

PATHWAYS INITIATIVE

Initial Evaluation Framework for Pathways Options

1. Introduction

The Pathways Launch Committee (Launch Committee) has been charged with identifying and assessing structural alternatives to the governance of wholesale electricity markets that would enable an independently governed entity to oversee an expansive suite of West-wide markets and related functions.¹ The Launch Committee has identified an initial range of structural options for consideration and proposes a framework to examine legal issues, operational issues, and other important characteristics of each option. This paper explains the identified options and the proposed evaluation framework. The Launch Committee seeks stakeholder comments to finalize the approach and commence the legal, operational, and evaluation activities needed to achieve the stated goals. Specific questions for comments are included at the end of this document.

Legal Analysis. The Launch Committee has directed the development of a new, detailed, and credible analysis of relevant legal issues and considerations that will need to be addressed to enable independent governance for an expansive suite of West-wide markets and related functions. The present paper summarizes the structural options identified by the Launch Committee as in scope for this subsequent “Legal Issues Analysis” and identifies initial legal questions that must be answered to determine the viability of each option. The options were developed by the members of the Launch Committee’s Priority Functions and Scope Workgroup and approved by the Launch Committee with the goal of identifying a wide range of options to thoughtfully consider diverse stakeholder needs and objectives. The options range from a reorientation of the roles of the Governing Body of the Western Energy Imbalance Market (Western EIM) and the California Independent System Operator (CAISO) Board of Governors, to the formation of a new independent governing entity² under several scenarios of coordination with the CAISO. The Legal Issues Analysis will identify what, if any, specific provisions of California state law or CAISO corporate or legal restrictions would need to change to enable each of these autonomous forms of governance and minimize litigation risk.³ Initial high-level legal questions are presented in Section 4 of this paper.

Operational Issues. Both the Legal Issues Analysis and the Committee’s broader evaluation of the pathway options must simultaneously assess key operational problems or issues a given option may create or address. For stakeholders’ consideration, some key initial operational questions are presented in Section 5.

¹ The plural term “markets” here refers to the interrelated but separate centralized real-time and forward (day-ahead) energy markets with security-constrained unit commitment and economic dispatch.

² For purposes of the scoping questions below, the term “Regional Organization” (RO) refers to a legally distinct autonomous entity offering services in the Western region.

³ In the course of the legal analysis, important financial and operational aspects of creating the options under consideration may arise and will be captured for further assessment.

Proposed Evaluation Criteria. In combination with the forthcoming Legal Issues Analysis, the Launch Committee will need to assess each pathway option using a set of evaluation criteria that support the mission statement of the Launch Committee (see Appendix C). Specifically, the Launch Committee proposes to evaluate how each option meets the following high-level criteria:

1. *Maximized net benefits*, including reliability, affordability, and environmental benefits, recognizing startup and ongoing costs, and considering both new benefits and impacts on existing benefits.
2. *Equitable representation* across the Western region and among all market participants, including for a wide range of legal entities.
3. *A governance structure* independent of any single state, participant, or class of participants.
4. *Organizational flexibility* to accommodate future expansion of regional solutions and to create a credible and timely path to a voluntary regional transmission organization (RTO), including the balancing authority (BA) and transmission planning functions.
5. *Optionality* to allow market participants to choose the market services they value.
6. *Preservation* of existing balancing authorities' ability to maintain independence, authority, and governance.
7. *An implementation timeline* that promotes broad market participation.

2. Structural Options for the Legal and Operational Analysis

The Launch Committee is in the process of selecting and retaining counsel to identify and address critical legal issues arising from various governance options. Similarly, the Launch Committee has commenced a dialogue with the CAISO to explore operational and technical issues implicated by these options. The Launch Committee thus has identified five pathway options for consideration, which are discussed below. Permutations of these options may also warrant discussion as the analysis proceeds.

These options are set between two bookends: the status quo and an abrupt full transition to an RTO. While the bookends provide useful context, the Launch Committee does not recommend placing the bookends within scope for the legal or operational analyses.

Status Quo. The first bookend is the status quo of the Western EIM, a model of joint governance of the real-time and day-ahead elements of the CAISO tariff by the CAISO Board of Governors (CAISO Board) and the Western Energy Imbalance Market Governing Body (WEIM GB). In the status quo, the WEIM GB has *voting* rights, alongside the CAISO Board, on market rules and tariff provisions that affect the Western EIM, but it does not have *filing* rights.⁴ Thus, if a change is adopted by dual majority vote, the CAISO then makes a single filing under Section 205 of the Federal Power Act seeking approval of the change at the Federal Energy Regulatory Commission

⁴ The CAISO Board may also extend joint authority on a case-by-case basis.

(FERC).⁵ If the change fails a majority vote of the two governing bodies, however, the CAISO will not seek FERC approval of the proposed change. In these circumstances, the WEIM GB has no authority to file and seek the change independently or to compel a filing by the CAISO at FERC.

While there are extensive dispute resolution procedures to ensure the WEIM GB has a substantive role in decisionmaking, in the end, the WEIM GB has no veto over the CAISO Board in the case of an unresolved disagreement, and its vote is not presented preferentially to FERC over the CAISO Board's. The WEIM GB may offer its view to FERC, but the legal opportunity to present those views is the same as any intervenor at FERC. In contrast, the CAISO Board itself retains an ability (albeit limited) to make unilateral tariff changes affecting the Western EIM: the CAISO Board can make a Section 205 filing under urgent market or reliability situations without the majority vote of the WEIM GB. This unilateral authority may be considered the present version of a "veto" by the CAISO Board. This joint governance model of the Western EIM was created via delegated authority from the CAISO that required no changes to California law.

Abrupt Transition. The second bookend is an abrupt transition to a full regional transmission organization (RTO). Recent attempts at legislative reforms to California law to transform the CAISO into a multistate RTO independent of California (sometimes dubbed "regionalization") have failed. The Launch Committee has chosen not to pursue an option with a high likelihood of meeting the same fate. Instead, the Committee has focused its efforts on alternative ways to create governing autonomy for a regional entity, focusing first on oversight of market service offerings and setting aside the balancing authority functions for the moment. The evaluation of the options in the Pathways Initiative, however, also requires assessing the ability of each option to support an expansion of service offerings and, eventually, the ability to transition to a full RTO.

Among the reasons for the past failures that the Launch Committee has considered are a lack of parity, as it were, between the ability of both the CAISO and non-CAISO balancing authorities to elect to join and be subject to the new RO's services and authority over those services. In other words, the Launch Committee intends to deliberate about how the options below may preserve a comparable choice across all states and all balancing authorities to elect (or not) to surrender some existing aspects of bulk power system operations to a single independent Regional Organization (RO). That RO may ultimately take the form of a full RTO, but trying to skip straight

⁵ Section 205 is the key provision of federal law under which "public utilities" (generally, jurisdictional transmission owners, independent system operators, and regional transmission organizations), make filings at FERC seeking approval of organized wholesale market rules and related services. Any party may file a protest to a public utility filing under Section 206 of the Federal Power Act. The standard of review by FERC for filings under Section 205 (and therefore the legal burden born by the filer) is a demonstration that the filing is just and reasonable. In contrast, the standard of review by FERC for Section 206 filings is substantially higher—the protestant must establish that an applicable tariff provision is unjust and unreasonable, before ever reaching the question of whether a potential alternative is itself just and reasonable, or somehow *more* just and *more* reasonable than the protested provision originally filed under Section 205. For this reason, Section 205 rights are what the Launch Committee has considered most pertinent in identifying new governance options.

to that step has not proven possible to date. Therefore, this approach is considered here as a bookend rather than a viable option.

3. Structural Options for Analysis

Between those two bookends, the Launch Committee has identified five principal options to create governance autonomy in a Western market structure. All options contemplate the formation of a new RO with one exception, which instead expands the WEIM GB's authority. The Launch Committee is not yet suggesting a preference for any particular option or permutation or combination of options.⁶

All options contemplate independent, autonomous governance for the RO. Independence extends beyond avoiding financial conflicts of interest. Independence encompasses ensuring governance is not determined by (nor is the governing body affiliated with) any single state, participant, or class of participants. In addition, the autonomous body would be meaningfully influenced by a stakeholder process to help evolve market rules and to make recommendations on what new functions to add.⁷

The principal options identified by the Launch Committee are as follows:

- **Option 0 – WEIM Primary Voting Rights + CAISO Filing Rights, Tariff, & Operations:** This option is labeled “0” because it does not require a new legal RO entity but reduces the role of the CAISO Board as compared to the current delegated joint governance model of the Western EIM. This option vests the WEIM GB with *primary* voting rights, within the CAISO's governance process, with respect to Western EIM and (subject to FERC approval of the pending Extended Day-Ahead Market (EDAM) tariff filing) EDAM market rules. A majority vote of the WEIM GB represents market policy direction, with the direction placed on the Consent Agenda for CAISO Board final approval. If California law requires the CAISO Board to maintain a continuing decisional role and a disagreement arises, then a dispute resolution mechanism would be needed prior to a filing at FERC. Alternatively, the CAISO could file both the WEIM GB and the CAISO Board positions at FERC – a so-called “dual filing” – and FERC would resolve the dispute.⁸ All market rules and other service offerings are contained in the same tariff.

⁶ The Launch Committee recognizes the substantial options analysis previously undertaken in the WEIM GB development process by the Governance Review Committee. That analysis, and the differences in circumstances today, are discussed in Appendix A.

⁷ These examples are not intended to exhaust the meaning of the terms independent or autonomous.

⁸ Perhaps the best-known example of such a dual filing mechanism is the “jump ball” provision between ISO New England and the New England Power Pool. Other relevant examples include the primary Section 205 rights held by the Regional State Committee of the Southwest Power Pool over resource adequacy and some transmission cost allocation matters, and the Organization of MISO States' Section 205 rights to have a competing filing made by MISO about regional transmission cost allocation methodologies.

- **Option 1 – RO Primary Filing Rights + CAISO Joint Filing Rights, Tariff, & Operations:** The RO, a new legal entity, holds independent and primary Section 205 rights over the market rules, which are housed in the CAISO tariff. Its authority transcends voting rights, enabling the RO to develop and propose changes in market rules or service offerings under its purview through an independent filing or, where possible, a joint filing with the CAISO. The ministerial act of filing at FERC, however, may need to be carried out on the RO's behalf by CAISO staff. Similar to Option 0, if California law requires the CAISO Board to maintain a continuing decisional role over the market tariff, then a dispute resolution mechanism would be needed prior to a FERC filing. Alternatively, in the limited event of a dispute between the RO and the CAISO Board, the CAISO could file both the RO and the CAISO Board positions at FERC – a so-called “dual filing” – and FERC would resolve the dispute. While some agreement is needed to memorialize the relationship between the RO and the CAISO, the CAISO continues to staff and run all market operations, and no vendor-style contracting for market or other services by the RO is necessary.
- **Option 2 – RO Sole Filing Rights + CAISO Tariff & Operations:** The RO, a new legal entity, holds sole Section 205 rights over its market rules and other service offerings, which remain housed in the CAISO tariff. The RO therefore has sole authority and responsibility to develop, vote on, and file market rule changes under Section 205 at FERC. Similar to Option 1, the actual ministerial act of filing at FERC might be carried out on the RO's behalf by CAISO staff. Unlike in Options 0 and 1, the CAISO Board has no continuing decisional role over such rules, therefore no CAISO Board approval or dispute resolution mechanism is needed. Like in Options 0 and 1, all market rules and other service offerings are contained in the same tariff. While some agreement is needed to memorialize the relationship between the RO and the CAISO, the CAISO continues to staff and run all market operations, and no vendor-style contracting for market or other services by the RO is necessary.
- **Option 3 – RO Sole Filing Rights & Tariff + CAISO Contract for Services:** The RO, a new legal entity, develops and maintains its own separate tariff for its market rules and other service offerings, perhaps choosing for efficiency to simply adopt the relevant sections of the CAISO tariff; none of the RO's offerings are housed in the CAISO tariff on a going forward basis. The CAISO tariff is cooperatively modified to remove market functions and to interact with the RO. The RO has sole Section 205 rights with respect to that tariff, enabling it to develop and propose to FERC changes in its rules and services. The RO contracts with the CAISO in a vendor-style model to operate those markets and services. The CAISO no longer has a market function in its tariff but continues all other functions retained in the tariff (e.g., BAA operations, transmission planning, generator interconnection procedures).

Initially, services under the RO's purview would include the Western EIM and EDAM but could evolve over time through the RO's stakeholder process and changes to the RO's market tariff. The RO could develop and file new market services under its tariff. The new services could be incrementally adopted into the RO tariff for those accepting such *a la*

carte services. This extension of such services would require additional coordination with the CAISO if the CAISO were to transfer any additional functions (e.g., transmission planning) to the RO. However, transfer would not be required if the CAISO did not want to participate in the new services.

- **Option 4 – Spinoff Market Operator with Full 205 Rights:** Similar to Option 3, the RO, a new legal entity, develops and maintains its own separate tariff for market rules and its service offerings; none of the RO's offerings are housed in the CAISO tariff. The RO has sole Section 205 rights with respect to that tariff, enabling it to develop and propose to FERC changes in its rules and services. But rather than contracting back with the ISO in a vendor-style model to operate those markets and services, the RO would take over operations of the real-time and day-ahead markets, including absorption of the relevant CAISO staff responsible for such operations. In other words, the market function and potential future services would be spun off from the CAISO to the RO's sole control.

The Launch Committee anticipates that all the structural options above could incrementally encompass service offerings beyond the Western EIM and EDAM (e.g., a single transmission tariff, transmission planning, or generator interconnection procedures) over time. The potential process by which the option would cover those services, including the assumption of Section 205 rights and responsibilities by the RO, varies across the options. For example, in the case of Options 3 and 4, new *a la carte* services could be incrementally adopted directly into the new RO tariff. In all cases, the potential sunseting, sharing, or transfer of such services by the CAISO to the RO requires deeper analysis.

The options above are summarized and displayed graphically, along with a comparison matrix, in Appendix B.

4. Initial Legal Questions

The Legal Issues Analysis will provide initial answers to the following threshold and high priority legal questions posed by the Launch Committee with respect to each option above. The issues under consideration generally fit into the scope of the following high-level questions:

1. Does the option require, or would the option benefit from, California legislative action, and if so, what is the scope of the required legislative action?
2. Is the option consistent with existing FERC orders and regulations, or are changes required?
3. Does the CAISO have the authority needed to fulfill its role within the option, or are changes to the CAISO tariff or bylaws required?
4. To what extent may the CAISO delegate its Section 205 authority?
5. Does the option require the RO to have its own FERC-approved tariff, and if so, to what extent can the tariff be imported from the existing CAISO tariff?
6. What form of contractual relationship between the CAISO and the RO is required?

7. What mechanism would be best suited to address disputes between the CAISO and the RO under Options 0 and 1?
8. Does the option preserve the legal authority of state and local governments to maintain resource procurement, supply reliability, environmental, and other state policies that apply to entities under their jurisdiction?

Legal questions will be refined as the legal analysis proceeds.

5. Initial Operational Questions

The Launch Committee will integrate with the Legal Issues Analysis and its application of criteria a review of operational challenges created or addressed by each option.

1. What specific functions will be encompassed within the option's scope?
2. What staffing must be dedicated to the RO, and to what extent can the RO leverage CAISO shared assets and personnel?
3. To what extent does the RO have hiring authority over CAISO personnel?
4. To what degree does the option utilize the CAISO EDAM and Western EIM market design and infrastructure?
5. How does the option allow the RO to offer future additional services (e.g., BAA operations) for interested parties?
6. How does the option allow the RO to transition to a full RTO (that may consist of multiple BAAs) for interested parties?
7. What are withdrawal rights, process, and considerations for participants (including the CAISO) under the option?
8. Does separating the market and BAA functions create any reliability risks relative to the current structure?
9. Are there existing tariff provisions or CAISO activities so entwined with each other that separating out market or other services from those provisions would be particularly difficult?
10. Are there tariff provisions so entwined with other California state laws and policies that migrating them over to the RO would be particularly difficult or incongruous?
11. Are there milestones or triggering events that should be met prior to effectuating the option (e.g., an indication of parties willing to join a pathway that uses a given option)?
12. Do any options naturally combine with each other in a potential sequenced governance reform?

6. Requested Stakeholder Feedback

Please provide feedback on the following questions with respect to this evaluation framework paper:

1. Do the proposed evaluation criteria support a constructive and thorough assessment of the options?

2. Are the bookends reasonably defined to set the boundaries for a timely, productive exploration of available structural alternatives to governing autonomy?
3. Do additional options not encompassed above, but within the bookends, warrant exploration?
4. Should other aspects of the new structure not identified in the comparison matrix in Appendix B be addressed within each option?
5. Are there additional threshold or high priority legal questions that should be addressed?
6. Are there additional operational questions that should be addressed or prioritized?
7. Are there additional issues or categories of issues that should be considered?

Appendix A: Background on Autonomous Governance Concept

Western EIM Transitional Committee

The Western EIM Transitional Committee was a stakeholder body appointed by the CAISO Board in 2014 to recommend a long-term governance structure for the Western EIM. The Committee evaluated three conceptual models along a continuum of autonomy for Western EIM governance:

- (1) an advisory committee to the CAISO Board;
- (2) a new committee established in the CAISO's bylaws with joint and delegated authority over Western EIM rules; and
- (3) a separate, autonomous entity that would contract for Western EIM service from the CAISO and have authority over Western EIM rules subject to negotiating necessary agreements with the CAISO to implement related systems changes.⁹

The Committee's subsequent straw proposal recommended the second option after first seeking stakeholder input.¹⁰ The threshold issue that varied in the three options was the general relationship between the Western EIM body and the CAISO and the resulting degree of influence the Western EIM body should have over market rules.

In the issue paper that presented the options, the Transitional Committee identified practical tradeoffs in each option. The Committee identified one tradeoff that stands out today: "if the EIM body were perceived as too tightly enmeshed with the ISO's existing governance, particularly its Board of Governors, or as having too little influence over EIM matters, some potential participants might be dissuaded from joining."¹¹

As it turned out, the final structure of the WEIM GB, with joint and delegated authority over Western EIM rules that required no statutory change to California law, did not dissuade participants from joining the market. But the sentiment anticipated by the Transitional Committee almost nine years ago does appear to accurately describe how some Western entities today view any service offerings by the CAISO beyond the Western EIM, including EDAM, absent further governance reforms. Part of that sentiment is the conventional wisdom, informed by prior governance reform discussions about Western EIM, that a significant legislative reform to the CAISO's corporate structure and Board of Governors—a reform that has failed several times to move forward since 2015—is necessary to bring about an effective separate, autonomous governing entity.

⁹ EIM Transitional Committee, Issue Paper: Conceptual Models for Governing the Energy Imbalance Market ("Conceptual Models"), January 5, 2015.

¹⁰ EIM Transitional Committee, Straw Proposal: Long-Term Governance of the Energy Imbalance Market, March 19, 2015, p. 11, 13.

¹¹ EIM Transitional Committee, Conceptual Models, p. 7. While there has not proven to be concerns that the WEIM GB is insufficiently independent in their own decision-making and extensive dispute resolution processes between the two bodies have been developed, there has continued to be debate about whether the CAISO Board's inability to permanently and completely delegate oversight of the market to the WEIM GB creates future risk to the influence of the WEIM GB's decision over market matters.

Governance Review Committee

The EIM Governance Review Committee (GRC) was a stakeholder advisory body jointly established by the CAISO Board and the WEIM GB in 2019. In an iterative series of reform proposals and recommendations to the two governing entities, the GRC reviewed once more many of the issues related to the autonomy of the WEIM GB.

The Launch Committee has benefited from drawing on the GRC's clear, thoughtful work on this topic.¹² For example, one of the key questions the Launch Committee anticipates revisiting in the legal analysis described above is identifying at what point a Pathways Option may reach or exceed a limit of delegable authority by the CAISO as a corporation, given a corporate board's general fiduciary duty to retain and not surrender ultimate supervision over corporate activities.¹³

Two factors distinguish the evaluation of the Pathways Initiative from the GRC.

First, a broader aperture: the Launch Committee is considering some forms of autonomy that most likely require a legislative change in California and would cover a broader range of services than just energy markets. The range of potential statutory changes that may be needed to bring about some of these options will become clearer as the Initiative proceeds, but, unlike the scope of assignment to the GRC, the Launch Committee has the identification of statutory changes explicitly within its scope.

Second, a new entity: the Launch Committee is considering a range of options, most of them premised on forming a new, independent regional organization outside of the structure of the CAISO itself. This would reorient the relationship between the CAISO Board and the regional organization's board, in some cases in fundamental ways, and would raise both new autonomy opportunities and change how disputes between the CAISO Board and the regional board would emerge or be resolved. The Launch Committee intends to examine these issues in order to make its recommendation.

In brief, the GRC did not have as broad a remit as the Launch Committee and therefore had less opportunity to imagine a wider range of outcomes for autonomous governance.¹⁴

¹² The "Overview of Legal Issues Relevant to Governance" prepared by CAISO staff for the GRC that appears in each of the GRC's proposals as Appendix A provides a baseline analysis of the CAISO's delegable authority and various obligations under California law.

¹³ See CAISO staff's analysis of this duty in GRC, Western EIM Governance Review – Phase Three (EDAM) Final Proposal ("Phase Three Final Proposal"), January 9, 2023, Appendix A, p. 52, 56.

¹⁴ The GRC's limited parameters can be seen in its guiding principles in all three phases of its work. They included focusing "exclusively on issues relating to the governance of the WEIM and the EDAM"; seeking "to build upon and refine the existing WEIM structure rather than recommending a completely new model"; and ensuring consistency "with the requirements of the CAISO's status as a nonprofit public benefit corporation and any applicable legal requirements." The GRC's Phase Three work added a principle about supporting potential governance structures appropriate for a multi-state RTO, but this addition did not modify the more limiting principles above. (GRC, Phase Three Final Proposal, p. 7-8)

In other regards, the Pathways Initiative is using the GRC's work as a departure point. For example, the GRC's final substantive recommendation on how to share decisional authority over the Western EIM was to move from a prior model dubbed "primary authority" to a new model dubbed "joint authority." This was a reform in the nature of a compromise that emerged over the course of the committee's deliberations and balanced various objectives and stakeholder input.¹⁵ Both models hinge on a delegation of authority by the CAISO Board. The CAISO Board and the WEIM GB unanimously adopted the GRC's recommendation to adopt the joint authority model in August 2021. The joint governance model has since been utilized for a range of substantive decisions, including the filing of the EDAM tariff.

Under the prior primary authority model, the WEIM GB was responsible for evaluating and approving market rule changes narrowly defined as specific and isolated to the Western EIM. Once approved by the WEIM GB, the market rule change would be provisionally fast-tracked on the CAISO Board's consent agenda, subject to being removed by the Board for further review. Majority approval from both entities was required, but their deliberations were staggered and generally of different depths. This was the model that had been in operation in the Western EIM up until the adoption of the GRC's recommendation. Under the new joint authority model, majority approval is still required from both entities, but the WEIM GB and the CAISO Board must both actively review and vote on market rule changes, including in joint sessions. In addition, the scope of market rules under this shared authority is significantly broader now (subject to a simplified applicability test developed by the GRC), and encompasses the majority of CAISO Tariff rules. Finally, the scenarios in which the CAISO Board may act unilaterally are much narrower and must be triggered by specific findings. In practice, this has allowed the WEIM GB to act as a decisionmaker alongside the CAISO Board on a broad range of issues, rather than primary decision-maker in some instances and only an advisor in others.

The Pathways Launch Committee, under its broader remit, is exploring the degree to which the CAISO's delegable authority may extend even further, while preserving a kind of parity between the rights and obligations of the different balancing authorities prior to any future decision to consolidate transmission functions under a single tariff in an RTO or similar structure.¹⁶

¹⁵ For example, in its final Part Two proposal, the GRC pragmatically noted stakeholder agreement "that the rule itself will be easier to administer and more straightforward than prior concepts considered by the GRC. Although the proposed scope of joint authority is not as broad as some of these commenters would like, it is generally viewed as an improvement over the current primary authority definition." Similarly, the GRC noted its abandonment, based on stakeholder feedback, of an earlier proposal of a "dual filing" approach at FERC to resolve disputes. (GRC, Western EIM Governance Review – Part Two Final Proposal, July 19, 2021, p. 10, 13-14). Before making this decision, the GRC had evaluated legal aspects of a "dual filing" mechanism in 2020 (GRC, Western EIM Governance Review – Revised Straw Proposal, December 14, 2020, p. 14-18).

¹⁶ The GRC did consider the tradeoffs between the joint authority model and models with a different, less consultative form of autonomy (and thus higher risk of disputes), but "on balance" preferred joint authority for both the Western EIM and EDAM because, in the GRC's view, it promotes a "problem-solving orientation" with "substantial collaborative benefits." The GRC's conclusion was in the context of how much of the tariff was implicated in emerging issues and the expansion to a day-ahead market. (GRC, Western EIM Governance Review – Phase Three (EDAM), Straw Proposal, July 15, 2022, p. 13-14)

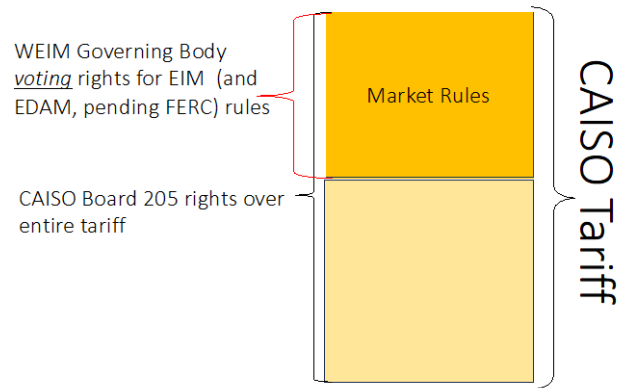
A need for further steps was acknowledged by the GRC itself. In its final proposal on EDAM governance in January 2023, the GRC underscored that its decision to emphasize collaboration as a decisive factor favoring the “joint authority” model over more autonomous options could not be extended to RTO governance:

Although [...] we considered the collaboration between the two bodies to be an important feature that can help drive regional cooperation and understanding in the context of WEIM and EDAM, we also noted that this structure would not be sufficient in the separate, future context of a full RTO market. In that context, we observed that a more completely autonomous form of governance would be required.¹⁷

¹⁷ GRC, Phase Three Final Proposal, p. 11.

Appendix B: Pathways Structural Options - Depictions and Comparison

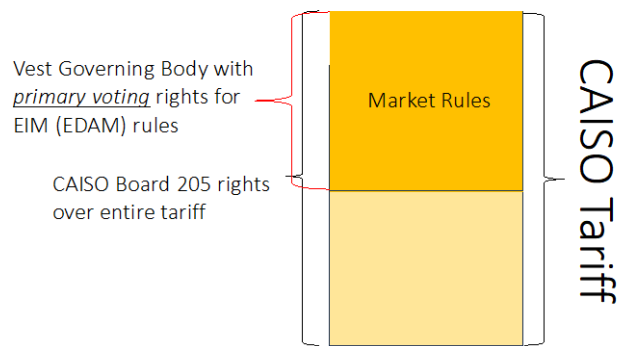
Status Quo Market Governance: Joint Voting + CAISO Filing, Tariff & Operations



- Under Joint Governance, WEIM rules/proposed tariff changes need a majority vote of support from both the CAISO Board and the WEIM Governing Body.
 - CAISO then makes 205 filings (as needed).
 - CAISO Board has limited ability to make unilateral 205 changes under urgent market or reliability situations without the majority vote of the Governing Body.
- Joint Governance was created via delegated authority from the CAISO that required no statutory change to California law.

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Pathways Initiative Product

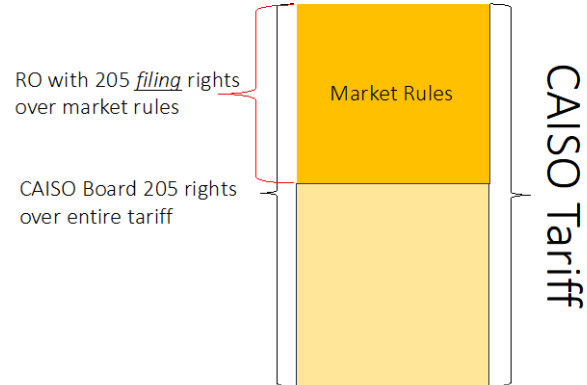
Option 0: WEIM Primary Voting Rights + CAISO Filing Rights, Tariff, & Operations



- Without creating a new RO, the limits of the current delegated, joint governance structure could be expanded, for illustrative purposes, to include:
 - Providing the WEIM Governing Body “primary” authority over WEIM/EDAM market rules (as opposed to the current lack of primacy by either the Governing Body or the Board of Governors)
 - Once approved by the Governing Body, tariff changes would represent market policy direction and would be put on the Consent Agenda for CAISO Board final approval
 - If the CAISO Board has a continuing decisional role, such as a consent agenda process, some dispute resolution would be needed or so-called “dual filing” mechanisms developed

For Discussion Purposes Only — West-Wide Governance
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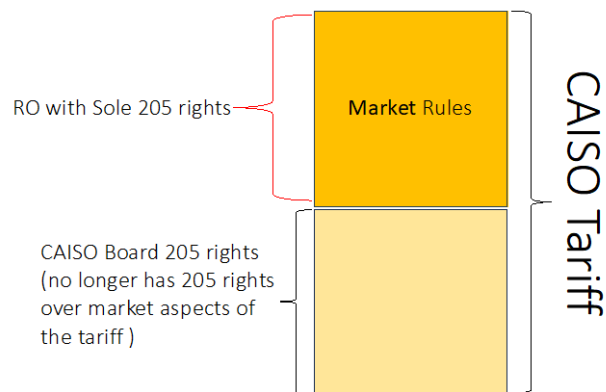
Option 1: RO Primary Filing Rights + CAISO Joint Filing Rights, Tariff, & Operations



- The RO would have independent and primary 205 filing rights (not merely primary voting rights about a filing) over WEIM/EDAM market rules in the CAISO tariff.
 - The RO would have the primary authority/responsibility to develop and vote on market rule changes and file 205 changes at FERC (likely using CAISO staff).
 - CAISO Board would retain secondary 205 rights in the unlikely and exceptional event the Board found the RO rule sufficiently objectionable.
 - FERC would ultimately decide what the CAISO tariff would implement in the event of a “dual filing.”
- The CAISO continues to keep all market rules in its tariff, and continues to staff/run all market operations – no “contracting for market services” by the RO is necessary, although some agreement is needed to memorialize the relationship.

For Discussion Purposes Only — West-Wide Governance
Pathways Initiative Product

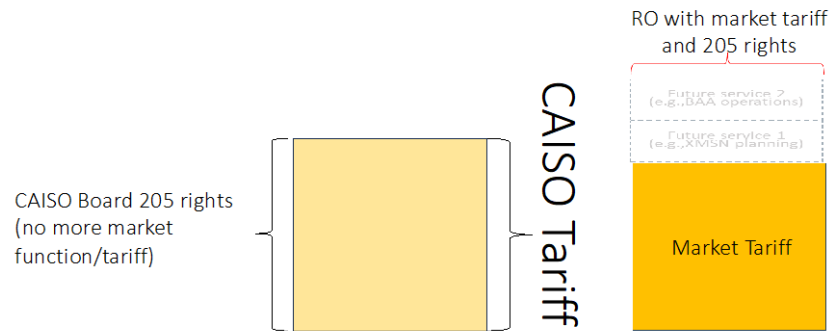
Option 2: RO Sole Filing Rights + CAISO Tariff & Operations



- The RO has sole 205 rights over the WEIM/EDAM market rules.
 - RO solely responsible to develop and approve new market rule and file 205 changes at FERC (likely using CAISO staff, in some form).
 - Market rules continue to reside in the CAISO tariff rather than a separate tariff filed by the RO.
- The CAISO continues to keep all market rules in its tariff, and continues all market operations – no “contracting for market service” with the RO is necessary, although some agreement is needed to memorialize the relationship.

For Discussion Purposes Only — West-Wide Governance
Pathways Initiative Product

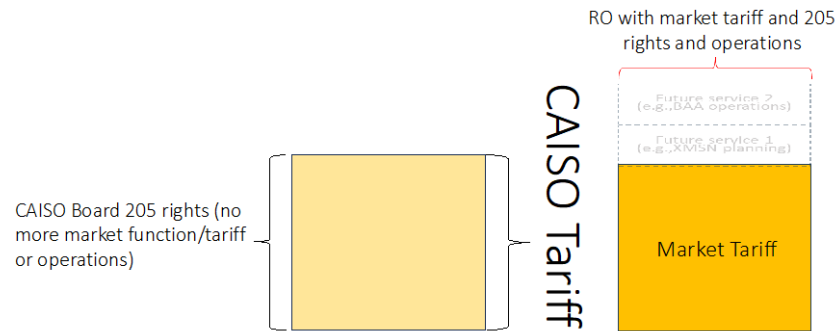
Option 3: RO Sole Filing Rights & Tariff + CAISO Contract for Services



- The RO has its own market tariff, the CAISO no longer has a market function in its tariff.
 - CAISO continues all other functions (BAA operations, transmission planning, generator interconnection, etc.)
- The RO contracts with the CAISO to operate the markets.
 - Markets would start out with the WEIM/EDAM design but could evolve over time via RO stakeholder process and changes to RO market tariff.
- RO develops/files new market services (under its tariff) through the RO stakeholder process.
 - New services could be incrementally adopted into the RO tariff for those accepting such a la carte services.
 - This would require additional future coordination if the CAISO were to transfer any additional functions (e.g., transmission planning) to the RO.

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Option 4: Spinoff Market Operator with Full 205 Rights



- The RO has its own market tariff, the CAISO no longer has a market function in its tariff.
 - CAISO continues all other functions (BAA operations, transmission planning, generator interconnection, etc.)
- The RO takes over the operation of the real time and day ahead market, including the staff.
 - Markets would start out with the WEIM/EDAM design but could evolve over time via RO stakeholder process and changes to RO market tariff.
- RO develops/files new market services (under its tariff) through the RO stakeholder process.
 - New services could be incrementally adopted into the RO tariff for those accepting such a la carte services.
 - New functions would be built by the RO and the CAISO could choose to join and sunset their own operations – perhaps transferring further staff, if appropriate.

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Pathways Options Comparison for Affected Market Rules

	Status Quo	Option 0	Option 1	Option 2	Option 3	Option 4
New Corporate Entity	No	No	Yes	Yes	Yes	Yes
Market Rules Governance	Joint	Joint	Joint	RO Sole	RO Sole	RO Sole
Voting Rights	Joint	WEIM Primary	RO Primary	RO Sole	RO Sole	RO Sole
CAISO Veto Rights (Market Rules)	Yes	No*	No	No	No	No
Filing Rights	CAISO	CAISO	RO & CAISO	RO Sole	RO Sole	RO Sole
Dispute Resolution	CAISO limited veto	CAISO files both proposals	RO & CAISO file separate proposals	N/A	N/A	N/A
Market tariff admin.	CAISO	CAISO	CAISO	CAISO	RO Sole	RO Sole
Market operation	CAISO	CAISO	CAISO	CAISO	CAISO	RO Sole
CAISO/RO Relationship	Tariffed	Tariffed	Tariff/Agreement	Tariff/Agreement	Service Contract	None

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Appendix C: Mission Statement

I. Mission and Purpose

The Mission of the Launch Committee of the WWGPI (Committee) is to develop and form a new and independent entity with an independent governance structure that is capable of overseeing an expansive suite of West-wide wholesale electricity markets and related functions based on the following core principles:

- The entity should enable the largest footprint possible that includes California, and maximizes overall consumer benefits;
- The entity will include independent governance for all market operations;
- The new entity will preserve and build upon existing CAISO market structures that serve over 80% of the Western Interconnection, including the Western Energy Imbalance Market (WEIM) and the proposed Extended Day Ahead Market (EDAM) that has been submitted to FERC;
- A primary goal will be to minimize duplication and incurrence of costs for both the market operator and market participants; and
- The structure should be flexible to accommodate the future voluntary provisions of full regional transmission organization (RTO) services for those entities that desire to do so, but not mandate that any entity must join such a future potential RTO.