

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

### **Comments by the Cities of Anaheim, Azusa, Banning, Colton, Pasadena, and Riverside, California on the Initial Evaluation Framework for Pathways Options**

**Jan. 18, 2024**

The Cities of Anaheim, Azusa, Banning, Colton, Pasadena, and Riverside, California (the “Six Cities”) hereby provide their comments on the “Initial Evaluation Framework for Pathways Options” document issued on December 15, 2023 (“Framework”). The Six Cities own and operate municipal utilities located within the balancing authority area of the California Independent System Operator Corporation (the “CAISO”), and all Six Cities participate in the CAISO’s markets as both purchasers and sellers. Each of the Six Cities is a Participating Transmission Owner (“TO”) in the CAISO with respect to certain transmission facilities and entitlements, and several of the Cities own and operate generation resources. As market participants, load-serving entities, Participating TOs, and owners and operators of resources within the CAISO, the Six Cities have a substantial interest in the CAISO’s governance structure. The CAISO serves multiple roles for the Six Cities, including market operator, balancing authority, transmission service provider, transmission operator, and reliability coordinator, and it is critical that the CAISO can carry out the responsibilities that come with each of these roles in way that will enable the Cities and utilities throughout the West to serve their customers safely, reliably, and economically. The structure and operation of regional markets are critical to these objectives.

The Framework outlines a number of potential approaches to establishing an independently governed market operator, ranging from incremental modifications to the status quo to options that involve the formation of new legal entities and steps to organizationally separate the CAISO’s market operator function (including separation of its staff) from its other functions.

At this time, the Six Cities urge regulators, the Launch Committee, and stakeholders to consider incremental movement toward a greater degree of independent governance covering market operations by focusing in the near term on approaches that would convey primary authority over the Extended Day Ahead Market and the Western Energy Imbalance Market (“WEIM”) to the WEIM Governing Body, as is described in Option 0. Of the proposed options in the Framework, Option 0 would not require immediate actions to form a new legal entity, and it would enable additional time for evaluation of more extensive potential modifications to governance, including associated structural and organizational changes to the CAISO, the conditions under which such modifications would be triggered, and any legislative actions that might be necessary or appropriate. Moreover, it would leverage the considerable experience and expertise of the WEIM Governing Body regarding both WEIM and Extended Day Ahead Market (“EDAM”) policy, tariff rules, and stakeholder perspectives and interests. The Six Cities do not support approaches that would involve a near-term or abrupt pivot to governance models that would entail carving the CAISO into multiple new corporate entities or organizations. Thus, the Six Cities stress an incremental approach that is concurrent with the implementation of the EDAM market as a necessity under any Framework approach.

Preliminarily, the Six Cities recommend that the current scope of joint authority be considered to differentiate between areas of primary authority for the WEIM Governing Body under an Option 0 approach and areas where the CAISO Board of Governors retains authority.

As specified in the Phase 3 Final Proposal for Western WEIM Governance Review (EDAM), the scope of WEIM Governing Body primary authority should include “tariff rule[s] applicable to the WEIM/EDAM Entity balancing authority areas, WEIM/EDAM Entities, or other market participants within the WEIM/EDAM Entity balancing authority areas, in their capacity as participants in the WEIM/EDAM.” See Western EIM Governance Review – Phase Three (EDAM) Governance Review Committee Final Proposal at 18 (emphasis added). It also includes authority “to approve or reject a proposal to change or establish any tariff rule for the day-ahead or real-time markets that directly establishes or changes the formation of any locational marginal price(s) for a product that is common to the overall WEIM or EDAM market.” *Id.* The CAISO Board of Governors should continue to have primary authority over “any other proposals to change or establish tariff rule(s) applicable only to the CAISO balancing authority area or to the CAISO-controlled grid,” (*id.*) including transmission planning and the rates, terms, and conditions of transmission service, resource adequacy policy and requirements, and other provisions that are applicable within the CAISO balancing authority area or the CAISO controlled grid.

In terms of the legal review discussed in the Framework, the questions to be considered appear to be generally complete as a starting point for analysis. At an appropriate stage within this process, the Six Cities request that the CAISO address and consider the opinion(s) provided by the selected legal counsel in view of its continuing roles as balancing authority, reliability coordinator, transmission service provider, and transmission operator for the CAISO footprint to ensure that the authority and autonomy of the CAISO Board of Governors is sufficiently preserved and is not impaired as a result of any governance changes that are adopted, consistent with the preservation of authority for other balancing authorities participating in the WEIM or EDAM with respect to their similar roles.

In terms of the operational questions discussed in the Framework, it does not appear that there is any discussion of potential compensation to long-standing CAISO participants associated with the more dramatic changes in governance, such as the formation of new entities or the “spin off” of CAISO functions. Entities such as the Six Cities have funded the formation and operation of the CAISO for nearly three decades. Removing market operations from the CAISO’s current organization and tariff and placing them under the authority of a new legal entity raises questions about how the CAISO’s market operations services and associated assets are currently valued and whether any entity should be required to compensate existing CAISO participants for their acquisition. At a minimum, it appears that existing CAISO participants should be held harmless from any incremental increase in costs associated with spinning off and/or forming a new legal entity to perform the same functions that the CAISO is currently performing for entities within its footprint.

Respectfully submitted,

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