

West-Wide Governance Pathways Initiative

Step 2 Draft Proposal Briefing



West-Wide Governance Pathways Initiative

Agenda

- Background
- Review the elements of the Pathways Step 2 Draft Proposal:
 - Regional Organization Scope and Function
 - Regional Organization Formation
 - Regional Organization Governance
 - Public Interest
 - Stakeholder Process
- Timeline for Step 2



Background



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.



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.**



Pathways Initiative

Stepwise Process

Step 1

Elevate WEIM/EDAM Governing Body authority in the governance of existing CAISO energy markets

Step 2

Transfer governance authority over existing energy markets from CAISO to a new Regional Organization

Step 3

Continue expanding the scope of regionalized functions and services offered by the Regional Organization



Step 2 Draft Proposal



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



Elements of the Step 2 Draft Proposal

- . Summary of Recommendations
- . Regional Organization Scope and Function
- . Regional Organization Formation
- . Regional Organization Governance
- . Public Interest
- . Stakeholder Process



Summary of Recommendations

- RO Launch: Option 2.0
 - Policy-setting organization for the establishment and oversight of market rules for the WEIM and EDAM
- Over time, consider transition to Option 2.5
 - Feasibility study by the RO Board and stakeholders to assess costs, benefits, possible expanded market functions, and implementation details
 - Determine future structure needs to enable continued evolution
- Long-term Vision: The RO will be able to offer, on a **voluntary** basis, any additional services desired by Western stakeholders.
 - While California will likely not have the authority at the outset to participate in this broader menu of services, opportunities exist to gain many of the benefits of CAISO participation in the RO services through co-optimization of the RO's new services under a vendor contract with the CAISO.



RO Scope and Function

Under Option 2.0

- RO full governance authority over WEIM/EDAM market rules, with sole Section 205 rights
- Single integrated tariff, with process to organize CAISO tariff into sole RO, sole CAISO, or shared authority
- Market operations continue to be performed and overseen by the CAISO
- CAISO will remain the counterparty to existing market contracts
- CAISO staff will retain emergency operational authority
- Initial estimated annual cost of \$1.25 to \$1.5 million, increasing to \$10 to \$14 million as organization develops.



RO Scope and Function

Under Option 2.5

- RO full governance authority over WEIM/EDAM market rules with ultimate responsibility for operation of the market; sole Section 205 rights
- Possible separation of the RO tariff from CAISO tariff
- CAISO's financial responsibility, liability, and compliance shifts to the RO
- CAISO continues market operation under a vendor contract with the RO
- RO will likely become a public utility
- RO will likely become counterparty to existing CAISO market contracts
- Estimated annual cost of \$25 million- RO will have more extensive staffing



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 co-locating with the Market Operator.
 - Board meetings would rotate among the market-participating states



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
- RO Formation Committee and Nominating Committee
- Initiation of pre-launch implementation efforts concurrent with CA legislative session; Formation efforts after CA legislation is approved
- Startup funding for the RO likely to be required before market supported funding is available- consider appropriate funding sources



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.



Tools to Enhance Public Interest Protections

- RO Structure and Board
- RO BOSR
- Consumer Advocate Organization
- Office of Public Participation
- Independent Market Monitor
- Stakeholder Process



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



1- ISSUE IDENTIFICATION AND PRIORITIZATION

2- STAKEHOLDER INITIATIVE PHASE

3- RO APPROVAL

Annual Catalog Proposals:

Compliance/Non-Discretionary Initiatives (RO Identifies)

Catalog problem statement moves to Stage Two*

* For minor corrections or adjustments, RO staff may forgo a full stakeholder process,.

Compliance with State and Local Public Policy Initiatives (Any Stakeholder Raises)

Could move to Stage One or Two

Discretionary Initiatives (Any Stakeholder Raises)

Stage One: Issue Evaluation

- SRC identifies sponsors to work with all stakeholders
- Working groups form around catalog issues
- Initial initiative idea becomes discrete problem statement

Refined problem statement moves to Stage Two

Stage Two: Policy Development

- Small ad hoc working groups develop under SRC oversight
- SRC may develop standing committees
- Work group helps RO staff weigh stakeholder input
- Problem statement becomes final proposal, after at least one stakeholder meeting and comment period
- RO staff develops the final proposal and SRC votes before it moves to the RO Board.

Final Proposal Moves to RO Board



Timeline for Step 2

- **Sept 26:** Issue Step 2 Draft Proposal (open comment period 4 weeks)
- **Oct 4:** Monthly Stakeholder Meeting (review Step 2 Draft Proposal)
- **Oct. 7:** Sector Workshop
- **Oct. 14** New Sector Proposal Released
- **Oct. 25:** Step 2 and Sector Comments Due
- **Oct 28-Nov 14:** Incorporate stakeholder feedback and make revisions to Step 2 Final Proposal
- **Nov 15:** Issue Step 2 Final Proposal
- **Nov 22:** Monthly Stakeholder Meeting (review Step 2 Final Proposal and vote)



Thank You



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