



Public Generating Pool
West-Wide Governance Pathways Initiative
CAISO Issues & Tariff Analysis Working Group
PGP Comments
August 23, 2024

Introduction

The Public Generating Pool (PGP) appreciates the opportunity to provide comment on the issues presented by the CAISO Issues & Tariff Analysis working group at the August 5, 2024 workshop. PGP's comments are primarily focused on CAISO issues. PGP is composed of nine publicly-owned electric utilities, eight in Washington and one in Oregon, that work together on issues of common interest.

CAISO Issues

- 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)?**

For several reasons, PGP recommends that, as much as possible, the Launch Committee develop the RO as an organization that makes decisions and is accountable and responsible for the consequences of those decisions. While the concept of a policy-setting board may be appealing as a way to create an independent governing structure at minimal cost and disruption, PGP is concerned that it will not be durable nor will it foster decision-making that is sufficiently independent from CAISO influence and priorities as well as CAISO's political, operational, and financial risk assessments.

First, a policy-setting board, as presented by the working group, is unlikely to be durable. While it may appear to be a solution that creates independence while maintaining the basics of the current governance structure, the reality is that the RO will be a separate organization from the CAISO and will be governed by a separate body. A framework where one corporation makes the decisions but another corporation bears the consequences and responsibility for those decisions does not seem workable on a long-term basis. The likely outcomes of this are either to: 1) create conflict between the RO and the CAISO if the RO's decision-making does not align with CAISO's risk assessments; 2) create a situation where the RO cannot independently conduct its own risk assessments because it must be deferential to CAISO due to CAISO's potential liability.

Second, a policy-setting board is unlikely to enable and foster truly independent decision-making that is not unduly influenced by CAISO and its governance structure. Even if decision-making authorities for market rules are shifted to the RO, the CAISO and its staff will continue to be primarily and directly accountable to the CAISO Board of Governors who will continue to be appointed by the Governor of California. This reporting structure matters, in big and small ways, and will necessarily inform CAISO's perspectives and calculus with respect to its assessment of the political, financial, and operational risk associated with market policy decisions. And, because the CAISO will ultimately continue to bear the liability and responsibility for those decisions, the RO may be challenged to create its own risk assessment to effectively impose on CAISO. From PGP's perspective, this could be mitigated by establishing robust RO leadership and staff that is accountable only to the RO, but the current proposal is unclear with respect to the extent the RO will have staff that is accountable only to the RO Board. While it may be helpful for the RO Board to have a role in determining key CAISO staff, this is unlikely to go far enough if the reporting structure remains. Even if no conflicts ever arise and the RO and CAISO are always in harmony with respect to policy direction and associated risk assessment, there will be the appearance and structure that is likely to create doubt that the RO is making its own decisions. PGP strongly encourages the Launch Committee to consider ways to foster confidence in the stakeholder community that the RO is empowered to independently make decisions and balance stakeholder interests.

Third, creating an organization that formally offers and bears ultimate responsibility for market services is more aligned with the stated intent of the Pathways effort to create change that is meaningful. Change that is truly meaningful is harder, likely more expensive, and will take time. Establishing an RO that is independent and accountable in both name and practice is much more likely to drive the meaningful change and drive the cultural, political, and structural shift that is needed to implement EDAM and any future market services on a truly regional basis. PGP recognizes that there may be a desire to make change that seems easy or simple and that some stakeholders may prefer something that less costly and aligns more with status quo. However, PGP believes that ultimately all stakeholders will benefit from a durable, independent, and regional structure and that is much more likely to be achieved with Option 2.5 versus Option 2.

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)?

The RO's contract should be a contract for services. This type of relationship is well understood in the industry and, as articulated above, will enable the RO to fully perform its role as an independent decision-maker.

To the extent a precedent exists for a governance-focused interface agreement, it may be helpful for the Launch Committee to present that example. Either way, if the Launch Committee moves in this direction, the roles and responsibilities in that agreement should be very clearly defined.

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

PGP is interested in understanding the costs associated with each option and how those costs may be funded. As noted, PGP recognizes that more meaningful change may be more costly. However, PGP places a very high value on independent decision-making and confidence in balanced outcomes. To the extent the Launch Committee includes Option 2.5 in its Step 2 proposal, it should clearly articulate the value proposition for all stakeholders but particularly for those entities who are likely to be funding the cost.

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

PGP places high value in the independence gained in Option 2.5. PGP is concerned that Option 2 does not actually achieve independent decision-making for the RO board.

Two of the “NW Public Power Organized Market Design Principles”¹ PGP principles for independent governance are:

- The governance structure drives unbiased decision-making and balanced outcomes*
- Decision-making body, and individual members making up the decision-making body, can act without undue influence and do not have direct ties or interest in any market participant, the market operator, or single state or provincial government*

Based on the relatively limited information provided so far with respect to Option 2, PGP does not believe that it meets these principles because the RO will continue to need to be unduly deferential to the CAISO. Ensuring that these principles are met is foundational to durable success for the RO, market participants, and all stakeholders.

4. 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?

In general, PGP supports as much institutional responsibility as possible but would like to understand the costs associated with the articulated responsibilities to fully explore tradeoffs. PGP would also like to better understand whether Option 2 and Option 2.5 actually represent bookends on a spectrum of approaches versus a binary selection.

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?

Not at this time.

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

¹ [NW Public Power Organized Market Design Principles May 2023](#)

The explanation and rationale explained in response to Question 1 for PGP's preference for Option 2.5 applies particularly to the RO as a potential host of services beyond energy markets. The development of new services not only represents a potential step forward for the benefit of market participants and consumers, but it is also an opportunity to begin, for the first time, to create a suite of policies and services that were not developed under the CAISO governance structure. This is an important opportunity to establish the RO as an independent and regional organization.

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?

Yes, it seems that there may be ways to establish the RO with a set of articulated responsibilities and liabilities with a timeline and plan for evolving into Option 2.5.