

## Pathways Step 2 Final Proposal Fact Sheet

### What is the West-Wide Governance Pathways Initiative?

The West-Wide Governance Pathways Initiative (Pathways Initiative) is an effort led by a group of stakeholders from the eleven western states in the Western Interconnection (Arizona, California, Colorado, Idaho, Montana, New Mexico, Nevada, Oregon, Utah, Washington, and Wyoming) with the goal of creating a new entity with independent governance capable of offering an expansive suite of West-wide, voluntary wholesale electricity market functions across the largest possible footprint.

### What are the 3 Steps?

- **Step 1: Early success.** This step demonstrated early commitment to the regulators' vision of independent governance by elevating the authority of the Western Energy Market Governing Body from joint authority with the CAISO Board of Governors to primary authority over the Western Energy Imbalance Market (WEIM) and the Extended Day-Ahead Market (EDAM). These substantive changes in decision-making authority can occur within the scope of existing law. *Both bodies unanimously approved this proposal on August 13, 2024, and the next legal steps for implementation on November 7, 2024.*
- **Step 2: Durable, independent governance of markets and other potential services.** This step includes forming a new, fully independent Regional Organization (RO) that would have sole authority over the WEIM and EDAM. If implemented, the Step 2 proposal would create the foundation to achieve the regulators' vision and enable the West to create a suite of voluntary wholesale electricity market services as stakeholders and participants desire and require, without relying on the actions of any one state or balancing authority.
- **Step 3: Beyond the Pathways Initiative.** Solutions in Steps 1 and 2 have been developed with a clear line of sight to enable potential additional voluntary future regional services beyond the scope of existing energy markets. The Launch Committee refers to this later evolution of additional services as Step 3.

### How did the Launch Committee develop the Step 2 Final Proposal?

In addition to recommending Step 1, the April Straw Proposal included several options for Step 2 stakeholder consideration and input. The Launch Committee established six work groups in June focused on different topic areas including: RO Formation, RO Governance, Stakeholder Process, Public Interest Issues, CAISO Issues, and Tariff. These work groups met throughout the summer, drafted discussion papers and proposals, hosted public workshops, and collected written comments. The Launch Committee also analyzed existing RTO/ISO structures across the country to develop a proposal that matches the unique stakeholders and characteristics of the West.

The Launch Committee released the Step 2 Draft Proposal on September 26 with an open comment period until October 25. The Launch Committee received a robust set of comments from western stakeholders on the proposal which they integrated into the Step 2 Final Proposal.

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## West-Wide Governance Pathways Initiative

### What changes are reflected in the Step 2 Final Proposal?

The Launch Committee directly addresses stakeholder comments throughout the Final Proposal and has included a list of changes from the September 25 Draft Proposal.

### What is in the Step 2 Final Proposal?

The Step 2 Final Proposal contains recommendations that achieve the goals of the original regulator [letter](#) issued in July 2023 calling for “the creation of an entity that could serve as a means for delivering a market that includes all states in the Western Interconnection, including California, with independent governance.”

The proposal is two-fold: (1) create a new Regional Organization (RO) as a small organization with an independent policy-making board with sole authority over the real time (Western Energy Imbalance Market or WEIM) and day ahead market (Extended Day Ahead Market or EDAM) services that the California Independent System Operator (CAISO) will continue to operate (referred to as “Option 2.0”); (2) once in place, the RO should initiate a feasibility analysis within nine months of formation on the potential steps for future evolution of the RO.

With the foundation of a fully independent RO Board, the proposed elements give the RO corporate responsibility over the electricity market services as intended by the original letter with opportunities for further enhancement.

The list of specific recommendations is included as the “Pathways Initiative Proposal Recommendations” in the final document.

### Does Step 2 require California legislation?

The new RO can form and operate without any change to California law. But Step 2 will require a change in California law to enable California to participate in the RO energy markets and the CAISO to engage with the RO in supporting those services. The California legislative process will commence in early 2025, with February 21 [scheduled](#) as the last day for bills to be introduced. The International Brotherhood of Electrical Workers (IBEW) stated that it will sponsor the bill in California’s 2025 legislative session.

Successful legislation would be designed to allow the CAISO and California IOUs to participate in energy markets managed by the new RO, rather than the CAISO, but will not control RO formation or participation by other entities (including California POUs) in those markets. Enabling legislation could support the pathway for further transition by permitting the CAISO to provide other vendor services to the RO, whether or not the Legislature ultimately authorizes California utilities to participate in such services. The Legislature could enact a bill at any time during the 2025 legislative session but not later than September 12.

### What are the next steps?

This proposal breaks through a significant barrier and enables additional progress for electricity markets through voluntary structures that the West has been working towards for decades. The Launch Committee will keep the momentum going and work with stakeholders to implement the

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## **West-Wide Governance Pathways Initiative**

recommendations and create the institutional foundation for additional regional services that will maximize benefits including affordability and reliability, minimize inefficiencies, and enable more clean energy resources and transmission infrastructure in the West.

- The Launch Committee will host a Stakeholder Meeting on November 22 where it will vote on the Step 2 Final Proposal.
- The Launch Committee will create a Formation Committee this fall to coordinate with the CAISO to develop and implement steps necessary to create the RO over the course of 2025, including establishing a Nominating Committee comprised of stakeholder representatives to select the initial RO Board.
- Legislative efforts will take place at the start of the 2025 California legislative session in January. While legislation is advancing, the Formation Committee will undertake activities in coordination with the CAISO and WEM Governing Board consistent with the Final Proposal. It is critical, however, that these activities do not outpace or prevent alignment between the Final Proposal and the needed change in California law. In particular, the Formation Committee will not take action to form the RO or seat an RO board until legislation is enacted.

### **Formation Committee**

In early 2025, the Launch Committee will delegate to the Formation Committee and oversee the activities required to advance this process. The work of the Formation Committee will be coordinated with the effort to amend the statutes at the California Legislature. The Formation Committee's initial scope of work will likely include the following activities:

#### **Preparation Activities (Prior to California Legislation Enactment)**

- Finalize selection of Formation Committee participants and stand-up committee
  - Develop detailed plan (including scope, schedule, and cost) for transition from Step 1 oversight to Step 2 oversight
    - Coordinate with CAISO on cost-of-service study for initial RO
  - Commence RO pre-launch implementation efforts
    - Development of Bylaws, Articles of Incorporation, Charter, etc.
    - Develop initial budget estimate for RO, to include:
      - Staffing estimates
      - Evaluate what, if any, contingency reserve would be appropriate for the RO in Option 2.0
      - Conduct additional market research and obtain specific insurance quotes for the RO; the need for specific forms of insurance depends on the terms of the contract between the RO and the CAISO, including any indemnification provisions.
  - Finalize Nominating Committee process and procedure for RO Board selection
  - Coordinate with CAISO on development of initial tariff language for the RO
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### **West-Wide Governance Pathways Initiative**

- Coordinate with CAISO on development of initial language for service level agreement between CAISO and RO
- Develop position descriptions for RO Board members and initial RO staff
- Select executive search firm for RO Board and staff selection process
- Coordinate with consumer advocates and scope the Consumer Advocate Organization (CAO)
- Identify the appropriate scope of work and organizational structure for the Office of Public Participation (OPP) including budget and staff
- Finalize RO stakeholder process including remand process for “significant opposition”
- Create an initial list of stakeholder initiatives for RO Board consideration to be included in the RO’s Catalog as a potential roadmap to enable continued incremental evolution to the RO

### **Implementation Activities (After California Legislation Enactment/Before Seating RO Board)**

- File RO incorporation documents with the state of incorporation (Delaware) and to request certification as a non-profit 501(c)(3) organization from the Internal Revenue Service
- Initiate the Nominating Committee process
  - Seat the Nominating Committee
  - Execute contract with executive search firm
  - Create proposed slate of initial RO Board
  - Nominating Committee approval of the slate

### **Implementation Activities (After California Legislation Enactment and After Seating RO Board)**

- Onboard RO Board
- Initiate RO staffing selection
  - Initiate selection process
  - Coordinate with RO Board on finalizing selection
  - Onboard executive staff
- Seat Consumer Advocate Organization and Office of Public Participation
- Finalize tariff language and service level agreement language between RO and CAISO and seek approval
- Engage with CAISO to migrate authority over energy market services to the RO
- Disband Launch Committee/Formation Committee

The Launch Committee anticipates that the scope of work will evolve as the work progresses and will be guided by the timing and framing of any legislation enacted by the California legislature to support Step 2 implementation.

### **Continued Stakeholder Engagement Opportunities**

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The Formation Committee will actively seek public comment on its activities as part of its periodic updates facilitated through the Launch Committee processes through public meetings. The Formation Committee will also seek additional opportunities for stakeholder feedback, input, and engagement where appropriate, and may utilize work groups on topics that would benefit from broader engagement similar to the Phase 2 work groups. Public meetings will continue to be recorded, and materials will continue to be housed on the WIEB landing page. The Launch Committee can continue to be reached via [pathways@westwidepathwaysinitiative.org](mailto:pathways@westwidepathwaysinitiative.org) and all comments can be directed to [comments@westwidepathwaysinitiative.org](mailto:comments@westwidepathwaysinitiative.org)

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