

Submitted via Comments@WestWidePathwaysInitiative.org on August 19, 2024

RE: West-Wide Governance Pathways Initiative – Tariff Analysis and CAISO Issues

The Public Power Council¹ (PPC) appreciates the opportunity to comment on the West-Wide Governance Pathways Initiative (“Pathways”) Step 2 Process. Given the short timeline for developing these comments, PPC staff provides these initial thoughts on the Pathways work to date. We appreciate the need to quickly incorporate feedback from stakeholders into the Launch Committee’s work but hope that there will be future comment opportunities which provide more time for stakeholders to consider the proposals developed by the Launch Committee and also consider those proposals holistically.

PPC is supportive of a robust, independent governance structure. For this to be achieved within the context of Pathways there will need to be a decision-making body over the Western markets (EIM, EDAM) that does not have additional responsibilities or accountability to one subset of stakeholders, as is the case with CAISO’s governance today.

In order to evaluate whether this objective is achieved, it will require stakeholders to understand the proposed organizational structure, California legislation, the bylaws of both the Regional Organization and CAISO Board of Governors, the articles of incorporation for the Regional Organization and many other components which together will govern the decision-making authorities and fiduciary responsibilities of decision-makers related to the WEIM and EDAM markets. It is somewhat difficult to opine on some of the questions posed by the Launch Committee without better understanding how all those components will work together. PPC provides this initial input on the Launch Committee’s proposal without the benefit of these important components to aid our perspective.

Along these lines, additional information on the planned proposed legislative changes to support the Pathways proposal would be helpful to better inform our comments on CAISO issues. In particular it would inform the importance of separating the activities of the CAISO and the Regional Organization. Our assumption is that legislative changes will be focused on removing market operations from the scope of CAISO’s responsibilities, and that other changes to existing statutes will not be pursued. This assumption drives the need for greater independence and

¹ PPC, established in 1966, is an association that represents the vast majority of consumer-owned electric utilities in the Northwest, with membership spanning across six states. PPC’s mission is to preserve and enhance the benefits of the Federal Columbia River Power System operated by BPA for consumer-owned utilities. PPC’s members pay roughly 70% of BPA’s annual \$3.9M revenue requirement, in addition to owning their own generation and transmission facilities in the Northwest. PPC is actively engaged in BPA’s decision process on day-ahead market participation. Additionally, PPC has members who are evaluating their individual market participation decisions.

separation between the CAISO and the RO in order to achieve a sufficiently independent governance to support a multistate market. If legislative changes will be pursued in other areas where PPC has repeatedly expressed concern – for instance, the appointment process for the Board of Governors or the obligations for the CAISO as specified in California Public Utilities Code 345.5 – there would be less concern about the interaction between the RO and CAISO.

While the Launch Committee does not have control over potential legislative changes, some additional insights into the envisioned scope of legislative change would be helpful to inform PPC’s perspective.

We appreciate the hard work of the Launch Committee in exploring the details of its Step 2 proposal. The latest round of workshops providing more specifics about the proposal have been particularly helpful and we commend the Launch Committee for providing these additional details. The proposals related to “CAISO issues” and “tariff analysis” will be particularly critical in understanding the level independence that could be achieved by the Launch Committee’s proposal. We thank the Launch Committee for beginning to explore these important details regarding how the roles and responsibilities of the RO vs. CAISO will be defined.

CAISO Issue Questions

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)?

Limiting the RO to a policy setting board will not achieve the level of independence that PPC is seeking in market governance. We would strongly encourage the Launch Committee to propose a Regional Organization that is truly independent – this would require that the RO offer and bear the ultimate responsibility for market services. While we understand that the Launch Committee is focusing on options 2 and 2.5, PPC will note that other identified options – 3 and 4 – would further the independence of the RO.

We would note that in options 2 and 2.5, the relationship between the RO and CAISO continues to be different than the relationship between the RO and other Balancing Authority Areas participating in the market. Options 3 and 4 go further towards establishing a relationship between the RO and CAISO that is similar to the relationship that the RO would have with other entities participating in the market.

PPC understands that costs were a consideration in the Launch Committee’s decision to not further explore either of those options; we would appreciate additional information on the anticipated level of costs associated with each of those options and additional insight into how the Launch Committee weighed those costs against seeking greater RO independence.

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)?

As indicated above, out of the two options under consideration by the Launch Committee the preference would be for Option 2.5. However, PPC's preference would be for even greater levels of independence for the RO, especially at senior/decision-making levels of the organization.

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

While costs should be considered, it is not the primary driver for PPC in evaluating governance options. Independence of the RO is the primary objective, which we will weigh with other considerations such as implementation costs.

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

Independence is PPC's primary objective in considering governance options and generally PPC places a high value on independence. The specific value of increased independence in Option 2 vs. Option 2.5 is hard to evaluate at this time given the information available.

Additional information on the specific relationship between CAISO and the RO under both proposals would be helpful to further evaluate these options. For instance, to what degree are staff shared under option 2.5? How are agreements for shared staff structured? Does all staff still report to the CAISO CEO? Are there specific differences in the RO bylaws under each option?

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?

Based on the responsibilities laid out in the presentation, it does not appear that Option 2 provides the RO a significant level of independence from CAISO.

One of the concerns about today's market structure is that the CAISO is both a market participant and the market operator. If CAISO still bears responsibility for administering the market and also directs the staff in charge of implementing the market it is challenging to see a significant improvement in independence as compared to how the organization operates within today's governance structure.

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?

Increasing the financial independence of the RO is important to ensuring the perceived independence of the organization from CAISO. The more financial interdependence there is between the two organizations, the more difficult it is to distinguish whether the RO is able to maintain its independence from CAISO.

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

It is unclear to PPC whether either option being considered provides a durable institutional home for expanded offerings. Based on our current understanding it seems unlikely that Option 2 would meet that need. We would like to better understand the legislative changes that would be planned to accompany Option 2.5 before opining on the durability of the option.

Additionally, it is unclear to PPC how statements from some stakeholders about the importance of retaining the CAISO Balancing Authority Area impact the viability of future offerings. Would the requirement to maintain the CAISO BAA preclude the CAISO BAA from participating in a future RTO operated by the RO? Would it impact what other market offerings the CAISO would elect to participate in?

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?

PPC would like to better understand potential commitments to “transition” or “evolve” to Option 2.5 from Option 2. For those stakeholders preferring Option 2.5, how could they feel assured that this transition would occur to their satisfaction?

Would the Launch Committee envision that this type of evolution would occur in response to a “trigger,” similar to the implementation of the Launch Committee’s Step 1 proposal?

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.
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.

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

PPC appreciates the Launch Committee's work to develop an initial matrix demonstrating how decision-making authority over issues in CAISO's tariff could be split between the CAISO and the RO under its proposal. PPC needs additional time to evaluate the Launch Committee's initial tariff analysis. At a high level we concur with the proposed principle of having the RO oversee any items related to operating the market; however, the definition of what is related to the market vs. BAA operation is not straightforward in some cases.

PPC would also like to understand how and where decision-making authorities would be captured and what the process would be for changing those designations.

Walking through a few examples of recent decisions would be helpful in understanding the Launch Committee's proposal and how it would impact decision-making. For instance, is it reasonable to assume that the items that were joint authority under the current "applied to" test would have been under sole authority of the RO? Would other policy items where the WEM GB has had advisory authority stay under the CAISO Board of Governors' purview? Looking at recent examples to answer these questions could be demonstrative.

We would also ask for additional information on how "shared" topics would be handled. It sounds like an approach different from today's Joint Authority would be considered and this dynamic is important for stakeholders to understand. PPC would also ask the Launch Committee to address who has ultimate primacy on "shared" issues? Does the CAISO Board of Governors have continued primacy based on statute?

The challenges of these "shared" topics arise due to retention of a single tariff for the CAISO and RO and could add some ambiguity as to the functioning role of each organization. These challenges could potentially be avoided by other options that were initially identified by the Launch Committee.

We would appreciate some additional discussion with the Launch Committee as to why other options such as Option 3 and Option 4 were not pursued or given continued consideration as part of Step 2.

Thank you for the opportunity to comment.