CAISO Board of Governors Nominating Committee, EDAM development process, Southwest Power Pool (SPP) Markets+ Executive Committee, SPP Markets+ technical committees, and other previous regional market development efforts.

Pathways Initiative – Launch Committee Roster
April 2024

CA Investor-Owned Utility Transmission Owners:

Scott Ranzal, Pacific Gas and Electric
Jeff Nelson, Southern California Edison
Alternate(s): None

WEIM Entities:

Omayya Ahmad, Arizona Public Service
David Rubin, NV Energy
Kerstin Rock, PacifiCorp
Pam Sporborg, Portland General Electric
Alternate(s):
Robert Eckenrod, PacifiCorp

Public Power and Coops:

Josh Walter, Seattle City Light
Connor Reiten, PNGC Power
Jim Shetler, Balancing Authority of Northern California
Randy Howard, Northern California Power Agency
Alternate(s):
Jon Olson, SMUD

Independent Power Producers and their Trade Associations:

Scott Miller, Western Power Trading Forum
Jan Smutny-Jones, Independent Energy Producers Association
Lisa Tormoen Hickey, Interwest Energy Alliance
Alternate(s):
Ben Fitch-Fleischmann, Interwest Energy Alliance
Spencer Gray, NIPPC

Residential and Small Commercial Customers:

Michele Beck, Utah Office of Consumer Services
Open Seat
Alternate(s): None

Large Commercial & Industrial Customers and their Trade Associations:

Kathleen Staks, Western Freedom
Alternate(s):

Heidi Ratz, Clean Energy Buyers Alliance

Technology Providers and their Trade Associations:

Brian Turner, Advanced Energy United

Alternate(s): None

Non-utility Load Serving Entities and their Trade Associations:

Evelyn Kahl, California Community Choice Association

Alternate(s):

Beth Vaughan, California Community Choice Association

Labor:

Marc Joseph, Coalition of California Utility Employees and the State Association of Electrical Workers

Alternate(s): None

Public Interest Organizations:

Michael Colvin, Environmental Defense Fund

Alaine Ginocchio, representing Western Resource Advocates

Ben Otto, NW Energy Coalition

Alternate(s):

Mark Specht, Union of Concerned Scientists

NON-VOTING MEMBERS (not executing the Memorandum of Understanding):

States/Provinces:

Commissioner Milt Doumit, Washington Utilities and Transportation Commission

Commissioner Kevin Thompson, Arizona Corporation Commission

President Alice Reynolds, California Public Utilities Commission

Alternate(s):

Commissioner Letha Tawney, Oregon Public Utilities Commission

Vice Chair Siva Gunda, California Energy Commission

Commissioner Pat O'Connell, New Mexico Public Regulatory Commission

Power Marketing Administrations:

Chrystal Dean, Western Area Power Administration

Alternate(s):

Tina Ko, Western Area Power Administration