

## **Arizona Utilities' Response to the West-Wide Governance Pathways Initiative Step 2 Draft Proposal, Released September 26, 2024**

October 25, 2024

Arizona Public Service (APS), Salt River Project Agricultural Improvement and Power District (SRP), and Tucson Electric Power Company (TEP) (collectively, the "Arizona Utilities") appreciate the opportunity to provide a response on the Step 2 Draft Proposal ("Proposal"). The Arizona Utilities have each participated in the process facilitated by the West-Wide Governance Pathways Initiative (Initiative) since its inception and have previously submitted in writing<sup>1</sup> our preferences for an independent governance structure to transform the existing construct employed by the California Independent System Operator (CAISO). At this juncture in the Initiative's process, the Arizona Utilities are unmoved by the scope of the Step 2 Draft Proposal and abstain from offering support. The Proposal as drafted does not meet our qualifications for an independent governance structure, which limits its potential influence on our decision-making regarding our market participation.

Sound governance is a foundational requirement for a Day-Ahead organized market to provide the benefits of increased efficiency and enhanced reliability while also ensuring equitable outcomes for all participants and all western sub-regions.<sup>2</sup> The Arizona Utilities maintain that this outcome is best achieved through an independent governance structure that features and emphasizes the following governance principles:

1. Autonomy in decision-making to ensure decisions are made in the best interest of stakeholders and customers at large rather than for the benefit of a few;
2. Transparency to clearly communicate processes and decisions, and accountability to rectify any missteps;
3. Unbiased representation by the governing body to promote diverse perspectives that are free from conflicts of interest;
4. A clear separation of roles and responsibilities between the market and its participants to maintain objectivity; and,

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<sup>1</sup> The Arizona Utilities' comments, posted to the West-Wide Governance Pathways Initiative website: <https://www.westernenergyboard.org/wwgpi/>

<sup>2</sup> Issue Alert 1: The Markest+ Governance Framework is the Best Option for a Multi-State Day-Ahead Organized Market, posted to: <https://www.westernenergyboard.org/wp-content/uploads/Issue-Alert-1-Governance-July-31-2024.pdf>

5. A robust stakeholder process that,
  - a. Drives market evolution by acknowledging diverse perspectives and promoting consensus building; and
  - b. Provides fair and equitable representation to all market participants and stakeholders.

These governance principles have important consequences for the Arizona Utilities' customers in terms of reliability, economic value, and environmental objectives.

The Proposal includes recommendations that, if adopted by the State of California and employed by CAISO, move the CAISO's existing structure toward a more independent framework, but it stops short of achieving independent governance that meets all the principles presented above. A functioning independent governance structure is a prerequisite for market participation for the Arizona Utilities.

The Arizona Utilities acknowledge the reasons put forth by the Initiative to advance through an iterative process on a path toward more independent governance that, for now, may conclude with Step 2. We understand the Initiative's stated reasons for this stepwise approach and investment. Although the Proposal falls short of meeting the Arizona Utilities' criteria for independent governance, it offers a potential path to develop characteristics that will attempt to better facilitate equitable interactions among entities in the West.

As stated above, governance is a key consideration in the selection of a Day-Ahead market for the Arizona Utilities. Because the scope of the Initiative continues to exclude its previously defined Option 4, which would clearly distinguish roles between the market operator and market participating balancing authorities, the Proposal falls short of an independent governance structure already available to entities in the West.

Offering additional, specific feedback on the Proposal within the Initiative's limited schedule is challenging. The Proposal we are responding to at this juncture is expansive, was quickly assembled, adopts unchanged language we have previously commented on, and remains in flux as some sections are concurrently being reinstated or altered. The Arizona Utilities previously have offered feedback in writing and within various Initiative workgroups. However, with no obligation to respond to stakeholder feedback, the Initiative has overlooked, through Step 1 and now in Step 2, many preferences and concerns the Arizona Utilities have already expressed. The quick turn-around for and lack of response to previous feedback make offering more

feedback unreasonable. Previous comments offered by the Arizona Utilities remain applicable to the Proposal.

The Arizona Utilities encourage the Initiative to continue to pursue independent governance to make the Proposal meet the standards of a broader range of Western entities. We thank the Initiative for continuing to put forth effort to advance this endeavor.