

## **Bonneville Power Administration Comments to West Wide Governance Pathways Initiative: CAISO Issues and Tariff Analysis**

**Submitted August 19, 2024**

### **CAISO Issues**

Please provide feedback with as much detail as possible on the following topics:

1. Structure: Should the RO be an organization that primarily consists of a policy-setting board (Option 2) or an organization that formally offers and bears ultimate responsibility for market services (Option 2.5)?

Bonneville understands that a goal of Pathways is to create a Regional Organization that operates independent from the influence of any single state or market participant. Thus, the RO should be structured to maximize its independence. Option 2.0, a policy-setting board, is not an independent governance structure, as it is only establishing undefined policies for the market operator that is still subject to the oversight of the CAISO Board of Governors (BOG). It places significant limitations on the RO's ability to operate independent of the CAISO as it limits the scope of its responsibilities and liabilities.

Given that Pathways is currently only evaluating option 2.0 and option 2.5, option 2.5 is preferable as it increases the independence of the RO relative to option 2.0.

As Bonneville stated in previous comments, it encourages Pathways to seek to maximize the independence of the RO and RO Board. While we understand that options 3, 4 and 5 were eliminated due to cost and complexity of the legislative change, we recommend that Pathways continue to consider whether true RO independence outweighs the cost of these options.

2. RO-CAISO relationship: Should the RO's contract with the CAISO be a governance-focused interface agreement (Option 2) or a contract for services from a markets vendor (Option 2.5)?

Pathways should pursue the option that provides the most independence for the RO. Option 2.0 merely gives the RO a policy-setting role in the market. Under Option 2.0, the RO would only have a governance-focused interface agreement in place and it would be very limited in its ability to exert control over the direction of CAISO staff and actions taken by CAISO.

While Bonneville prefers that Pathways look at alternatives for more increased independence, of the two options, Option 2.5 provides a greater level of independence. The contract vehicle described in Option 2.5 should give the RO control over market actions and place strong limitations on the market vendor's ability to act unilaterally without RO direction.

Bonneville is interested in additional details on the contract mechanism and what is envisioned for option 2.5. The contract details could have a significant impact on the relationship between the RO and CAISO, and on the level of independence achieved by the RO.

3. Cost: How important to you or your organization is implementation cost in evaluating Option 2 versus Option 2.5?

While Bonneville understands that cost is a significant driver for many in the Pathways initiative, the independence of the RO and its board are more significant than potential cost increases. In the long run, having a market run by an independent organization could create benefits that far outweigh the difference in costs between these options. Bonneville encourages Pathways to consider the long term benefits of improved market design and potentially a larger footprint when weighing the costs of these and other options.

4. Independence: How valuable is the increment of institutional independence gained in Option 2.5 relative to Option 2?

An original goal of initiating the Pathways effort was to move WEIM/EDAM governance toward an independent structure in which market participants could participate without concerns that the market is unduly influenced by the state of California. The further the Pathways initiative is able to move towards independence the more valuable the outcome will be to the region. Bonneville encourages the Pathways Initiative to consider not only the independence benefits of Options 2 and 2.5 but also the greater independence benefits of Options 3, 4 and 5.

5. Responsibility: Do you have any feedback on the level of institutional responsibility the RO would bear in Options 2 and 2.5, as outlined in this presentation?

No feedback at this time. Bonneville may have comments as it learns more about the level of institutional responsibility.

6. Liability: Are there any particular aspects of financial liability borne by the RO in Options 2 and 2.5 that you would like to raise or address?

No comment at this time.

7. Evolution: Does either option offer a durable institutional home to oversee or host services beyond energy markets?

Similar to the previous questions regarding independence, the more independent the RO, the more durable of an institutional home it would provide for future services beyond energy markets. Since further market services are a third step in the Pathways initiative, Bonneville encourages the Launch Committee to pursue a structure that maximizes independence of the RO.

8. Given the potential time needed to rework market-related contracts and establish sufficient contingency reserves, among other matters, do you perceive value in a Step 2 approach that would begin with Option 2 and then transition or evolve to 2.5?

Transitioning from Option 2 to 2.5 introduces significant uncertainty as to the end result. In addition, a transitioning approach may require additional legislation or the transition may be restricted by the legislation that is initially passed. If Pathways is going to develop an RO that can act independently, it would be prudent to move directly to Option 2.5 and ensure that the necessary legislation is passed to support the needed changes.

## **Tariff Analysis**

9. Do you agree with the suggested areas where the CAISO and the RO would each have sole authority and the areas where they would have shared authority? Please provide as much detail as possible why you agree or disagree and suggestions on possible alternatives.

No. Bonneville believes that any sections that apply to services or obligations provided by the RO should be under the sole authority of the RO. An example where Bonneville disagrees is Section 12: Creditworthiness. This section applies to all parties settling with the market, and has major consequences for all parties. This was demonstrated during the MLK-day weekend cold snap, during which transactions were much higher than normal and required extraordinary actions from market participants outside of California to meet the creditworthiness standards. This means that all sections of the tariff are important if they impact products, services, or terms and conditions for members outside of the CAISO BAA they should be under the sole authority of the RO. This also assumes that all parties, including those inside the CAISO BAA, would be fairly represented in the RO process and before the RO Board.

If there is any shared authority, it should only be over boiler-plate language, not over anything that is consequential to the market.

Bonneville strongly recommends that Pathways consider reorganizing the tariff to clearly separate out the RO sections of the tariff from the CAISO sections of the tariff, rather than splitting up the existing tariff and leaving the sections intertwined. This approach would result in a tariff and structure that has no joint issues and a clear delineation of authority between the BOG and the RO. Boilerplate language in the tariff could be put into both new sections of the tariff and each board would be able to manage and adapt their own sections of the tariff as needed.

10. Do you agree with the suggested principles proposed to determine RO sole authority? Please provide as much detail as possible why you agree or disagree and suggestions on possible alternatives.

No. Bonneville believes that there should be an “applies to” test for RO authorities. In other words, any section that applies to services taken by members outside of the CAISO BAA should be under the sole authority of the RO. Bonneville thinks this is fair, and this is

demonstrated by the Creditworthiness example above. Further, Bonneville expects that all entities inside the CAISO BAA should and would be represented in the RO process and before the RO Board.

11. Do you agree with the suggested principles proposed to determine CAISO sole authority? Please provide as much detail as possible why you agree or disagree and suggestions on possible alternatives.

No. Bonneville believes that the CAISO Board should only have sole authority over sections that *only* apply to services taken by CAISO BAA participants. As stated above, Bonneville believes that a clear delineation is needed between market operations under RO sole authority, and balancing authority and other California specific programs under the sole authority of the BOG.

12. Do you agree with the suggested principles proposed to determine overlapping authority? Please provide as much detail as possible why you agree or disagree and suggestions on possible alternatives.

No. Continuing on our comments above, Bonneville does not see areas where overlapping authority makes sense. Bonneville recognizes that this leads to the need to reorganize the tariff to provide clarity. But this would essentially provide parity with other BAAs that participate in WEIM/EDAM and maintain their own tariffs under their own regulatory authority.

13. Please provide feedback on the proposed options for dealing with overlapping authority with suggestions for other possible options.

Bonneville suggests “porting over” to RO sole authority all sections that apply to RO products, services, terms and conditions. Bonneville also recommends reorganizing the tariff to ensure clear delineation of authority and potentially having sections that are specifically applicable to the CAISO BAA vs the RO.

#### **General feedback:**

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

Written comments are due on August 19, 2024. Please submit comments via email to [Comments@WestWidePathwaysInitiative.org](mailto:Comments@WestWidePathwaysInitiative.org). Thank you in advance for your time and feedback. We look forward to receiving your comments and ideas