

| DOCKETED | |
|-------------------------|--|
| Docket Number: | 24-IEPR-01 |
| Project Title: | General Scope |
| TN #: | 261261 |
| Document Title: | Presentation - The West-wide Governance Pathways Initiative |
| Description: | 2. Carl Linvill, Regulatory-Assistance-Project_24-1-25_IEPR-Presentation |
| Filer: | Raquel Kravitz |
| Organization: | The Regulatory Assistance Project |
| Submitter Role: | Public |
| Submission Date: | 1/23/2025 4:01:54 PM |
| Docketed Date: | 1/23/2025 |



January 24, 2025

The West-wide Governance Pathways Initiative

California Energy Commission IEPR Workshop on the Pathways Initiative

Carl Linvill, PhD
clinvill@raponline.org
RAP

My Context and Perspective

- I have been supporting market development in the Western Interconnection for consumer benefits and the public interest for more than 25 years as Energy Advisor to Nevada Governor Guinn, Nevada Utility Commissioner and as an advisor to many public officials and their staff in the years since
- Western EIM was the first market development effort in the west to build consent, grow membership and produce tangible benefits
- I served on the Western EIM Governing Body from its founding in 2016 until 2021 and I learned about the quantified and non-quantified benefits first-hand as market participants joined
- I have supported western public officials in understanding and evaluating the Pathways Initiative since its inception



Early Days: Regulators Call for a Market with Maximum Consumer Benefits

The Regulators Letter – July 14, 2023

- Consumers will benefit most from the broadest possible market footprint that includes California
- Independent regional governance is required to build the broadest footprint
- Each participating State's policies must be respected by the governance that results

The Pathways Initiative is Launched

- Interested stakeholders volunteer to organize and build the Pathways Initiative
 - Broad sectoral representation
 - Broad geographic representation
- A Launch Committee is formed
 - Voting members
 - Non-voting members
- Broader Stakeholder engagement process established
 - Monthly cadence to start
 - Workgroups established as discrete tasks emerge



Creation of a Stakeholder Driven Launch Committee

Launch Committee Mission

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 Extended Day Ahead Market (EDAM);
- 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.

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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.**

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Pathways Initiative

Stepwise Process



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The Step 1 Proposal

Step 1 elevates the WEM Governing Body's Joint Authority with the ISO Board to Primary Authority

Initial Decisions

WEM Governing Body makes the initial decision on proposals resulting from the stakeholder process if they fall within its decision-making scope (meets the existing “apply to test”)

Dual Filings

Unresolved disputes over tariff changes between WEM Governing Body and the ISO Board require the ISO to use Section 205 filing rights to present both proposals, without preference, to FERC for decision

Public Interest

Additional provisions in the Charter for WEIM and EDAM Governance focused on consumer interests and preservation of state and local authority

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Trigger for Implementation

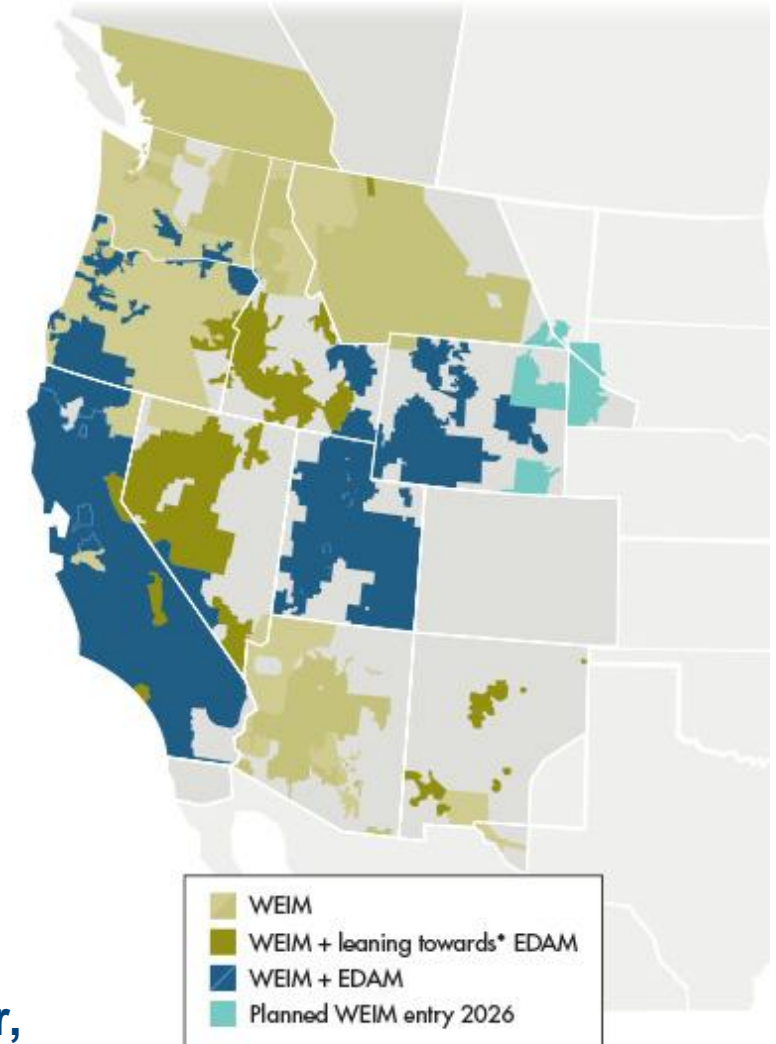
Step 1 would only take effect when the following criteria are met:

1. Execution of EDAM implementation agreements by utilities representing load equal to or greater than 70% of ISO's load, and
2. At least one new participant from both the NW and from the SW, beyond PacifiCorp, BANC, and LADWP

Purpose of the trigger:

To ensure that Step 1 expands the geographic footprint of EDAM to accelerate the benefits of greater regional coordination.

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**These entities have publicly indicated a leaning towards EDAM as their preferred day-ahead market.*

Current Step 1 Implementation Status

- On November 22, 2024, CAISO submitted a tariff amendment to FERC that would implement the governance change once the trigger is met.
- PacifiCorp, Portland General Electric, and the Balancing Authority of Northern California have signed implementation agreements, which represent approximately 45.4% of CAISO's load.
- The Los Angeles Board of Water and Power Commissioners has approved the Los Angeles Department of Water and Power's participation in EDAM and is likely to sign an implementation agreement in the near future.
- Other utilities that have expressed a leaning or intent to join EDAM include: Idaho Power, NV Energy, BHE Montana, and Public Service of New Mexico

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An aerial photograph of a solar farm. The solar panels are arranged in a grid pattern. The panels are primarily blue, but there are sections of orange panels. The perspective is from directly above, looking down at the rows of panels. A dark blue semi-transparent banner is overlaid on the left side of the image, containing the text 'The Step 2 Proposal'.

The Step 2 Proposal

Pathways Expands Regional Coordination in Energy Markets But Leaves Other CAISO Functions Untouched



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Independence of the Regional Organization

Regional Organization

Independent Board

Tariff:

- Sole 205 Filing Rights
- Sole authority over provisions related to WEIM and EDAM

Staffing:

- RO dedicated staff
- Advisory input into VP selections that oversee market policies

Organizational:

- Independent RO Board
- Ultimate authority over market-related BPMs
 - Separate & independent legal entity
- Regular evaluations of CAISO contract performance
- Independent Market Monitor joint reporting structure
- Ability to add voluntary market services for Western entities who request them

Stakeholder Process & Public Interest:

- RO led, market operator supported stakeholder process
 - Body of State Regulators
 - Independent Consumer Advocate Organization
 - RO Office of Public Participation
- RO Market Expert expanded scope to include public interest

RO Formation

- 501(c)(3) nonprofit corporation
 - Tax exempt status to lower costs and the ability to utilize tax-exempt financing for long term debt.
 - Operates for the public benefit and is prohibited from lobbying and engaging in political activities.
- Incorporated in Delaware
 - Well-developed body of corporate law, knowledgeable judges, and permissive rather than prescriptive corporate formation and operation.
- Principal Place of Business - TBD by RO Board
 - Strong consideration to Folsom, CA to capitalize on the benefits of locating near the Market Operator.
 - Board meetings would rotate among the market-participating states

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RO Governance

- Independent seven-member Board that exercises sole authority over the WEIM and the EDAM
- No reserved seats, no restriction on the number of current WEM Governing Body members serving on RO Board - interested members will move directly to Nomination Process
- RO Board Public Policy Committee
- Open process for meetings/decision making
- RO Board and CAISO Board have collaborative relationship; joint meetings for joint authority matters, each Board meets separately for sole authority issues

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Defining the Public Interest

Two intertwined components:

- 1) How customer interests, including affordability and reliability, are safeguarded in non-discriminatory market design and operations; and
- 2) How state and local policies, even as they differ across the West, are respected in market design.

These served as the focus and definition of “public interest” for the Launch Committee and were used to ensure that the Step 2 proposal incorporates public interest protections holistically across the new RO’s structure and processes.

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Tools to Enhance Public Interest Protections

RO Structure and Board:

- Corporate obligation to respect state authority to set procurement, environmental, reliability, and other public interest policies
- Public Policy Committee – engage with states, local power authorities, federal power marketing administrations about potential impacts to state, local, or federal policies before final board adoption of a tariff change

RO BOSR:

- Transition WEM BOSR to RO BOSR
- Shift funding to tariff

Consumer Advocate Organization:

- Enable creation of independent organization to facilitate engagement by state consumer advocate offices funded through the tariff

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Tools to Enhance Public Interest Protections

Office of Public Participation:

- Create a department in the RO to facilitate information and education to members of the public about issues and initiatives at the RO, including facilitating engagement in those processes

Independent Market Monitoring Functions:

- Transition WEM market monitoring functions to RO and create joint oversight structures with CAISO Board where appropriate
- Support data sharing with appropriate confidentiality protections from Market Monitor to state commissions and consumer advocates

Stakeholder Process:

- Enhanced stakeholder engagement opportunities

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Elements of the Stakeholder Process

- Stakeholder Representatives Committee (SRC)
- SRC Sectors and Voting
- Classification of Stakeholder Initiatives
- Stakeholder Process:
 1. Issue Identification and Prioritization
 2. Stakeholder Phase:
 - Stage 1 – Issue Evaluation
 - Stage 2 – Policy Development
 3. Approval by the RO Board
- Voting

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Next Steps: The Formation Committee

Formation Committee

- This sets the stage for further develop and **implementation** of Step 2, in coordination with the CAISO, WEM Governing Body, and stakeholders
- The Launch Committee will delegate implementation to the Formation Committee and oversee the activities required to advance this process
- The Formation Committee will focus its work in three stages:
 - Preparation activities prior to California legislation enactment,
 - Implementation activities after California legislation enactment/before seating RO Board, and
 - Implementation activities after California legislation enactment and after seating RO Board
- A sub-committee of the Launch Committee consisting of up to 10 members, representing a diversity of sectors, and
 - Assisted by a less than quorum of the WEM Governing Body and CAISO Board of Governors serving as liaisons
 - BOSR or state regulator representative

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About RAP

Regulatory Assistance Project (RAP)[®] is an independent, global NGO advancing policy innovation and thought leadership within the energy community.

Learn more about our work at raponline.org

Carl Linvill

clinvill@raponline.org