West-Wide Governance Pathways Initiative

Stakeholder Meeting

April 19, 2024
Agenda

- Welcome and agenda preview
- Overview of Pathways Initiative
- What we’ve done so far
- Regulator reactions
- Legal Analysis
- Overview of Step 1
- Overview of Step 2
- What’s different about this effort
- Legislative considerations
- Questions
- Ask of stakeholders
- Wrap up and final questions
Overview of Pathways Initiative
Vision: “[E]nsuring that the benefits of wholesale electricity markets are maximized for customers across the entire Western U.S.”

- Includes all states in the Western Interconnection, including California, with independent governance
- A separate non-profit entity governed independently by representation from across the West
- Could provide a full range of regional transmission operator services
- Uses a contract for services with the CAISO, including assumption of the EDAM and EIM
- Avoid duplication of the investments and expenses of the market infrastructure that has already been created
- Avoid a deterioration of the benefits
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.
What the Pathways Initiative Is and Is Not

The Pathways Initiative is:

- Focused on governance
- Proposing incremental steps
- Stakeholder driven
- Funded by a diverse set of stakeholders
- Committed to the vision of the regulators in the July 2023 letter

The Pathways Initiative is NOT:

- Working on market design
- Doing any lobbying
- Exclusive
Pathways Initiative Priorities

I. Funding Update and Activities
   A. DOE Funding
   B. Stakeholder Funding
   C. Future opportunities

II. Upcoming Activities and Efforts
   A. Cost Evaluation Effort
   B. Legal Analysis Effort

III. Stakeholder Process & States Committee Engagement
What We’ve Done So Far
Regulator letter to WIEB-CREPC leadership

Stakeholder comments on Phase One Straw Proposal

Launch Committee and Work Groups formed

Stakeholder feedback on initial options and evaluation criteria

JULY 2023
SEPT 2023
OCT 2023
DEC 2023
JAN 2024
APRIL 2024

Stakeholder comments on regulator letter

Initial options and evaluation criteria

Straw Proposal released

Phase One Straw Proposal released
## Working Groups

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<th>Priority Functions and Scope</th>
<th>Communications and Outreach</th>
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<td>Budget</td>
<td>Initial Options</td>
<td>Sector Updates</td>
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<td>Contract with Global Impact</td>
<td>Evaluation Criteria</td>
<td>Stakeholder Comments</td>
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<td>Legal Analysis</td>
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<td>Phase 1 Straw Proposal</td>
<td>Talking Points</td>
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<td>Timeline</td>
<td>Stakeholder Materials</td>
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Evaluation 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 RTO, including the balancing authority 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.

8. Respect for state authority to set procurement, environmental, reliability and other public interest policies.
Public Interest Criteria

The WEIM Charter would be updated to embed in its responsibilities and mandate the principle of respect for the public interest and for individual state policies, for all customers in the footprint. Regulators and public advocate representatives have proposed language for the Charter that the Launch Committee supports, which is provided in redline in Appendix E.
Focusing the work

- Narrowing of options to focus on the most viable options that align with the Evaluation Criteria
- Hired Perkins Coie to conduct legal analysis
- Meetings with FERC and CAISO staff
- Several full day in person and virtual Launch Committee meetings
  - December - Sacramento
  - February - virtual
  - March - Phoenix
Regulator Reactions
Pathways Initiative Proposal
Legal Analysis
Legal Question

What are the relative risks under *existing law* of the six governance options developed by the Launch Committee?

California Law
PU Code § 345.5
Corp Code § 5210

FERC Precedent
ISOs/RTOs
## EXHIBIT A
### Option Comparison Table

<table>
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<th>Status Quo</th>
<th>Option 0</th>
<th>Option 0.5</th>
<th>Option 1</th>
<th>Option 2</th>
<th>Option 2.5</th>
<th>Option 3</th>
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Step 1
Existing Market Governance

WEIM/EDAM Governing Body Shares “Joint Authority” with CAISO Over Existing Market Design
Pathways Initiative
Stepwise Process

- Increase WEIM/EDAM Governing Body authority over existing energy markets
- Create a new independent Regional Organization to govern energy markets
- Continue to expand the scope of regionalized functions and services offered by Regional Organization
Step 1
Straw Proposal

1 WEIM Charter amended to reflect a requirement to consider the public interest in decision-making
2 If filed as “time-critical” exigent circumstances, the WEIM GB may object with FERC after-the-fact to the CAISO action and redirect the issue to the §2.2.2 dispute resolution procedure
3 Dual filing required even if either body proposes no change to the tariff (i.e., no “pocket veto”)
4 CAISO can exercise exigent circumstances filings at any of three points: (1) sua sponte, as a BoG decision, (2) BoG consideration of a WEIM GB proposal for its consent agenda, or (3) as an outcome of the dispute resolution process
“[T]he Step 1 governance transition would be triggered when a set of geographically diverse non-CAISO WEIM Entities equal to or greater than 70% of the CAISO balancing authority area annual load for 2022 have executed EDAM implementation agreements.”
Step 2
Step 2 Proposal

Four key elements:
1) Creation of a Regional Organization (RO)
2) Passage of enabling legislation
3) Transition of decision-making over WEIM/EDAM to the RO’s Sole Authority within the same integrated tariff
4) Creation of pathways for services beyond WEIM/EDAM with the RO as the governing and possibly host entity
Element #1: Regional Organization creation

- Non-profit corporation
- Independent board
  - Nominating committee precedents
- Anticipated organizational size
- Open issues:
  - Funding structure
  - WEIM Governing Body transition
  - BOSR evolution
  - Stakeholder processes
Element #2: Enabling legislation passage

General outcomes:

● Narrowing the scope of CAISO corporate responsibility
● Allowing a transfer of some existing management responsibility
● Retaining the Balancing Authority function responsibility
Element #3: RO Sole Authority transition

Transition decision-making over WEIM/EDAM matters from the “Primary Authority” of the WEIM Governing Body in Step 1 to the RO’s “Sole Authority” within the same integrated tariff.

Key topics:
- Significance of Sole Authority
- Scope of Sole Authority: *further evaluation*
- Corporate protections
- Modification of CAISO bylaws and tariff
- Single integrated tariff
Element #3 continued

Primary Step 2 open issues:

- Option 2 versus Option 2.5:
  - Governance versus institutional independence
  - Contractual relationship between RO and CAISO
- Three related areas requiring further evaluation:
  - Financial liability
  - Organizational staffing
  - Effect on existing contracts
STEP 2/Option 2.0
New RO with “Sole” Authority Over Market Governance

CAISO (501(c)(3))
CA-appointed Board

Regional Organization (501(c))
Independent Board

Interface Agreement

CA Grid Ops/BA Function

* Corporate Protections

** Sole Authority

WEIM
EDAM
(Other/New Services)

BOSR-style entity

NV Energy (Corp.)

PGE (Corp.)

BANC

Sole Authority

Grid Ops/BA Function

Grid Ops/BA Function

BA Function

* Corporate protections will give assurances to CAISO that RO will not take actions that will impair CAISO's ability to meet its obligations.

** The RO's role is decision-making over market rules and the associated stakeholder process.
**STEP 2/Option 2.5**
New RO with “Sole” Authority Over Market Governance & Operations

- **CAISO (501(c)(3))**
  - CA-appointed Board
  - Sole Authority
  - **Corporate Protections**
  - CA Grid Ops/BA Function

- **Regional Organization (501(c))**
  - Independent Board
  - **Sole Authority**
  - **Contract for Services**
  - WEIM EDAM (Other/New Services)

  - NV Energy (Corp.)
  - PGE (Corp.)
  - BANC

  - Sole Authority
  - Grid Ops/BA Function
  - Grid Ops/BA Function
  - BA Function

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* Corporate protections will give assurances to CAISO that RO will not take actions that will impair CAISO’s ability to meet its obligations.

** The RO’s role is formally providing the EDAM/WEIM services to interested entities, in addition to deciding the market rules, supported by a services contract with the CAISO to operate the markets.
Element #4: Services beyond WEIM/EDAM

Creating various new pathways for West-wide services beyond WEIM/EDAM using the RO as a governing entity and potentially a host entity for those services.

Key points:
- “RTO-capable”
- At least 7 ways to transition to RO authority
- Services reviewed:
  - Additional market services: ancillary services, convergence bidding, congestion revenue rights
  - Reliability Coordination
  - Transmission control
  - Balancing Authority services
  - Resource adequacy provisions
What is Different About this Effort?
Legislative Considerations and Process

- CA Legislature informational sessions - current and future
- 2025 CA Legislative process
Questions?
Next Steps

- Public comment period closes: May 8
  - Incorporate feedback and refine proposals
- Step 1 implementation: June - Sept.
- Step 2 final recommendation: August/Sept.
- CA legislative engagement (ongoing): 2025 legislative session
Request of Stakeholders

The Launch Committee would greatly value input on the following:

- Step 1: Any concerns for Step 1 as proposed?
- Step 2 (Governance Independence): Does this level of independence pose any challenges for your organization or the region?
- Step 2 (Institutional Independence): Same question
- Unexplored or new options: Structural ideas with as much detail as possible.
- Other considerations?
Public Comments

Please email comments to: comments@westwidepathwaysinitiative.org

Comments are due May 8, 2024
Thank You.