

# West-Wide Governance Pathways Initiative

**CAISO Issues and Tariff Analysis  
Stakeholder Workshop**  
August 5, 2024



**West-Wide Governance Pathways Initiative**

# Agenda

## 1. Welcome and Agenda Review

## 2. CAISO Issues

- A. RO structure and relationship to CAISO
- B. Similarities in Options 2 and 2.5
- C. Differences between Options 2 and 2.5
- D. RO Board Comparison
- E. Other Open Issues
- F. Reactions and Feedback from Stakeholders

## 3. Break

## 4. Tariff Analysis

- A. Refresher on Step 1 Launch Committee Recommendations
- B. Work Group Presentation
- C. Reactions and Feedback from Stakeholders

## 5. Next Steps



# CAISO Issues



# Regional Organization Structure and Relationship to CAISO



# Options Orientation (Straw Proposal – Appendix A)

	Status Quo	Option 0	Option 0.5	Option 1	Option 2	Option 2.5	Option 3	Option 4
<b>New Corporate Entity</b>	No	No	No	Yes (RO)	Yes (RO)	Yes (RO)	Yes (RO)	Yes (RO)
<b>Market Rules Governance</b>	Joint	EIM Primary	EIM Sole	RO Primary	RO Sole	RO Sole	RO Sole	RO Sole
<b>CAISO Veto Rights (Market Rules)</b>	Yes (sole filer; Exigent Circumstances)	Time-Critical Exigent Circumstances	Time-Critical Exigent Circumstances	Time-Critical Exigent Circumstances	No	No	No	No
<b>205 Filing Legal Rights</b>	CAISO	CAISO	CAISO	CAISO	RO Sole	RO Sole	RO Sole	RO Sole
<b>Vesting of Authority</b>	Delegation	Delegation	Delegation	Delegation	Delegation or Transfer	Transfer	Transfer	Transfer
<b>Dispute Resolution Outcome</b>	Single CAISO filing	CAISO files both WEIM GB and Board proposals	CAISO files WEIM GB proposal	CAISO files both WEIM GB and Board proposals	N/A	N/A	N/A	N/A
<b>Market Tariff Administration</b>	CAISO	CAISO	CAISO	CAISO	CAISO	CAISO	RO Sole	RO Sole
<b>Market Operation</b>	CAISO	CAISO	CAISO	CAISO	CAISO	CAISO	CAISO	RO Sole
<b>CAISO/RO Relationship</b>	Tariffed	Tariffed	Tariffed	Tariff / Market Services Agreement	Tariff / Market Services Agreement	Tariff / Market Operating Agreement	Market Operating Agreement	None



# Overarching Open Questions

***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)?

***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)?



# Key Underlying Questions

- *Cost:* What are the incremental financial costs of Options 2 and 2.5 relative to the status quo?
- *Independence:* How valuable to stakeholders is the increment of institutional independence gained in Option 2.5 relative to Option 2?
- *Responsibility:* What form of institutional responsibility should the RO bear in Options 2 and 2.5?
- *Liability:* What financial liability does the RO bear in Options 2 and 2.5, and how can it be managed?
- *Evolution:* Does either option offer a durable institutional home to oversee or host services beyond energy markets (EDAM and WEIM)?



# CAISO Service Offerings Beyond EDAM/WEIM\*

- Market services beyond WEIM/EDAM:
  - Ancillary services
  - Convergence bidding
  - Congestion revenue rights
- Reliability Coordination
- Transmission control:
  - Transmission operations, including congestion management
  - A consolidated transmission service tariff, including procedures for requesting transmission and interconnection service
  - Flow-based, financial transmission reservations
  - De-pancaking of some transmission rates
  - Regional and interregional transmission planning
- Balancing authority services
- Resource adequacy provisions

*\*See Phase 1 Straw Proposal (April 10, 2024) discussion at p. 30-34*







**What is the same in both options?**



## Similar aspects of Options 2 and 2.5

- An integrated tariff, not separate tariffs
- 205 rights:
  - Sole Section 205 rights reserved for the RO for market-related provisions
  - No lingering unilateral CAISO Board authority in exigent circumstances in those areas
  - Some residual shared authority from Step 1 with the CAISO Board
- BPMs: RO authority to resolve disputes about market-related business practice manuals
- Emergencies: Continued delegation of emergency operational management authority to CAISO staff



## ***Continued:* similar aspects of Options 2 and 2.5**

- Corporate protections for the CAISO:
  - *Examples:* RO cannot compel CAISO to violate physics, break the law, or becoming insolvent.
- Financial liability:
  - Credit and financial security requirements remain primary financial protection against market participant defaults
  - Need for a contingency reserve specific to the RO
- Corporate ability to issue bonds, but no anticipated capital or debt needs
- Basic corporate payroll and direct costs



## ***Continued:* similar aspects of Options 2 and 2.5**

### Anticipated direct costs

- **RO employees:**
  - Compensation, expense reimbursement, benefits, payroll services
- External affairs
- Commercial bank account
- Annual tax filings
- CPA and bookkeeping services
- Legal services
- Annual budget development
- **Corporate insurance** (e.g., D&O, professional liability, workers comp)
- Facilities
- **Reserve account for unanticipated expenses**





**What is different between the two options?**



## Summary

- In Option 2, the CAISO continues to be the corporation that provides market services directly to market participants. The RO is an external entity that determines the policy-related content of the services offered and operated by the CAISO. In most other respects the RO Board's institutional responsibilities resemble the WEM Governing Body, with stronger filing rights at FERC.
- In Option 2.5, the CAISO becomes a vendor of market services that are formally offered to market participants by the RO. The CAISO continues to operate the markets, but the ultimate responsibility for them as a service regulated by FERC rests with the RO. The RO is the outward-facing entity responsible for energy markets. The vendor services contract with the CAISO resembles a sole-source contract.





## Differences between Options 2 and 2.5

### *Core function:*

- The core function of the RO in Option 2 is to support a policy decision-making board that determines the content of another corporation's service offering. The other corporation offers and operates the service and bears any consequences for failure.
- The core function of the RO in Option 2.5 is to assume ultimate oversight responsibility for a service that is operated by another corporation under contract. This responsibility includes policy decision-making. Vendor management becomes a primary day-to-day responsibility of the RO. The RO bears most consequences for failure.



## ***Continued:* differences between Options 2 and 2.5**

- *Contracts:*
  - Potential changes to market-related regulatory contracts
  - *Time required to rework in Option 2.5*
- *Liability:*
  - Scope and types of financial liability
  - Size of contingency reserves
    - Outer envelope: size of CAISO operating reserve
    - *Time required to build up reserves*
- *Staffing:*
  - Size and cost of RO staff
  - Vendor management and FERC compliance focus in Option 2.5
  - Illustrative estimates forthcoming



# RO Board comparison

	Option 2	Option 2.5
Board role relative to markets	Policy setting	Ultimate responsibility, & vendor management
Is it a merely advisory board?	No	No
Does it have any fiduciary duties?	Yes	Yes, possibly greater
Does it have significant sole 205 rights?	Yes	Yes
Must it bear the financial consequences of market-specific liabilities resulting from its decisions (not merely general corporate liabilities)?	No	Yes
Does it have a significant need for contingency reserves to protect against unanticipated market-related expenses?	No	Yes
Does it exercise ultimate supervision over the service offering of the markets, not merely the content of market rules?	No	Yes



## ***Continued.* RO Board comparison**

	<b>Option 2</b>	<b>Option 2.5</b>
Does it exercise direct day-to-day supervision over the operations of the markets?	No	No
Is the corporation it oversees a public utility under the Federal Power Act?	Probably not	Probably
Is one of its primary responsibilities to manage a vendor service contract?	No	Yes
Does it bear compliance responsibility to FERC?	No	Yes
Where does the buck generally stop in terms of legal accountability and financial consequences?	CAISO	RO
Which party is most likely to be sued in the event of a market-related dispute?	CAISO	RO and/or CAISO
Is the corporation it oversees a counterparty on any regulatory contracts with market participants?	No	Probably



# Other Open Issues



## Other Issues

- *RO input on CAISO management:* In either Option 2 or Option 2.5, is there an appropriate and stakeholder-supported model for the RO Board having meaningful input on CAISO personnel who oversee and monitor markets (and who do not become RO staff)?
- *CAISO competing interests:* What bundle of elements of RO independence adequately mitigate stakeholder concerns about the CAISO's ongoing non-market responsibilities within the same footprint?

### CAISO NERC roles:

- Balancing authority
- Transmission operator
- Transmission service provider
- Reliability coordinator
- Planning coordinator





# Reprisal of Key Underlying Questions

- *Cost:* What are the incremental financial costs of Options 2 and 2.5 relative to the status quo?
- *Independence:* How valuable to stakeholders is the increment of institutional independence gained in Option 2.5 relative to Option 2?
- *Responsibility:* What form of institutional responsibility should the RO bear in Options 2 and 2.5?
- *Liability:* What financial liability does the RO bear in Options 2 and 2.5, and how can it be managed?
- *Evolution:* Does either option offer a durable institutional home to oversee or host services beyond energy markets?



# Stakeholder Discussion





# Break



# Tariff Analysis



## Refresher: Step 1 “Primary Authority” Recommendation

- Elevate the Western Energy Market Governing Body’s decision-making authority in market-related matters from its existing “Joint Authority” with the CAISO Board of Governors to “Primary Authority”
  - Places initial vote to approve or reject a proposed tariff change in applicable sections in the WEM GB’s hands.
  - Disagreements arising in the CAISO BoG’s later review of the change would be channeled into the existing dispute resolution process defined in Section 2.2.2 of the Charter for Energy Imbalance Market Governance.



## Refresher: Step 1 “Primary Authority” Recommendation (Cont.)

- Modify the current process for resolving disputes between the WEM GB and the CAISO BoG if and when the two bodies are unable to resolve a dispute. The CAISO would be required to make a “dual filing” of both bodies’ proposals under its Federal Power Act Section 205 rights, with no stated preference, for the Federal Energy Regulatory Commission (FERC) to render a decision.
- Also contemplates a continued advisory role for a Body of State Regulators (BOSR) in both WEM GB and CAISO Board and an active role in representing state interests, when necessary, in any “dual filing” before FERC.





# The Tariff Under a Regional Organization



# Problem Statement

Under Joint Authority today, and under Primary Authority proposed in Step 1, there is decisional linkage between the CAISO Board of Governors and the Western Energy Market Governing Body. In the RO, for areas in which there is sole authority, the assumption is there is not. The current construct is simpler in that when areas of authority overlap, it is in one organization. Under the RO, decisional authority may be separated on certain matters.



# Initial Cut at Tariff Divisions

- Clearly Sole Authority for the RO
  - RO Board would have complete control over decision making on relevant matters
  - Assumption is an initial focus on market services
  - Applicable to evolution of future services
- Clearly Sole Authority by the CAISO
  - Ultimate decisions on applicable functions and associated Tariff provisions made by CAISO Board
  - Is there an RO Advisory Role on any CAISO sole authority matters?
- Applicable to both CAISO and RO Functions and Roles – May Be Areas of Joint Authority
- **GOALS:**
  - Create independence of the RO for applicable decisions while maintaining the efficiency and functionality of an Integrated Tariff
  - Properly align responsibilities, duties, oversight, accountability



# Possible Guiding Principles



# Possible Principles for Application

- RO Sole Authority
  - Any tariff provision or other rule that is central to establish the policies for operation of an applicable market or provision of an applicable service
  - Intent – encompass all tariff provisions that are foundational to operation of the market or offered service



# Possible Principles for Application

- CAISO Sole Authority
  - Any tariff provision or other rule that is central to establish policies for and the operation of a market or provision of a service applicable solely to the CAISO Balancing Authority Area
  - Intent – preserve needed authority to fulfill duties that are separate and apart from the RO functions





# Possible Principles for Application

- Areas of Overlap
  - Tariff provisions and associated documents may apply to foundational services of the RO, but also establish basic commercial and administrative rules that apply to both CAISO and RO services.
  - Certain provisions delineate the remaining role of all Balancing Authority Areas in the market, and BAA action in certain circumstances to maintain reliability role.



# Options for Dealing with Overlapping Authorities

- Establish a category for exercise of Joint Authority
  - We know how to do this
  - Perception of diminished independence
- Simply port over to the RO
  - Maximizes independence
  - May be unworkable as it would leave CAISO without authorities to fulfill corporate and functional duties
- Create an “intent” test similar to what what done in WEIM
  - Again, some historical guide
- Perform some tariff reorganization to simplify separation of functions
  - Not mutually exclusive
- Leave to the future when more will be clear



# Tariff Overview

**DRAFT- for Discussion Purposes**

Current State			Future State Integrated Tariff Model for Step 2.0/2.5		
Section #	Section Name	Current = Joint Step 1 Change = Primary	Shared	RO Authority	CAISO Authority
1	Definitions and Interpretation	Joint / Primary	Shared		
2	Access to the California ISO Controlled Grid	Not Primary			CAISO Authority
3	Local Furnishing Other Tax Exempt Bond Facility Financing	Not Primary			CAISO Authority
4	Roles and Responsibilities	Not Primary	Shared		
5	Black Start and System Restoration	Not Primary			CAISO Authority
6	Communications	Joint / Primary		RO Authority	Call out @ sub section level for CAISO
7	System Operations Under Normal and Emergency Conditions	Not Primary		RO Authority	Call out @ sub section level for CAISO
8	Ancillary Services	Not Primary			CAISO Authority
9	Outages	Not Primary			CAISO Authority
10	Metering	Joint / Primary		RO Authority	Call out @ sub section level for CAISO
11	California ISO Settlements and Billing	Joint / Primary		RO Authority	Call out @ sub section level for CAISO
12	Creditworthiness	Joint / Primary	Shared		
13	Dispute Resolution	Joint / Primary	Shared		
14	Uncontrollable Force, Indemnity, Liabilities, and Penalties	Joint / Primary	Shared		
15	Regulatory Filings	Not Primary	Shared		
16	Existing Contracts	Not Primary			CAISO Authority
17	Transmission Ownership Rights (TORs)	Not Primary			CAISO Authority
19	Reliability Coordinator	Not Primary			CAISO Authority
20	Confidentiality	Joint / Primary	Shared		
22	Miscellaneous	Joint / Primary		RO Authority	Call out @ sub section level for CAISO
23	Categories of Transmission Capacity	Not Primary			CAISO Authority
24	Comprehensive Transmission Planning Process	Not Primary			CAISO Authority
25	Interconnection of Generating Units and Facilities	Not Primary			CAISO Authority
26	Transmission Rates and Charges	Not Primary			CAISO Authority
27	California ISO Markets and Processes	Joint / Primary		RO Authority	Call out @ sub section level for CAISO
28	Inter-Scheduling Coordinator Trades	Not Primary			CAISO Authority
29	Energy Imbalance Market	Joint / Primary		RO Authority	
30	Bid and Self-Schedule Submission in California ISO Markets	Joint / Primary		RO Authority	Call out @ sub section level for CAISO
31	Day-Ahead Market	Joint / Primary		RO Authority	Call out @ sub section level for CAISO
33	Extended Day-Ahead Market	Joint / Primary		RO Authority	
34	Real-Time Market	Joint / Primary		RO Authority	Call out @ sub section level for CAISO
35	Market Validation and Price Correction	Joint / Primary		RO Authority	Call out @ sub section level for CAISO
36	Congestion Revenue Rights	Not Primary			CAISO Authority
37	Rules of Conduct	Joint / Primary		RO Authority	Call out @ sub section level for CAISO
38	Market Monitoring	Joint / Primary		RO Authority	Call out @ sub section level for CAISO
39	Market Power Mitigation Procedures	Joint / Primary		RO Authority	Call out @ sub section level for CAISO
40	Resource Adequacy Demonstration for Scheduling Coordinators in the CAISO Balancing Authority Area	Not Primary			CAISO Authority
41	Procurement of Reliability Must-Run Resources	Not Primary			CAISO Authority
42	Adequacy of Facilities to Meet Applicable Reliability Criteria	Not Primary			CAISO Authority
43A	Capacity Procurement Mechanism	Not Primary			CAISO Authority
44	Flexible Ramping Product	Joint / Primary		RO Authority	Call out @ sub section level for CAISO



# Stakeholder Discussion



# Next Steps



## Public Comments

- We need your feedback! The two-week open comment period will run from 8/5/24-8/19/24.
- Written comments can be submitted to:  
Comments@WestWidePathwaysInitiative.org
- Please use the Stakeholder Comment Template for this workshop posted on the WIEB landing page: [WWGPI - Western Interstate Energy Board \(westernenergyboard.org\)](https://www.westernenergyboard.org/wwgpi-stakeholder-comment-template)



## Remaining Workshop Schedule

- Public Interest Workshop:
  - Thursday, August 15
  - 1PM-4PM PT/2PM-5PM MT/3PM-6PM CT
- Stakeholder Process Workshop #4
  - Wednesday, August 28
  - 9AM-12PM PT/10AM-1PM MT/11AM-2PM CT





# Anticipated timeline for Step 2

- **July-Aug:** Stakeholder Workshops
- **Sep 2-25:** Drafting of Step 2 Draft Revised Proposal
- **Sept 26:** Issue Step 2 Draft Revised Proposal
- **Sept 26:** Open comment period (4 weeks)
- **Oct 4:** Monthly Stakeholder Meeting (review Step 2 Draft Revised Proposal)
- **Oct 24:** Comments due on Step 2 Draft Revised Proposal
- **Oct 28-Nov 14:** Incorporate stakeholder feedback and make revisions to Step 2 Final Proposal
- **Nov 15:** Issue Step 2 Final Proposal
- **Nov 22:** Monthly Stakeholder Meeting (review Step 2 Final Proposal and vote)





# Thank You



West-Wide Governance Pathways Initiative