



October 25, 2024

Attn: West-Wide Governance Pathways Initiative

RE: PSE comments on the Step 2 Draft Proposal

Puget Sound Energy (PSE) offers the following comments in response to the Step 2 Draft Proposal of the West-Wide Governance Pathways Initiative (Pathways). PSE recognizes the work the Launch Committee (LC) has put into the Step 2 process and developing the draft proposal put forward for consideration.

Business as usual is no longer an option in the west. The west is seeing a more dynamic and fluid system necessitating the need for centralized electricity markets that enable greater time, load, resource, and geographic diversity. A well-designed and equitable market allows PSE to serve customers in a reliable and cost-effective manner through various mechanisms, such as supplementing longer-term forward standard and non-standard purchases with the ability to trade at a more granular interval to smooth deviations in resources and loads.

The governance structure under which PSE operates in a market will have long-term implications for its customers and for the west. The structure must offer comparable influence for all states and participants in market design and market operation and offer a clear and transparent process for resolving disagreements from parties in the market.

PSE appreciates the LC's work and analysis highlighting the differences between a regional organization (RO) Options 2.0 and 2.5 in this proposal and believes the LC offers a fair-handed assessment of the complexity involved in Options 2.5 and beyond. However, PSE is concerned that this proposal still leaves significant uncertainty with regard to achieving meaningful independence, does not ensure sufficient near-term independence of the RO from the California Independent System Operator, and does not provide a clear line-of-sight to Option 4 or a viable broad independent western Regional Transmission Organization (RTO) footprint that includes California. It also lacks significant and material details necessary to fully evaluate the proposal such as RO board compensation, how the RO will be funded, cost-allocation of RO and existing California ISO (CAISO) funding, and governance and staffing of committees established after RO formation.

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.

PSE abstains from offering support or opposition for this proposal. At this time, PSE does not believe this proposal satisfies its principles for market governance provided in prior comments:

- Comparable influence in market design and market operation for all states participating in the market;
- Stakeholders initiate, develop, and own market development, with a transparent sector-based voting record to demonstrate positions;
- Clear division between market operator and market participant BAAs;
- Clear and consistent process for stakeholders to elevate and prioritize issues;
- Participants take a regional view;
- Minority views are on record

PSE also reiterates its concern that the authority and discretion reserved for the RO staff and board in this proposal is too great, which may lead to a stakeholder process that lacks accountability to a broad set of stakeholders, and may lack transparency or efficacy with regard to ultimate decision-making, policy development, and market design.

Absent from this proposal are also important details regarding proposed legislative changes, RO administration, cost allocation, and RO composition and authorities. For example, it's unclear how the Public Policy Committee (PPC) is composed and seated, whether board members are volunteers or nominated, how many seats are on the PPC, what actions and authorities are reserved for the PPC, where its authority is derived, process for resolution in the event of disagreement during their screening of initiatives, or how frequently seats on this Committee change. It is unclear if the PPC would be involved in evaluating every initiative and how disagreements within the PPC would be resolved. Further, the work being asked of the PPC seems to be rather substantial, reviewing every initiative as it's formulated for any impact to state, local, or power marketing authorities. This may be a significant burden on RO board members who have other responsibilities.

PSE is also concerned the seating of the Formation Committee, as proposed, would lack the necessary transparency and openness required to build trust in the independence of the foundational RO board. In the proposal, the Launch Committee selects and appoints the Formation Committee, which then selects the Nominating Committee to seat the founding RO board. At the point of seating a Formation Committee and foundational board, PSE recommends the Launch Committee's role be advisory or as a facilitator, but should not have a role in determining the Formation Committee or Nominating Committee. At a minimum, the Formation Committee should be based on wide input from the Western Energy Imbalance Market and Extended Day-Ahead Market stakeholders and engagement with the existing Western Energy Market Governing Body Nominating Committee, to ensure broad participation in seating the nomination committee that would seat the founding RO board as well as determine initial compensation for the RO board.

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?

The Draft Proposal contemplates two options, “Option 2.0” and “Option 2.5” which migrates governance of market rules from the CAISO to the RO, but differ in the amount of responsibility the RO has in the administration of the market. PSE understands the desire to stand up the RO in a cost-efficient and expedient manner, and that the proposal notes the RO could continue development from there if the RO Board and stakeholders believe it’s warranted. But such an approach does not provide certainty of sufficient independence of the RO from the CAISO.

Under the proposal, the CAISO retains emergency authority, responsibility and liability before FERC, and will hold contract responsibility in the RO’s stead. The RO and CAISO tariffs will remain intertwined, meaning a significant portion of the market’s operations are still within the responsibility or control of the CAISO, who will also be a participating balancing authority within the market. The proposal as it stands presents a risk that additional changes which transfer more control to the RO may not materialize and ultimately leave the market governance and the tariff intertwined with the CAISO. Furthermore, the changes contemplated by option 2.5, while PSE agrees does represent an incremental move toward independence, does not offer full independence because it involves the CAISO as a contracted market operator that is responsible for day-to-day decisions. This means further legislative changes not contemplated by the Step 2 Draft Proposal will be necessary to progress towards independent market operation contemplated by option 4.0 in the initial drafting stages. Working towards that independence within an existing RO could take years to make the necessary changes.

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?

It is not possible at this time to understand what any given entity’s cost exposure would be as the proposal does not contemplate cost allocation and what portion of existing costs would continue to be borne solely by California entities, whether the new RO costs for Options 2.0 or 2.5 would be borne solely by EDAM entities, and what portion of costs WEIM-only entities would bear. It is also unclear if the cost of the vendor contract with CAISO is included in the annual costs for option 2.0 and 2.5, or if that was excluded because it was assumed to be the same under either market option.

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.

PSE understands that a single integrated tariff would enable the RO to form faster than drafting and filing a separate tariff. However, PSE believes that a separate tariff for the RO, for which it has sole authority, is an important element of independence of the RO from the CAISO.

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.

No Comment.

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.

PSE appreciates the revised sector proposal and the increased number of seats available to WEIM and EDAM sectors, along with the removal of reservations of certain seats, and the addition of a chair and vice chair position. These are improvements. The increased representation should distribute the workload over more individuals, provide designated coordinators for SRC meetings, and if the seats are allocated to encourage diversity it should allow for more perspectives to consistently be heard in the SRC.

PSE understands that the Launch Committee wishes to structure the sectors to encourage collaboration among entities with similar contract relationships with CAISO, but notes this structure is something which seems to predominantly impact non-California investor-owned utilities (IOUs), publicly-owned utilities (POUs), and power marketing agencies (PMAs). The IOU line of business interests, for example, are split across EDAM, WEIM, and, for California entities, ISO participating transmission owner entities. POUs are split across four potential sectors, where distributed energy providers, public interest organizations, consumer advocates, and large commercial & industrial load representatives each have their own sectors. These consolidated sectors will usually have aligned interests and can represent just their constituent members with similar lines of business in a way the more diverse WEIM and EDAM entities will not. As such, PSE remains concerned with the representation of non-California IOUs on the SRC. PSE appreciates the revised sector proposal recommending the RO hold indicative voting at the individual organizational level. However, PSE notes that while this will help capture minority views, the proposed SRC could lead to more disagreements and differences of opinions in these combined sectors when compared to others. IOUs, POUs, and PMAs have distinct legal and regulatory obligations with very different regulated financial relationships with customers which requires separate consideration for their role in the public interest.

Additionally, while broad WEIM and EDAM sectors can incentivize consensus building, as the proposal notes, it does so at a sub-level of the SRC. This may lead to non-California IOUs compromising more frequently than other market participants by the nature of the design.

PSE recommends a structure similar to the SPP RTO or the Western Resource Adequacy Program sectors to align sectors based on interests of the business and not the interests of the contract type. PSE believes the non-California IOU perspective will be diluted across sectors otherwise.

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.

No Comment.

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

No Comment.

Conclusion:

PSE appreciates the work done by the Launch Committee to prepare this proposal, and the efforts to move toward independence for the West. PSE believes that the RO can be pushed towards greater independence before its formation, rather than after, and is concerned that the incremental changes discussed in this proposal could never materialize or take years to implement. PSE will continue to monitor the development of this initiative and engage with other market regionalization efforts across the west.