

**Arizona Electric Power Cooperative's Comments on the West-Wide Governance Pathways Initiative
Step 2 Draft Proposal**

Arizona Electric Power Cooperative (AEP CO) appreciates the opportunity to comment on the West-Wide Governance Pathways Initiative Step 2 Draft Proposal. For background, AEP CO is a not-for-profit electric generation and transmission cooperative that provides energy services to its member cooperatives, public power, and not-for-profit entities across the Southwestern United States. AEP CO currently participates in the Western Energy Imbalance Market (WEIM) through its host Balancing Authority Area (BAA) Western Area Power Administration Desert Southwest Region (WAPA DSW) and represents approximately 70% of WAPA DSW's load. While AEP CO also represents load in the CAISO footprint, these comments reflect AEP CO's load in the WEIM.

1. **Support for Step 2 Draft Proposal:** Please indicate your level of support for the Step 2 Draft Proposal. Please provide general reactions, an indication of the benefits of the structural elements that are being proposed, and if you think that the Draft Proposal is on the right track.

AEP CO generally supports the Step 2 Draft Proposal as it is a critical step in addressing regional energy market governance issues. The success of the Step 2, however, is predicated on the California legislature successfully passing a bill that enables the RO's formation. While AEP CO is optimistic that this hurdle will be overcome, we are unclear as to whether there is a "Plan B" in place should the California legislature fail to pass such a bill during the 2025 legislative session.

2. **Stepwise approach:** The Draft Proposal would continue the stepwise approach for Step 2, beginning with Option 2.0, followed by the RO commencing a feasibility study within 9 months of its formation. Depending on the results of the study, the RO would assume further responsibility in the form of Option 2.5 or a similar structure. This stepwise approach is motivated by a desire to continue early momentum towards regional governance by standing up the RO in the near term, while recognizing the time required to create the infrastructure and financial reserves to enable Option 2.5, and the need to better understand the costs, benefits and structural specifics of Option 2.5. The RO would then have the ultimate authority, with stakeholder input, to make decisions about next steps from and after its formation. Does this stepwise approach create a platform that can achieve the desired level of independence at an appropriate cost to customers?

AEP CO supports the stepwise approach recommended in the Proposal. AEP CO believes Option 2.0 is the crucial first step towards independent regional governance. Option 2.5 would provide greater overall independence but should not be pursued until it becomes clear that the additional costs would be offset by commensurate benefits.

3. **Cost:** The Launch Committee has created a high-level preliminary cost estimate for Option 2.0 and 2.5. Please provide feedback on the level of staffing and the costs for both options. Do these estimates seem reasonable, and would stakeholders be willing to shoulder these costs associated with increased independence?

Under Option 2.0, AEPCO understands that there are potential cost savings and efficiencies gained by co-locating the RO with the CAISO in Folsom, CA. AEPCO recommends hosting regional meetings in non-California locations regularly to provide inclusivity and convenience for non-California market participants.

Under Option 2.5, AEPCO supports an alternative, neutral principal place of business to fully reflect the independence of the RO.

4. **Tariff approach:** The Draft Proposal recommended maintaining a single integrated tariff at the outset, and embarking on an effort to organize the tariff into the areas of sole CAISO, sole RO, and where there is overlapping shared authority. This effort would lay the groundwork to eventually progress to separate tariffs, should that separation be desired by stakeholders. Do you support this approach? If not, please provide an alternative approach and as much explanation as possible on how the alternative would better address stakeholder needs.

AEPCO supports the proposed approach.

5. **Department of Market Monitoring (DMM):** The Draft Proposal recommended a joint reporting structure for DMM and RO shared decision making in DMM upper management hiring. Would this change enable sufficient independence? If you think that the proposed approach does not achieve sufficient independence, please provide an alternative approach that would better address stakeholder needs, including any cost implications.

AEPCO supports the joint reporting structure for DMM and RO shared decision-making in the DMM executive hiring process.

Regarding the MSC, if the MSC will provide expertise and recommendation to both the CAISO and RO Boards, it is appropriate to transition the nominating function from the CAISO CEO to a joint committee comprised of at least two CAISO Board Members and two RO Board Members in order to maintain adequate independence. The full CAISO and RO Boards would then have joint approval of the MSC nominations as proposed.

6. **Sectors:** The Launch Committee is holding a workshop (10/7) focusing on sectors and seats on the Stakeholder Representatives Committee (SRC), and will release a revised sector proposal on 10/14. Please share your thoughts on the revised sector proposal and if this component of the overall stakeholder process would allow for meaningful participation and all stakeholder voices to be heard.

AEPCO appreciates the changes made in the revised sector proposal that provide broader and more inclusive representation for market participants. AEPCO understands that under the revised sector proposal, it would be eligible to register in the “non-IOW load serving entity” sector and that it would not be subject to the proposed restriction. AEPCO would appreciate confirmation of its understanding in the Step 2 Final Proposal.

While AEPCO appreciates the changes made to non-IOW load serving entities sector, AEPCO strongly believes that an additional sector should be created that represents rural, not-for-profit entities. AEPCO is concerned that rural entities’ perspectives could be diluted by the potentially large number of CAISO non-IOW LSEs that would register in this sector.

AEPCO also requests clarification in the Step 2 Final Proposal as to whether the proposed restriction would apply to trade organizations (e.g., CalCCA, Six Cities, etc.) and their memberships. In other words, would individual CCAs, municipalities, and other load serving entities be eligible to register in the non-IOW load serving entity sector and also have their trade organizations/coalitions register in a different sector? The revised sector proposal is unclear on this matter and should be updated to provide additional transparency.

Finally, AEPCO supports the addition of a fourth SRC seat in the non-IOW load serving entity sector but would also appreciate consideration of the additional sector described above to recognize the potential breadth of entities in the sector.

7. **Tariff based funding for new public interest protections:** To help safeguard the public interest, the Draft Proposal recommended a new Consumer Advocate Organization and an Office of Public Participation. Both entities are contemplated to have minimal staff (possibly one or two staff members) and modest budgets funded through the tariff. The current BOSR funding structure would remain unchanged and not be funded through the tariff, but may be revisited in the future if stakeholders think reevaluation is appropriate. Do you support tariff-based funding for these enhanced public interest protections? Please share as much detail as possible in your reasoning to help the Launch Committee understand the drivers for stakeholders on this topic.

AEPCO operates under the Seven Cooperative Principles:

1. Open and Voluntary Membership
2. Democratic Member Control
3. Members’ Economic Participation
4. Autonomy and Independence
5. Education, Training, and Information

- 6. Cooperation Among Cooperatives
- 7. Concern for the Community

8. **Chapter specific feedback:** In addition to the questions above, we are seeking feedback on the entire Step 2 Draft Proposal. Please use this space to provide general feedback by chapter, as well as feedback on the embedded technical questions by chapter.

Step 2 Draft Proposal Chapter Headings

- Chapter 1: RO Scope and Function
- Chapter 2: Formation of the RO
- Chapter 3: RO Governance
- Chapter 4: Public Interest
- Chapter 5: Stakeholder Engagement
- Chapter 6: Pathways to Additional Services