California ISO

California Independent System Operator Corporation

June 11, 2026

The Honorable Debbie-Anne A. Reese
Acting Secretary
Federal Energy Regulatory Commission
888 First Street, NE
Washington, D.C. 20246

Re: California Independent System Operator Corporation
Docket No. ER26-____-000

Tariff Amendment to Support Startup Funding for the Regional Organization for Western Energy

Dear Secretary Reese:

The California Independent System Operator Corporation (CAISO) submits this tariff amendment to implement two new settlement charges as part of a plan to enable startup debt financing for the Regional Organization for Western Energy, also known as the "ROWE."[1] Acceptance of these settlement charges will allow the CAISO to act as the guarantor on a commercial loan that the ROWE will obtain later this year to help fund the ROWE's start-up expenses.

The ROWE is the centerpiece of the Step Two Proposal of the West-Wide Governance Pathways Initiative, which involves transferring certain governance responsibilities over the CAISO's regional energy markets to a new independent entity. The goal of this change is to promote the broadest possible participation in the markets, which will benefit all market participants and consumers by reducing electricity costs and enhancing reliability. Achieving this goal will require start-up financing, as explained below.

The CAISO requests that the Commission issue an order accepting these revisions by August 10, 2026, and make the tariff revisions effective upon five days' prior notice to the Commission. The CAISO expects the amendment will become effective January 1, 2028. A contingent effective date is necessary, however, because the ROWE will not be able to finalize loan arrangements until

[1] The CAISO submits this filing pursuant to Section 205 of the Federal Power Act (FPA), 16 U.S.C. § 824d, and Part 35 of the Commission's regulations, 18 C.F.R. Part 35. Capitalized terms not otherwise defined herein have the meanings set forth in appendix A to the CAISO tariff, and references herein to specific tariff sections are references to sections of the CAISO tariff unless otherwise specified.

after this amendment is accepted, and until then there is no certainty that a loan will be made or the terms. It is important the Commission issue an order by August 10, 2026, to provide the certainty about cost recovery needed for the CAISO to act as a guarantor, and thus for the ROWE to finalize a loan to fund its start-up expenses.

I. Background

A. Background re: CAISO Governance and the Pathways Process

Since 2001, the CAISO's Board of Governors has consisted of five members who are appointed by the Governor of California and subject to confirmation by the state Senate.[2] The tariff places the Board in the role of gatekeeper for proposed market rule changes. Tariff Section 15 specifies that, before a proposed tariff amendment may be filed with the Commission, the Board must approve it in accordance with the corporate bylaws.[3]

In 2014, the CAISO implemented the Western Energy Imbalance Market ("WEIM"), which enables utilities that are not part of the CAISO's balancing authority area to participate in the CAISO's real-time market. Most WEIM participants are located outside California. To provide these participants a stronger voice in the decisions about market rules, the Board appointed a committee of stakeholders and regulators from across the West to develop governance enhancements. At the recommendation of this group, the CAISO in 2015 established what is now known as the Western Energy Markets Governing Body or WEM Governing Body.[4] This five-member body, selected by stakeholders from across the market footprint, is comprised of individuals who are independent from market participants.[5] Its core mission is to share part of the Board's authority over proposed tariff amendments. The WEM Governing Body's rules of operation and the process for selecting members are established in corporate governance documents, including the corporate bylaws, the Charter for WEIM and EDAM Governance and the Selection Process for the WEM Governing Body.[6]

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[2] Cal. Pub. Util. Code § 337.

[3] CAISO tariff § 15.

[4] *See generally* the September 11, 2015 decisional memo for the CAISO Board, available at https://www.caiso.com/documents/decision_eim_governanceproposal-memo-sep2015.pdf.

[5] Members of the WEM Governing Body must comply with the Commission regulation that prohibits non-stakeholder directors from having a financial interest in any market participant, 18 C.F.R. 35.34(j)(1)(i), and the CAISO's Code of Conduct and Ethical Principles, which includes the same rule.

[6] The relevant governing documents as originally adopted are available at https://www.caiso.com/library/board-of-governors-meeting-dec-17-18-2015-board-6. The currently effective versions are available at https://www.westerneim.com/Pages/Governance/default.aspx.

The details of these governance arrangements have evolved over time for several reasons, including the CAISO's introduction of the Extended Day-Ahead Market or "EDAM," which allows balancing authority areas that participate in the real-time market through WEIM to also participate in the day-ahead market. The driving force behind the most recent governance changes has been the West-Wide Governance Pathways Initiative, which convened in 2023 in response to a letter from state regulators in California and several other Western states. The regulators' letter set forth a vision of an independent regional governance structure for a regional market that includes the WEIM and EDAM. The letter recognized that WEIM had already delivered consumers "a value of nearly $4 billion"[7] in cost savings and observed that establishing a regional organization to oversee a more regional market including both WEIM and EDAM could unlock additional cost savings and other benefits for consumers by promoting the broadest possible participation in the market. The regulators expressed commitment "to the vision of maximizing the benefits of organized wholesale electricity for customers in the West" in a way that "maintain[s] and build[s] upon the proven benefits of EIM, and the promised benefits of EDAM," and invited stakeholders and state regulators throughout the West to collaborate in developing this concept.[8]

In response, stakeholders in California and throughout the West came together to form the West-Wide Governance Pathways Initiative Launch Committee ("Launch Committee"), which has spent the last three years working together and with state regulators to achieve the regulators' vision. The Launch Committee has done this work through an iterative public stakeholder process, using working groups to develop and present written proposals for public stakeholder comment, which are then refined and made final based on the input received.[9]

The CAISO is not a member of the Launch Committee and has not been coordinating or administering this effort. We have, however, served as a technical resource for the Launch Committee and its working groups throughout their efforts.

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[7] Since the date of that letter, the benefits of WEIM have continued to accumulate. As of the end of the first quarter of 2026, they exceed $8.6 billion.

[8] The July 14, 2023 regulators' letter is available at https://www.westernenergyboard.org/wp-content/uploads/Letter-to-CREPC-WIEB-Regulators-Call-for-West-Wide-Market-Solution-7-14-23-1.pdf.

[9] The Western Interstate Energy Board ("WEIB") has hosted a page on its website for the Pathways Initiative, which is available at https://www.westernenergyboard.org/wwgpi/. This page includes the Launch Committee's foundational materials, the materials developed for each of its public meetings, and the output of their work including the final proposals adopted by the Launch Committee and, where applicable, any implementing materials.

The Launch Committee developed two major proposals through these efforts: (1) the Pathways Step One Final Proposal published in May 2024, and (2) the Pathways Step Two Final Proposal published in November 2024.[10]

The CAISO has already successfully implemented the Step One Proposal. This proposal recommended enhancements to the role of the Western Energy Market Governing Body in approving proposals for changes to market rules, and also language in its Charter relating to consideration of the public interest. The Launch Committee recommended the CAISO adopt those enhancements once it received a defined level of commitment from Western utilities to join the EDAM market. The CAISO Board and WEM Governing Body jointly approved the Step One Proposal in August 2024, and the Commission accepted the associated tariff changes in April 2025.[11] Those enhancements went into effect in July 2025 after the required level of EDAM commitments was achieved.

B. Pathways Step Two Proposal and Assembly Bill 825

The Pathways Step Two Final Proposal represents a more ambitious set of changes to the governance of the markets operated by the CAISO. Consistent with the vision set forth in the regulators' 2023 letter, the proposal recommends replacing the WEM Governing Body, which sits within the CAISO corporate structure, with an independent regional organization that is a separate corporate entity from the CAISO. The regional organization, which has since been formally incorporated as the Regional Organization for Western Energy, or the ROWE, would assume a governance and oversight role with respect to the regional market offerings, including WEIM and EDAM, which the CAISO would continue to provide as the market operator. As one of its central responsibilities, the ROWE would serve as the body responsible for the regional market rules, with the board of the ROWE holding responsibility to review and approve any proposals to amend the WEIM and EDAM market rules in the FERC tariff.

The Step Two Final Proposal contemplates that the ROWE will be a non-profit corporation, with a seven-member board selected through a broad-based nomination and selection process that includes stakeholders throughout the West, including California. ROWE board members would be required to meet the same independence requirements that apply to the CAISO Board of Governors and to the WEM Governing Body, meaning the ROWE board would be comprised of individuals who do not hold any financial interest in any entity that is a market participant in the WEIM or EDAM. The Proposal also contemplates that the ROWE would have its

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[10] The Step One Final Proposal is available at https://www.westernenergyboard.org/wp-content/uploads/Pathways-Step-1-Final-Proposal.pdf. The Step Two Final Proposal is available at https://www.westernenergyboard.org/wp-content/uploads/Pathways-Initiative-Step-2-Final-Proposal.pdf.

[11] *See California Independent System Operator Corp.,* 191 FERC ¶61,009 (April 2, 2025).

own professional and administrative staff that is limited in size, but with sufficient capability to perform its governance responsibilities.

Establishing a new organization that would have governance authority over the regional market rules for WEIM and EDAM required legislation in California to permit the state's electrical corporations and the CAISO to participate in such an arrangement. In September 2025, the California legislature passed and the California Governor signed Assembly Bill (AB) No. 825, which endorsed this concept and established a set of procedural and substantive requirements that, if met, will allow the transition to occur. The requirements in the legislation include, among others, many of the key structural concepts established in the Pathways Step Two Final Proposal, including a requirement that the CAISO continue to operate the energy markets subject to market rules determined by the independent regional organization as accepted by the Commission. Other requirements that directly track the Pathways Step Two Final Proposal include: a commitment to open and transparent decision-making, public participation, maintaining utility withdrawal rights, and respect for each state's authority to set its own procurement, resource adequacy, environmental, reliability, and other public interest policies and exercise oversight over its regulated entities. The legislation also established a process for reaching this outcome that includes Commission approval of applicable tariff changes, a resolution from the CAISO Board certifying that the statutory requirements have been met, and a decision from the California Public Utilities Commission (CPUC) authorizing California electrical corporations to participate based on the CPUC's determination that the statutory requirements are met and that the CAISO Board has fulfilled its obligations to certify those requirements.

Recognizing that these steps will take time to accomplish, the legislation provides that implementation of the regional market governance structure may be implemented no earlier than January 1, 2028.

C. The ROWE, Its Need for Debt Financing and the Proposed Loan

Since the passage of AB 825, the Pathways Launch Committee, with support and encouragement from California and regional regulators,[12] has been making substantial progress on implementing aspects of the Step Two Proposal. The Launch Committee has developed and approved corporate bylaws and other foundational corporate policies, incorporated the ROWE in Delaware, appointed an initial board, and finalized the stakeholder nomination and selection process for seating its independent board. The ROWE and its stakeholders are now in the

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[12] *See* September 26, 2025 letter from state regulators to Pathways Launch Committee, available at https://www.westernenergyboard.org/wp-content/uploads/WWGPI-Regulator-Follow-Up-Letter-092620255.pdf.

process of selecting long-term board members. The CAISO has collaborated with the Pathways team on these efforts, providing technical advice and input as required.

The continuing implementation efforts require funding. From the inception of the Pathways Initiative to date, the participants have relied primarily on voluntary donations from Pathways participants and supporters to fund their expenses. They have also sought, and expect to receive, some grant funding from non-profit foundations that are not directly involved in the Pathways effort. Through these efforts, the Pathways Initiative is forecasting it will raise slightly more than $1 million, which has been and will be used to pay for its start-up activities. These amounts are in addition to thousands of hours of time that Pathways Launch Committee members collectively have spent, and will continue to spend, working on these efforts on a volunteer basis without any compensation. The funds that have been collected or pledged to date are expected to be sufficient to cover the start-up costs that will be incurred into the third quarter of 2026.

This leaves a gap from mid-2026 until early 2028, when the ROWE is expected to assume its governance role. On February 3, 2026, representatives of the Launch Committee wrote the CAISO to explain that they had been exploring possible funding mechanisms to bridge this gap. The letter formally requests that the CAISO facilitate a stakeholder process to develop a proposal to fund "the ROWE's debt financed startup costs" in a way "that would be repaid by market participants."[13]

The CAISO proposed the following process to help fund the ROWE's start-up expenses. In the second half of 2026, around the time the ROWE seats its initial independent board, the ROWE will enter into a loan or commercial line of credit with a commercial bank to secure the debt financing part of its start-up funding needs, up to a maximum principal amount of $8.5 million. The ROWE will be responsible for making payments on the loan, with the CAISO serving as guarantor. A guarantee will be necessary to obtain the loan because the ROWE at that point would not be creditworthy. The ROWE will draw upon the loan on an incremental basis throughout the start-up period to cover its costs. The loan or line of credit would be structured so that the ROWE's repayment obligations would not commence until 2028, after the ROWE is expected to assume its governance responsibilities, with full repayment due during 2028.

The proposed principal amount of the loan – *i.e.*, up to $8.5 million – reflects the additional funds needed for the ROWE's expected start-up costs to early 2028. At that point, if the ROWE has assumed its governance responsibilities, a

[13] The letter is available at https://www.westernenergyboard.org/wp-content/uploads/Debt-Financing-Proposal-Request.pdf.

separate long-term cost recovery rate would become effective.[14] The budgeted amounts that make up the $8.5 million reflect only necessary costs. As noted above, significant work to support the formation and development of ROWE has been performed by stakeholders on a volunteer basis. The expected start-up costs identified below require cash outlays and there is no assurance that these amounts could be obtained from stakeholders on a volunteer basis:

- Legal advice and other consulting that must be independent of stakeholders;
- A placement firm to fill key positions;
- Compensation for board members and necessary staff (expecting two positions in late 2026 and five positions through most of 2027);
- Office expenses, including IT, and necessary travel; and
- Insurance.

While donations to the ROWE have paid some costs like outside legal and consulting services, the budgeted amounts exceed what the ROWE expects to receive in donations. In other words, this amount of additional funding is necessary and appropriate.

Stakeholders support this proposal. The CAISO Board of Governors in its April 2026 meeting authorized the CAISO provide a loan guarantee for the ROWE not to exceed a principal amount of $8.5 million. This authorization is contingent upon the Commission's acceptance of a tariff-based mechanism to recover the costs to repay the loan.[15]

D. This Tariff Amendment Would Establish New Charges to Recover the Costs of the Loan

As proposed by the Formation Committee, the costs of the loan would be recovered from market participants. Starting shortly before the loan repayments commence, the CAISO would begin charging a rate from market participants. Although the rate would be separate from what the CAISO charges to recover its own costs, it would be allocated in fundamentally the same way the CAISO recovers its own market-related costs through its Grid Management Charge (GMC).

These two new charges will supplement, not replace, the current market services charge and system operations real-time dispatch charge because they will pass through new, separate costs the ROWE. Creating new, separate charges for these

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[14] The ROWE's long-term cost recovery charge will be developed through a separate stakeholder process led by ROWE that has yet to begin.

[15] The contemplated commercial loan would not involve the issuance of securities that would be subject to Section 204 of the Federal Power Act.

costs is preferable to simply adding the ROWE costs onto the CAISO's existing market services charge and the real-time dispatch charge. Creating new charges provides market participants and stakeholders with greater transparency and helps separate distinct ROWE costs and benefits from CAISO costs and benefits. The CAISO would use the currently effective cost-of-service ratios for the GMC charges to calculate how the total ROWE costs are allocated between the two new charges. This will result in 68% of ROWE start-up costs being charged to the ROWE market services charge and 32% to the ROWE system operations real-time dispatch charge.[16]

Based on the 2026 forecasted volumes in these billing determinants, the combined new ROWE charges for loan repayment would be less than 2 cents per MWh. Presumably, 2028 market volumes will be significantly greater due to a full year operation of the EDAM, which would drive these per MWh charges even lower.

Collecting this rate would enable the CAISO to remit funds to the ROWE to enable it to make its payments to the bank.

E. Stakeholder Process for This Tariff Amendment

The CAISO conducted a stakeholder process that included a February 12 stakeholder meeting on the Issue Paper and Draft Final proposal and a March 19 stakeholder meeting on the Draft Final Proposal. Both meetings were followed by a written comment period.[17]

Stakeholder comments reflect widespread support for the proposal to provide credit backing for a commercial loan or line of credit to the ROWE in a principal amount not to exceed $8.5 million. During the course of the stakeholder proceeding, management responded to requests for additional details about the expected financing arrangement.

Most stakeholders generally supported or did not comment on the CAISO's cost recovery proposal. The California utilities—Pacific Gas & Electric Company, San Diego Gas & Electric Company, Southern California Edison Company, and the Cities of Anaheim, Azusa, Banning, Colton, Pasadena, and Riverside, California —

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[16] Today, the CAISO allocates its GMC-related costs among four buckets: 49% as market services, 23% as system operations real-time dispatch, 26% as system operations balancing authority area services, and 2% as congestion revenue rights (CRR) services. Accounting for the removal of the two inapplicable cost categories from GMC, and keeping whole numbers, the CAISO would allocate 68% of ROWE start-up costs to the ROWE market services charge and 32% to the Regional Organization (RO) system operations real-time dispatch charge.

[17] The Draft Final Proposal is contained in attachment C to this filing. Materials related to this stakeholder initiative are available on the CAISO website: https://stakeholdercenter.caiso.com/StakeholderInitiatives/financial-planning-initiatives-and-regional-organization-start-up-funding.

however, advocated in response to the Issue Paper and Straw Proposal that the CAISO should change its proposal in order to assess the charges based solely on participation in the real-time market, to the exclusion of the day-ahead market. The CPUC Energy Division likewise expressed concern that the proposed allocation could disproportionately affect California ratepayers because the CAISO Balancing Authority Area (BAA) may bear a larger share of costs under the combined Day-Ahead and Real-Time allocation approach. The California utilities noted that day-ahead volumes are substantially larger than the incremental market volumes used for real-time balancing transactions, and as a result, participants in the day-ahead market will be assessed a greater proportion of the costs for the ROWE than market participants that only use the WEIM.

CAISO management acknowledged that other reasonable and possibly superior cost allocation methodologies might be developed given additional time. With that said, no viable alternatives had been presented during the stakeholder process, and the proposed methodology based on the CAISO's currently effective cost allocation is reasonable and fair for this limited purpose of startup financing. In particular, the CAISO believes that it is reasonable to charge more of the limited startup costs to market participants in the day-ahead market because they will realize greater benefit from the ROWE than those participants who limit their activity to the real-time market.

During their April meetings, the CAISO Board of Governors and the WEM Governing Body authorized this tariff amendment filing to establish the cost recovery mechanism.

II. Proposed Tariff Revisions

This tariff amendment, which establishes a cost recovery mechanism for the loan, would become effective shortly before loan repayments commence. This timing is intended to both enable the CAISO to collect funds it will need to remit to the ROWE for loan repayment, but also delay assessment of the charges until 2028.

A. Charges to be Established

The CAISO will establish two new settlement charges that will appear on daily settlements statements for billing and collection like other settlement charges. Other ISOs and regional transmission operators administer and recover costs for affiliated stakeholder, governing, and regulatory bodies through such charges.[18]

[18] *See, e.g.*, Organization of PJM States, funded through PJM Schedule 9 – OPSI: OPSI Funding, Consumer Advocates of PJM States, funded through PJM Schedule 9 – CAPS: CAPS Funding, New England States Committee on Electricity, funded through ISO-NE tariff section IV.A, Schedule 5.

The new charges will be structured like the parts of the CAISO's GMC that are used to recover costs for administering the markets, exclusive of BAA-specific costs such as transmission planning, interconnection studies, and congestion revenue rights. Specifically, the CAISO proposes that the ROWE charges would mirror the allocation and assessment methodologies of the market services charge and the system operations real-time dispatch charge.[19] The new charges – the ROWE start-up market services charge and the ROWE start-up system operations real-time dispatch charge – are established in proposed tariff sections 11.36, 11.36.1, 11.36.2 and 11.36.3.

The CAISO selected the GMC charges as models because they allocate similar costs, use cost allocation methodologies that have been accepted by the Commission, and are familiar to market participants. The market services charge is designed to allocate the general costs to the CAISO of implementing and operating the markets. The system operations real-time dispatch charge then allocates the costs of real-time dispatch services specifically. Because the ROWE would have authority over the markets, duplicating the two market-based charges provides an appropriate cost allocation methodology.

The CAISO will assess the new ROWE start-up market services charge and ROWE system operations real-time dispatch charge to the same market participants that pay their GMC analogs in the day-ahead and/or real-time markets today. A market participant that transacts in the WEIM only, for example, only incurs GMC costs based on its real-time market participation; it is not assessed charges on its base schedules because those schedules were not optimized by the day-ahead markets.[20] In contrast, a market participant in both the day-ahead and real-time markets (including EDAM market participants) would be assessed charges in both the day-ahead and real-time markets. As such, the CAISO proposes to assess the ROWE start-up market services charge to scheduling coordinators based on their energy (MWh), virtual energy or demand (MWh), and ancillary services (MW in an hour). See proposed Appendix F, Schedule 2, Part A(1). See proposed Appendix F, Schedule 2, Part A(1).

Similarly, the CAISO will assess the ROWE system operations real-time dispatch charge to scheduling coordinators based on their supply and demand (MWh) in the real-time markets. See Appendix F, Schedule 2, Part A. This rule tracks the language of the parallel GMC charge.[21]

In addition, the CAISO will use a parallel application of the charges to Transmission Ownership Rights or "TORs," which are rights to transmission within the CAISO BAA

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[19] *See* tariff sections 11.22.2.5.1 (Market Services Charge), 11.22.2.5.3 (System Operations Real-Time Dispatch Charge) and Appendix F Schedule 1 Part A.

[20] *See* tariff section 29.11(i).

[21] *See* Appendix F, Schedule 1, Part A(3).

that have not been turned over the CAISO's operational control through the Transmission Control Agreement. Effectively, the CAISO assesses GMC on the TORs transmission schedules, rather than the generation or demand on either side of the use of the transmission.[22] The parallel application of the new charges to TORs will be governed by proposed tariff section 11.36.4 and Appendix F, Schedule 2, Part A (final sentence).

B. Cap on Total Charges

The total amount to be recovered through these new charges may not exceed $8.5 million plus interest charges on the loan.[23] This cap is reflected in tariff section 11.36.1 and also in Appendix F, Schedule 2, Part B.

This cap reflects the Formation Committee's estimate of the ROWE's funding needs into the first quarter of 2028, when the ROWE is expected to assume its governance responsibilities, plus interest on the loan. The CAISO will insist that the loan be structured to minimize interest charges by having a short repayment schedule (the loan will be repaid during 2028) and a variable interest rate. The expected one-year term of the loan is reflected in proposed Appendix F, Schedule 2, Part A, which states that the charge will be assessed "in 2028."

C. Cash Flow and Defaults

There will necessarily be some mismatch between the amount collected each month through the new charges and the amounts the CAISO will need to remit to the ROWE for its upcoming monthly loan repayment. Accordingly, the CAISO expects to retain a balance. To avoid commingling the accumulated funds associated with ROWE funding with other corporate funds, and to simplify accounting for interest earned on the funds collected under the new charges, the amounts collected will be transferred to and held in a separate balancing account. See proposed tariff section 11.36.

Funds for the monthly payment to the ROWE will be drawn from the balancing account. To allow for the possibility there might not be sufficient funds in the trust account during any given month, the CAISO will be authorized to effectively loan other corporate funds to the balancing account in amounts not to exceed $500,000. If the CAISO needs to contribute such funds to the balancing account, the CAISO is authorized to recover the amount contributed to the balancing trust

[22] *See* tariff section 11.22.4.

[23] It is not possible at this time to calculate the eventual interest amount because the exact repayment schedule is unknown and the interest rate will be variable. The interest will be limited by two factors: CAISO will insist that the terms of the loan will require full repayment in 2028 and that the interest rate must be commercially reasonable. Representatives of the ROWE and the CAISO have communicated with multiple banks to ensure that reasonable terms are available.

account in a subsequent month, after the rates for the ROWE startup charge are adjusted. See proposed tariff section 11.36.

Because the new charges will appear on the market invoices that the CAISO issues weekly, any losses that may result from a payment default on a market invoice that includes the new charges would ultimately be allocated across the entire CAISO market pro rata.[24] In addition, the amounts paid to the balancing account would not be affected by any initial allocation of default losses pursuant to market participants under tariff section 11.29.17. Rather the balancing account would be paid before market participants, similar how the CAISO treats other internal accounts, such as the balancing accounts for CRRs or resource adequacy availability incentive mechanism (RAAIM).[25]

D. Monthly Adjustment and Final True Up

The amounts of the new charges will be calculated based on estimated inputs, and thus will require adjustment over time to align with the actual numbers. The estimated inputs include the final amount of the loan to be repaid, which could change because principal amounts may continue to be drawn during early 2028, and also because interest charges will be based on a variable rate of interest. In addition, the actual transaction volumes will vary from the forecasted volumes that are used in the denominator of the calculation.

At the start of each month, the CAISO will set or adjust the rates based on the most current available information, including principal amounts drawn on the loan, actual interest incurred on the loan, projected future interest, and the volumes used in the allocation formulae. The monthly adjustment is described in proposed Appendix F, Schedule 2, Part B. This monthly adjustment process should minimize the amount that the CAISO will ultimately over- or under- collect when the loan is paid.

The CAISO's accounting for any remaining amount will depend on whether the ROWE is operating. Assuming the ROWE is operating as intended, the over- or under- collected amount will be added to or subtracted from the ROWE's operating budget needs in 2029 (which will be established in a separate, later stakeholder proceeding). On the other hand, if the ROWE is no longer operating, the CAISO will treat the difference in the same manner it treats expense variances from GMC, using operating reserves and revenue requirement adjustments through the operating

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[24] *See generally* tariff section 11.29.17 ("… after deducting Grid Management Charge and FERC Annual Charges in accordance with Section 11.29.9.6.1 and paying amounts shown as due to internal accounts rather than to CAISO Creditors, such as the balancing accounts for CRRs, RAAIM or penalties issued under Section 37 ….")

[25] *See* proposed revisions to tariff sections 11.29.12, 11.29.17.1 and 11.29.17.3. Internal accounts such as the CRR and RAAIM balancing accounts (and the ROWE startup charges) would not be subject to the shortfall allocation.

reserve credit. This final true-up is described in the last two sentences of proposed tariff section 11.36.

III. Effective Date

The CAISO requests that the Commission issue an order accepting these revisions by August 10, 2026, and make the tariff revisions effective upon five days' prior notice to the Commission. The CAISO expects the amendment will become effective January 1, 2028. A contingent effective date is necessary, however, because the ROWE will not be able to finalize loan arrangements until after this amendment is accepted, and until then there is no certainty that a loan will be made or about its terms. It is important the Commission issue an order by August 10, 2026, to provide the certainty about cost recovery needed for the CAISO to act as a guarantor, and thus for the ROWE to finalize a loan to fund its start-up expenses.

IV. Communications

Correspondence and other communications regarding this filing should be directed to:

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V. Service

The CAISO has served copies of this filing on the California Public Utilities Commission, the California Energy Commission, and all parties with scheduling coordinator agreements under the CAISO tariff. In addition, the CAISO has posted a copy of the filing on the CAISO website.

VI. Contents of this Filing

Besides this transmittal letter, this filing includes the following attachments:

Attachment A	Clean CAISO tariff sheets to implement this tariff amendment
Attachment B	Red-lined CAISO tariff sheets to implement this tariff amendment
Attachment C	Draft Final Proposal
Attachment D	Memoranda for WEM Governing Body and CAISO Board of Governors

VII. Conclusion

For the reasons set forth in this filing, the CAISO respectfully requests that the Commission issue an order accepting this tariff amendment August 10, 2026, and make the tariff revisions effective upon five days prior notice to the Commission.

Respectfully submitted,

/s/ Daniel J. Shonkwiler

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Attachment A – Clean Tariff

Tariff Amendment – Startup Funding for the Regional Organization for Western Energy

California Independent System Operator Corporation

June 11, 2026

<u>Section 11</u>

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11.29.12 CAISO's Responsibilities

On the due date for payment of amounts shown in an Invoice, the CAISO shall ascertain whether all amounts required to be received into the CAISO Clearing Account have been credited to it. If any such amount has not been so credited, it shall ascertain which CAISO Debtors have failed to pay the amount owed by them and it may, subject to any notice or cure provisions in this Section 11.29, exercise any rights available under the CAISO Tariff or under applicable law to recover any overdue amount. The obligation of the CAISO to pay CAISO Creditors monies owed for a given billing period shall be limited so that the aggregate liability of the CAISO for such payments does not exceed the sum of

a) the amounts paid to the CAISO Clearing Account for that billing period,

b) additional amounts recovered by the CAISO by enforcing any Financial Security provided by a defaulting CAISO Creditor to cover any shortfall for that billing period, and

c) amounts transferred to the CAISO Clearing Account from the CAISO Reserve Account and the CAISO Penalty Reserve Account pursuant to Section 11.29.9.6.1 to cover any shortfall for that billing period

less GMC due to the CAISO and FERC Annual Charges for the same billing period and amounts shown as due to other internal accounts, such as the balancing accounts for CRRs, RAAIM, ROWE start-up charges established in Section 11.36, or penalties issues under Section 37, and adjusted to account for the application of Section 11.29.10.2 to Payment Advices.

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11.29.17.1 Pro Rata Reduction to Payments

If it is not possible to clear the CAISO Clearing Account on a Payment Date because of nonpayment by a CAISO Debtor, which cannot be covered using funds available in the CAISO Reserve Account or the

CAISO Penalty Reserve Account, or by enforcing any Financial Security provided by a defaulting CAISO Debtor, the CAISO shall, after deducting Grid Management Charge and FERC Annual Charges in accordance with Section 11.29.9.6.1 and paying amounts shown as due to internal accounts rather than to CAISO Creditors, such as the balancing accounts for CRRs, RAAIM, ROWE start-up charges established in Section 11.36, or penalties issued under Section 37, (1) first pay in full every CAISO Creditor whose net amounts receivable on the relevant Payment Date is less than $5,000; and (2) second, reduce payments to all remaining CAISO Creditors proportionately to the net amounts payable to them on the relevant Payment Date to the extent necessary to clear the CAISO Clearing Account through a shortfall allocation. Except to the extent a payment default is on an Invoice that was separate from other market activity under Section 11.29.10.3, each payment default amount allocated to CAISO Creditors through a shortfall allocation under this Section 11.29.17.1 that remains unpaid by the defaulting CAISO Debtor will be allocated as set forth in Section 11.29.17.2. The provisions of this Section 11.29.17.1 shall not apply to the extent the CAISO invokes Section 11.29.11 to direct a CAISO Debtor to not pay charges that are verifiably erroneous, or to non-payment of any penalty amount that a Scheduling Coordinator or CRR Holder has disputed and FERC has specifically authorized the Scheduling Coordinator or CRR Holder to net its payment to the CAISO by the amount of the penalty in question in accordance with Section 37.9.3.

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11.29.17.3 Payment of Defaulted Receivables

Collections or any other receipt of defaulted receivables (other than Interest) will be distributed according to the following priorities: First, to any GMC that the CAISO did not receive as a result of any debtor’s defaults. Second, to any FERC Annual Charges that were not received as a result of any debtor’s defaults. Third, to any internal accounts, for example balancing accounts for CRRs, RAAIM or ROWE start-up charges established in Section 11.36, that were not paid in full as a result of the debtor’s defaults. Fourth, to the CAISO Reserve Account to the extent funds were used to cover the debtor’s payment default.

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11.36 ROWE Start-up Charges

The CAISO will charge Scheduling Coordinators to recover the costs of repaying the loan obtained by the ROWE for its start-up financing. Revenue in each weekly clearing relating to the ROWE start-up charges will be transferred to the ROWE start-up charges balancing account. Except as otherwise described in this section, funds from the ROWE start-up charges balancing account will be used to facilitate repayment of the ROWE's loan for its start-up financing, either by transferring to the ROWE the amount necessary for the ROWE to submit its monthly payment on the loan or making a monthly payment directly to the lender. If necessary to help make a monthly payment to the bank the CAISO may transfer other corporate funds in amounts no greater than $500,000 to the ROWE start-up charges balancing account, in which case CAISO may recover the other corporate funds it contributed after rates are adjusted in accordance with Appendix F, Schedule 2. After the ROWE's loan for its start-up financing is repaid in full, the remaining balance of the ROWE start-up charges balancing account will be added to or subtracted from, as the case may be, the ROWE's funding for the next fiscal year. If the ROWE is not operating, this difference will be resolved in the same manner the CAISO resolves variances in GMC revenue, using the CAISO Operating Reserve Account.

11.36.1 Allocation of the ROWE Start-up Charges Among Scheduling Coordinators

ROWE start-up charges will be recovered through two service charges, the ROWE start-up market services charge and the ROWE start-up system operations real-time dispatch charge, according to the formulae in Appendix F, Schedule 2, Part A. The costs recovered through these charges shall not exceed $8.5 million, plus interest. As described in the Business Practice Manual, the CAISO assesses these charges separately on all Scheduling Coordinators based on their virtual awards, energy, or ancillary services, as applicable, consistent with the formulae set out in Appendix F, Schedule 2, Part A.

11.36.2 ROWE Start-up Market Services Charge

The CAISO will calculate the ROWE start-up market services charge for each Scheduling Coordinator is calculated according to the formula in Appendix F, Schedule 2, Part A.

11.36.3 ROWE Start-up System Operations Real-Time Dispatch Charge

The CAISO will calculate the ROWE start-up system operations real-time dispatch charge for each Scheduling Coordinator according to the formula in Appendix F, Schedule 2, Part A.

11.36.4 TOR-specific Charges

In lieu of the ROWE start-up charges set forth in Sections 11.36.2 and 11.36.3, the CAISO will assess a specific ROWE start-up rate on TORs according to the formula set forth in Appendix F, Schedule 2, Part A. The CAISO will assess TORs based on the minimum of a Scheduling Coordinator's TOR supply or TOR demand per Settlement Interval. The CAISO will credit amounts recovered through the TOR charge against the revenue requirement for the ROWE start-up charges.

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Appendix A

- ROWE

The Regional Organization for Western Energy.

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Appendix F Rate Schedules

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Schedule 2

Regional Organization for Western Energy Charges

Part A – Calculation of ROWE Start-up Charges

The ROWE start-up charges consist of the following separate service charges, to be assessed in 2028: (1) the ROWE start-up market services charge; and (2) the ROWE start-up system operations real-time dispatch charge. The CAISO will allocate the estimated ROWE repayment amount to the charges as follows: sixty-eight (68) percent to the ROWE start-up market services charge, and thirty-two (32) percent to the ROWE start-up system operations real-time dispatch charge.

1. The rate for the ROWE start-up market services charge will be calculated by dividing the estimated ROWE repayment amount allocated to this charge by the forecast amounts for the remainder of 2028 of the following: gross absolute value of MW per hour of Ancillary Services capacity awarded in the Day-Ahead and Real-Time Markets, MWh of Energy cleared in the Day-Ahead market, Virtual Demand Award, Virtual Supply Award, and FMM Instructed Imbalance Energy and RTD Instructed Imbalance Energy, less the forecast annual gross absolute value of such Energy as may be excluded for a load following MSS pursuant to an MSS agreement, Standard Ramping Energy, Regulation Energy, Ramping Energy Deviation, Residual Imbalance Energy, Exceptional Dispatch Energy and Operational Adjustments for the Day-Ahead and Real-Time.

2. The rate for the ROWE start-up system operations real-time dispatch charge will be calculated by dividing the estimated ROWE repayment amount allocated to this service category net the proportional projected TOR Charges by the forecast amount for the remainder of 2028 of the following: gross absolute value of MWh of real-time energy flows of CAISO, EIM, and EDAM Market Participants.

The CAISO will assess TORs on the minimum of a Scheduling Coordinator’s TOR supply or TOR demand per Settlement Interval, consistent with the CAISO’s assessment of GMC on TORs.

Part B – Monthly Adjustment

On a monthly basis, the CAISO will recalculate the estimated ROWE repayment amount to reflect the current principal amount of the ROWE’s loan, additional principal amounts the ROWE is expected to draw, the current balance of the ROWE start-up charge balancing account, accrued interest to date and forecasted interest for the remaining term of the loan, provided that the total amount to be recovered through the ROWE start-up charges may not exceed $8.5 million plus interest. The ROWE start-up charges will be adjusted automatically on a monthly basis, up or down, according to the formulae listed in Part A of this Appendix F, Schedule 2. Such adjustment will be effective the first day of the next calendar month.

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Attachment B – Marked Tariff

Tariff Amendment – Startup Funding for the Regional Organization for Western Energy

California Independent System Operator Corporation

June 11, 2026

Section 11

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11.29.12 CAISO's Responsibilities

On the due date for payment of amounts shown in an Invoice, the CAISO shall ascertain whether all amounts required to be received into the CAISO Clearing Account have been credited to it. If any such amount has not been so credited, it shall ascertain which CAISO Debtors have failed to pay the amount owed by them and it may, subject to any notice or cure provisions in this Section 11.29, exercise any rights available under the CAISO Tariff or under applicable law to recover any overdue amount. The obligation of the CAISO to pay CAISO Creditors monies owed for a given billing period shall be limited so that the aggregate liability of the CAISO for such payments does not exceed the sum of

a) the amounts paid to the CAISO Clearing Account for that billing period,

b) additional amounts recovered by the CAISO by enforcing any Financial Security provided by a defaulting CAISO Creditor to cover any shortfall for that billing period, and

c) amounts transferred to the CAISO Clearing Account from the CAISO Reserve Account and the CAISO Penalty Reserve Account pursuant to Section 11.29.9.6.1 to cover any shortfall for that billing period

less GMC due to the CAISO and FERC Annual Charges for the same billing period and amounts shown as due to other internal accounts, such as the balancing accounts for CRRs, RAAIM, ROWE start-up charges established in Section 11.36, or penalties issues under Section 37, and adjusted to account for the application of Section 11.29.10.2 to Payment Advices.

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11.29.17.1 Pro Rata Reduction to Payments

If it is not possible to clear the CAISO Clearing Account on a Payment Date because of nonpayment by a CAISO Debtor, which cannot be covered using funds available in the CAISO Reserve Account or the

CAISO Penalty Reserve Account, or by enforcing any Financial Security provided by a defaulting CAISO Debtor, the CAISO shall, after deducting Grid Management Charge and FERC Annual Charges in accordance with Section 11.29.9.6.1 and paying amounts shown as due to internal accounts rather than to CAISO Creditors, such as the balancing accounts for CRRs, RAAIM, ROWE start-up charges established in Section 11.36, or penalties issued under Section 37, (1) first pay in full every CAISO Creditor whose net amounts receivable on the relevant Payment Date is less than $5,000; and (2) second, reduce payments to all remaining CAISO Creditors proportionately to the net amounts payable to them on the relevant Payment Date to the extent necessary to clear the CAISO Clearing Account through a shortfall allocation. Except to the extent a payment default is on an Invoice that was separate from other market activity under Section 11.29.10.3, each payment default amount allocated to CAISO Creditors through a shortfall allocation under this Section 11.29.17.1 that remains unpaid by the defaulting CAISO Debtor will be allocated as set forth in Section 11.29.17.2. The provisions of this Section 11.29.17.1 shall not apply to the extent the CAISO invokes Section 11.29.11 to direct a CAISO Debtor to not pay charges that are verifiably erroneous, or to non-payment of any penalty amount that a Scheduling Coordinator or CRR Holder has disputed and FERC has specifically authorized the Scheduling Coordinator or CRR Holder to net its payment to the CAISO by the amount of the penalty in question in accordance with Section 37.9.3.

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11.29.17.3 Payment of Defaulted Receivables

Collections or any other receipt of defaulted receivables (other than Interest) will be distributed according to the following priorities: First, to any GMC that the CAISO did not receive as a result of any debtor's defaults. Second, to any FERC Annual Charges that were not received as a result of any debtor's defaults. Third, to any internal accounts, for example balancing accounts for CRRs, ~~or~~ RAAIM or ROWE start-up charges established in Section 11.36, that were not paid in full as a result of the debtor's defaults. Fourth, to the CAISO Reserve Account to the extent funds were used to cover the debtor's payment default.

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11.36 ROWE Start-up Charges

The CAISO will charge Scheduling Coordinators to recover the costs of repaying the loan obtained by the ROWE for its start-up financing. Revenue in each weekly clearing relating to the ROWE start-up charges will be transferred to the ROWE start-up charges balancing account. Except as otherwise described in this section, funds from the ROWE start-up charges balancing account will be used to facilitate repayment of the ROWE's loan for its start-up financing, either by transferring to the ROWE the amount necessary for the ROWE to submit its monthly payment on the loan or making a monthly payment directly to the lender. If necessary to help make a monthly payment to the bank the CAISO may transfer other corporate funds in amounts no greater than $500,000 to the ROWE start-up charges balancing account, in which case CAISO may recover the other corporate funds it contributed after rates are adjusted in accordance with Appendix F, Schedule 2. After the ROWE's loan for its start-up financing is repaid in full, the remaining balance of the ROWE start-up charges balancing account will be added to or subtracted from, as the case may be, the ROWE's funding for the next fiscal year. If the ROWE is not operating, this difference will be resolved in the same manner the CAISO resolves variances in GMC revenue, using the CAISO Operating Reserve Account.

11.36.1 Allocation of the ROWE Start-up Charges Among Scheduling Coordinators

ROWE start-up charges will be recovered through two service charges, the ROWE start-up market services charge and the ROWE start-up system operations real-time dispatch charge, according to the formulae in Appendix F, Schedule 2, Part A. The costs recovered through these charges shall not exceed $8.5 million, plus interest. As described in the Business Practice Manual, the CAISO assesses these charges separately on all Scheduling Coordinators based on their virtual awards, energy, or ancillary services, as applicable, consistent with the formulae set out in Appendix F, Schedule 2, Part A.

11.36.2 ROWE Start-up Market Services Charge

The CAISO will calculate the ROWE start-up market services charge for each Scheduling Coordinator is calculated according to the formula in Appendix F, Schedule 2, Part A.

11.36.3 ROWE Start-up System Operations Real-Time Dispatch Charge

The CAISO will calculate the ROWE start-up system operations real-time dispatch charge for each Scheduling Coordinator according to the formula in Appendix F, Schedule 2, Part A.

11.36.4 TOR-specific Charges

In lieu of the ROWE start-up charges set forth in Sections 11.36.2 and 11.36.3, the CAISO will assess a specific ROWE start-up rate on TORs according to the formula set forth in Appendix F, Schedule 2, Part A. The CAISO will assess TORs based on the minimum of a Scheduling Coordinator's TOR supply or TOR demand per Settlement Interval. The CAISO will credit amounts recovered through the TOR charge against the revenue requirement for the ROWE start-up charges.

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Appendix A

- ROWE

The Regional Organization for Western Energy.

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Appendix F Rate Schedules

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Schedule 2

~~[Not Used]~~Regional Organization for Western Energy Charges

Part A – Calculation of ROWE Start-up Charges

The ROWE start-up charges consist of the following separate service charges, to be assessed in 2028: (1) the ROWE start-up market services charge; and (2) the ROWE start-up system operations real-time dispatch charge. The CAISO will allocate the estimated ROWE repayment amount to the charges as follows: sixty-eight (68) percent to the ROWE start-up market services charge, and thirty-two (32) percent to the ROWE start-up system operations real-time dispatch charge.

1. The rate for the ROWE start-up market services charge will be calculated by dividing the estimated ROWE repayment amount allocated to this charge by the forecast amounts for the remainder of 2028 of the following: gross absolute value of MW per hour of Ancillary Services capacity awarded in the Day-Ahead and Real-Time Markets, MWh of Energy cleared in the Day-Ahead market, Virtual Demand Award, Virtual Supply Award, and FMM Instructed Imbalance Energy and RTD Instructed Imbalance Energy, less the forecast annual gross absolute value of such Energy as may be excluded for a load following MSS pursuant to an MSS agreement, Standard Ramping Energy, Regulation Energy, Ramping Energy Deviation, Residual Imbalance Energy, Exceptional Dispatch Energy and Operational Adjustments for the Day-Ahead and Real-Time.

2. The rate for the ROWE start-up system operations real-time dispatch charge will be calculated by dividing the estimated ROWE repayment amount allocated to this service category net the proportional projected TOR Charges by the forecast amount for the remainder of 2028 of the following: gross absolute value of MWh of real-time energy flows of CAISO, EIM, and EDAM Market Participants.

The CAISO will assess TORs on the minimum of a Scheduling Coordinator's TOR supply or TOR demand per Settlement Interval, consistent with the CAISO's assessment of GMC on TORs.

Part B – Monthly Adjustment

On a monthly basis, the CAISO will recalculate the estimated ROWE repayment amount to reflect the current principal amount of the ROWE's loan, additional principal amounts the ROWE is expected to draw, the current balance of the ROWE start-up charge balancing account, accrued interest to date and forecasted interest for the remaining term of the loan, provided that the total amount to be recovered through the ROWE start-up charges may not exceed $8.5 million plus interest. The ROWE start-up charges will be adjusted automatically on a monthly basis, up or down, according to the formulae listed in Part A of this Appendix F, Schedule 2. Such adjustment will be effective the first day of the next calendar month.

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Attachment C – Draft Final Proposal

Tariff Amendment – Startup Funding for the Regional Organization for Western Energy

California Independent System Operator Corporation

June 11, 2026

Financial Planning Initiative and Start-up Funding for the Regional Organization for Western Energy

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Draft Final Proposal

March 12, 2026

NOTE TO READERS: This document includes two distinct matters: the Financial Planning Initiative and Start-up Funding for the Regional Organization for Western Energy. The two matters will be presented separately for decision by the Western Energy Markets Governing Body and the ISO Board of Governors. They have been consolidated into a single stakeholder proceeding for purposes of efficiency, because they happen to be on the same schedule, and because we believe that for many stakeholders, the same personnel would be involved in considering these financial issues. For additional information about how each initiative will be presented for decision, see the papers below.

2026 Financial Planning Initiative
Draft Final Proposal

Table of Contents

Executive Summary

The ISO proposes targeted updates to its GMC cost recovery framework to ensure continued rate accuracy, stability, and administrative efficiency as the ISO's markets expand and operational responsibilities evolve beginning in 2026. These updates are intended to maintain alignment between the ISO's administrative cost recovery mechanisms and the changing market environment, including the implementation of the Extended Day-Ahead Market (EDAM) and evolving regional market participation.

First, the ISO proposes to extend the schedule for the next Cost-of-Service Study from 2026 to 2028. Under the current tariff schedule, the next study would occur in 2026; however, a study conducted this year would rely primarily on 2025 data and therefore would not reflect the implementation and early operational impacts of EDAM, which is expected to begin operations in May 2026. Extending the study to 2028 will allow the ISO to incorporate both the EDAM transition period and a full year of EDAM operations in 2027. Conducting the study on this timeline will produce more representative results and better support accurate cost allocation across GMC services and billing determinants. During the interim period, the ISO proposes to maintain the cost allocation framework established in the 2023 Cost-of-Service Study.

Second, the ISO proposes to increase the annual GMC revenue requirement cap for 2027 and 2028 to ensure that the tariff provides sufficient flexibility to recover the ISO's authorized revenue requirement as projected costs increase and certain historical revenue offsets decrease. Key drivers of the projected increase include inflationary growth in operations and maintenance expenditures, the re-inclusion of cash-funded capital beginning in 2027, normalization of prior-year adjustments that previously reduced the revenue requirement, and changes in revenue offsets associated with evolving market participation and the transition of certain services into EDAM.

Based on current projections, the ISO's net GMC revenue requirement is expected to increase from approximately $249.9 million in 2026 to $298.8 million in 2027 and $313.4 million in 2028. To ensure adequate recovery under the tariff, the ISO proposes to increase the annual GMC revenue requirement cap from $250.0 million in 2026 to $305.0 million in 2027 and $320.3 million in 2028. These proposed cap levels provide modest headroom—approximately $6.2 million in 2027 and $6.9 million in 2028—to accommodate forecast uncertainty and potential variability in cost recovery.

Importantly, while the overall GMC revenue requirement is projected to increase, certain GMC rates are expected to decline. Increased participation in EDAM is expected to expand the billing determinants over which GMC costs are recovered, resulting in lower Market Services and System Operations Real-Time Dispatch rates beginning in 2026. This outcome illustrates the distinction between changes in the overall revenue requirement and the rates paid by individual market participants.

Stakeholder Feedback

During the February 12, 2026 stakeholder call and through subsequent written comments, stakeholders generally acknowledged the rationale for extending the timing of the Cost-of-Service Study and updating the GMC revenue requirement cap to reflect evolving market conditions. Commenters recognized that a study conducted in 2026 would rely largely on pre-EDAM data and therefore may not fully reflect the cost drivers associated with EDAM implementation and broader regional market participation.

Stakeholders also requested additional transparency regarding the drivers of the projected increases in the GMC revenue requirement for 2027 and 2028. In particular, commenters sought further explanation of factors such as inflationary growth in operations and maintenance expenditures, the re-inclusion of cash-funded capital beginning in 2027, and changes in revenue offsets associated with evolving market participation. Stakeholders also requested clarification regarding how the transition of entities from the Western Energy Imbalance Market (WEIM) to participation in EDAM may affect both the overall revenue requirement and the billing determinants used to recover GMC costs. The updates reflected in this proposal provide additional explanation and clarification in response to these stakeholder comments.

During the stakeholder process, one stakeholder suggested that the financial planning initiatives be addressed separately from the ROWE start-up funding proposal. The ISO recognizes that the financial planning initiatives and the ROWE start-up funding proposal address distinct issues. However, both proposals require action on a similar timeline. The financial planning initiatives were scheduled to proceed through the stakeholder process in the first quarter of 2026, as discussed during the 2026 revenue requirement development stakeholder process held in 2025, with FERC approval targeted for July 2026 so that the revenue cap is clear when the ISO begins to develop the 2027 budget. In addition, unless the schedule for the Cost-of-Service Study is extended soon, the ISO will need to begin work on it. Similarly, the timing of the ROWE start-up funding proposal also requires FERC approval by July 2026 so that the ISO can back a loan to ROWE before the anticipated depletion of its start-up funds. Presenting these tariff amendments within a single initiative allows for coordinated consideration of the proposals and helps ensure the necessary approvals for both matters can be obtained within the required timeframe.

Together, the proposals described in this Draft Final Proposal are intended to maintain a transparent, stable, and forward-looking GMC framework that supports predictable cost recovery while remaining aligned with the evolving regional market structure.

1. Next Cost-of-Service Study Extension

The ISO conducts a triennial Cost-of-Service Study to evaluate the allocation of administrative costs across the services supported by the GMC. The ISO proposes to reschedule the next Cost-of-Service Study from 2026 to 2028 to ensure that the analysis reflects the operational impacts of EDAM and evolving regional market participation.

EDAM operations will begin in 2026, with the first full year of EDAM operations occurring in 2027. Conducting the Cost-of-Service Study in 2026 would therefore rely primarily on historical data that predates EDAM implementation and may not fully capture the operational, participation, and administrative cost drivers associated with the post-EDAM market environment. Because the Cost-of-Service Study plays a central role in determining the functionalization and allocation of administrative costs across ISO services, conducting the study prior to the availability of meaningful EDAM operational data could produce allocations that do not fully reflect the evolving market structure.

By conducting the study in 2028, the ISO will be able to incorporate a full year of EDAM operational experience and better evaluate how administrative costs should be allocated across market services. This timing will improve the accuracy and durability of the resulting cost allocations while maintaining alignment with cost-causation principles.

Stakeholders generally expressed conditional support for the ISO's proposal to extend the timing of the next Cost-of-Service Study from 2026 to 2028. Commenters recognized that conducting the study in 2026 would rely largely on pre-EDAM data and therefore may not fully reflect the cost drivers associated with the transition to EDAM and evolving regional market participation.

At the same time, several stakeholders requested additional clarity regarding how the ISO will maintain transparency during the interim period prior to the next study. In particular, stakeholders requested confirmation that the study will be completed in 2028 without further delay, greater visibility into how EDAM-related cost drivers will be monitored prior to the study, and additional information regarding the Cost-of-Service Study process and governing body approvals associated with the proposed extension.

Some stakeholders also emphasized the importance of maintaining alignment between GMC cost allocation and cost-causation principles, noting that extensions beyond 2028 could risk misalignment between evolving market structures and the functionalization of costs. Other stakeholders encouraged the ISO to continue providing transparency regarding administrative cost drivers, market participation trends, and the assumptions underlying future revenue requirement projections during the interim period prior to the next study.

The ISO intends to complete the next Cost-of-Service Study in 2028 and does not anticipate further extensions beyond that timeframe.

During the interim period prior to the 2028 study, the ISO will continue to provide transparency regarding evolving cost drivers and administrative spending through its annual budget and GMC stakeholder processes. These processes provide regular opportunities for stakeholders to review projected costs, market participation trends, and revenue requirement assumptions. The ISO will also monitor the impacts of EDAM implementation on market participation, administrative costs, and billing determinants to ensure that these developments are appropriately reflected in the 2028 study.

Consistent with the ISO's governance framework, the proposed tariff amendment extending the Cost-of-Service Study timeline will be presented to both the Western Energy Board (WEM) Governing Body and ISO Board of Governors for approval prior to submission to FERC. The specifics of the decisional classification, as well as the respective roles of the WEM Governing Body and the ISO Board of Governors in approving the Cost-of-Service Study extension, are described in greater detail in Section 4 – Western Energy Markets Governing Body Role below. While the next comprehensive Cost-of-Service Study will occur in 2028, the ISO must ensure that its tariff provides sufficient flexibility to recover its authorized administrative costs during the interim period. As discussed in the following section, the ISO therefore proposes adjustments to the annual GMC revenue requirement cap for 2027 and 2028 to reflect projected cost drivers and changes in offsetting revenues.

These interim adjustments do not alter the underlying allocation of costs across services established in the 2023 Cost-of-Service Study, which will remain in place until the next study is completed. See Table 1 for the current cost category percentages.

Table 1: 2023 Cost-of-Service Study Cost Category Percentages

Cost Category	Current Percentages
Grid Management Charges	
Market Services	49%
System Operations Real-Time Dispatch	23%
System Operations Balancing Authority Area Services	26%
CRR Services	2%
Western Energy Imbalance Market	
Real-Time Market	65%
Real-Time Dispatch	42%
Reliability Coordinator West	
RC Funding Requirement	8%

2. GMC Annual Revenue Requirement Cap Increase

As the ISO's markets and operational responsibilities continue to expand, the ISO must ensure that the GMC framework provides sufficient flexibility to recover its authorized revenue requirement while maintaining rate stability and transparency. To support this objective, the ISO proposes targeted updates to the annual GMC revenue requirement cap for 2027 and 2028.

Stakeholders generally acknowledged that updates to the GMC revenue requirement cap may be necessary to ensure the ISO's tariff continues to provide sufficient headroom to recover the ISO's authorized revenue requirement as the market evolves. However, several stakeholders requested additional transparency regarding the drivers behind the projected increases in the net GMC revenue requirement for 2027 and 2028. In particular, commenters sought further explanation of the factors contributing to the projected increase from approximately $249.9 million in 2026 to $298.8 million in 2027 and $313.4 million in 2028, including projected inflationary growth in operations and maintenance expenditures, the re-inclusion of cash-funded capital beginning in 2027, and changes in revenue offsets as market participation evolves. Stakeholders also requested clarification regarding how the transition of entities from the WEIM to EDAM may affect both the overall revenue requirement and the billing determinants used to recover GMC costs.

In response, the ISO provides this additional explanation regarding the primary drivers of the projected revenue requirement increases. A portion of the projected increase reflects inflationary growth in the Operations and Maintenance (O&M) budget required to sustain ongoing market and grid operations, as well as continued investments in the tools, systems, and operational capabilities necessary to support expanding regional market participation and evolving grid management needs. This growth reflects enterprise-wide operational demands, including investments in technology infrastructure, cybersecurity, system operations, and market systems needed to administer increasingly complex regional markets. Overall, the O&M budget is projected to grow at approximately five percent year-over-year, reflecting general inflationary pressures and the need to maintain and enhance the operational capabilities necessary to reliably administer ISO markets and grid operations.

The most significant increase in the projections reflect the re-inclusion of cash-funded capital in 2027, which supports priority initiatives aligned with the ISO's strategic plan. These investments support projects designed to strengthen the ISO's ability to operate and enhance organized wholesale electricity markets while supporting a reliable, efficient, and forward-looking energy grid for California and the broader Western region. The 2026 revenue requirement did not include a request for cash-funded capital, as project expenditures were supported using existing capital reserves to maintain fiscal balance and responsibly manage available resources. In 2027, the forecast assumes a return to a more typical capital funding approach, with selected strategic investments funded directly through the revenue requirement.

The projected increase in the net GMC revenue requirement also reflects a reduction in the operating cost reserve credit adjustment, which has historically lowered the net revenue requirement in prior years. In earlier periods, lower-than-forecast spending allowed the ISO to apply larger credits to offset a portion of the revenue requirement. As spending levels have stabilized, the magnitude of this credit adjustment is expected to decline, resulting in a smaller reserve offset in the forecast years.

Stakeholders also asked how changes in market participation and EDAM implementation may affect the revenue requirement and the billing determinants used to recover GMC costs. As part of the ISO's recent rate design updates, cost recovery associated with EDAM participation will be incorporated within the GMC framework. As WEIM entities transition to EDAM participation—or as participation in WEIM changes more broadly—certain revenues that historically offset the GMC revenue requirement may decline. At the same time, EDAM-related charges will be collected through the GMC structure, which will increase the portion of the ISO's costs recovered through GMC. Importantly, the transition to EDAM is also expected to expand overall market participation and increase the billing determinants, such as Day-Ahead Market volumes, over which GMC costs are recovered.

As the GMC revenue requirement evolves in response to projected changes in costs and offsetting revenues, the ISO proposes updates to the annual GMC revenue requirement cap for 2027 and 2028. While the currently effective cap was sufficient to meet the GMC revenue requirement in 2026, forecasted conditions in 2027 and 2028 are expected to increase the net GMC revenue requirement. As discussed above, key drivers of this increase include reductions in historical revenue offsets as certain services transition into EDAM, normalization of prior-year adjustments that previously reduced the revenue requirement, the resumption of collection for cash-funded capital beginning in 2027, and projected inflationary cost impacts.

Accordingly, the ISO proposes increases to the revenue requirement cap for 2027 and 2028 to ensure adequate recovery under the tariff, with any adjustments beyond 2028 to be evaluated through the normal triennial Cost-of-Service study cycle. These proposed adjustments are intended solely to ensure that the ISO's tariff provides sufficient flexibility to recover its approved annual revenue requirement during the interim period before the next Cost-of-Service study. The underlying allocation of GMC costs across services and billing determinants will continue to be governed by the Cost-of-Service study framework and will be revisited in the next scheduled study, which the ISO proposes to conduct in 2028.

By establishing increases to the revenue requirement cap, the ISO can ensure that, so long as the approved annual budget remains within the applicable cap and no changes to GMC rate design or billing determinants are proposed, it can avoid the need to submit an unanticipated filing with FERC that has not first been addressed through the ISO's stakeholder process.

Table 2 summarizes the ISO's GMC revenue requirement and rates for 2026 (actual) and the projected revenue requirements and associated rates for 2027 and 2028, reflecting current forecasts of operating costs, capital funding, and offsetting revenues.

Table 2: GMC Revenue Requirement and Rates (2026 actual; 2027–2028 projected)

Revenue Requirement ($ in millions)	Actual 2026	Projected 2027	Projected 2028
Operations and Maintenance Budget	$ 290.3	$ 304.9	$ 320.1
Debt Service (including 25% Reserve)	14.7	14.7	14.7
Cash Funded Capital	-	31.0	31.0
Other Costs and Revenues	(51.3)	(51.0)	(51.8)
Operating Cost Reserve Adjustment	(3.9)	(0.8)	(0.7)
Total Revenue Requirement	**$ 249.9**	**$ 298.8**	**$ 313.4**
Revenue Requirement Cap ($ in millions)			
Revenue Requirement Cap	$ 250.0	$ 305.0	$ 320.3
Variance between Cap and Total	$ 0.1	$ 6.2	$ 6.9
Rates ($/MWh)			
Market Services Charge	$ 0.1416	$ 0.1513	$ 0.1389
System Operations Balancing Authority Area Services Charge	$ 0.1356	$ 0.1619	$ 0.1690
System Operations Real-Time Dispatch Charge	$ 0.0901	$ 0.0963	$ 0.0881
Congestion Revenue Rights Services Charge	$ 0.0109	$ 0.0134	$ 0.0142

As shown in Table 2, the ISO's net GMC revenue requirement is projected to increase in 2027 and 2028, driven primarily by higher operating funding needs, the re-inclusion of cash-funded capital beginning in 2027, and inflationary cost impacts, partially offset by other revenues. Despite this increase in the overall revenue requirement, projected Market Services and System Operations Real-Time Dispatch rates decline in 2028, reflecting increased participation in EDAM and the resulting expansion of the billing determinants over which GMC costs are recovered. This illustrates the distinction between changes in the total revenue requirement and the rates paid by individual market participants.

To ensure the tariff provides sufficient headroom to recover the ISO's authorized revenue requirement and minimize the risk of an out-of-cycle cap adjustment, the ISO proposes to increase the annual revenue requirement cap from $250.0 million in 2026 to $305.0 million in 2027 and $320.3 million in 2028. These proposed cap levels provide modest headroom above the projected GMC revenue requirement—approximately $6.2 million in 2027 and $6.9 million in 2028—preserving adequate recovery capacity while maintaining alignment with projected revenue requirement needs. This headroom provides a reasonable buffer to address potential variability in cost recovery arising from changes in market participation, including the potential exit of participants from the ISO market that could reduce other revenue offsets. By incorporating this modest variance, the proposed caps enhance revenue stability and mitigate the risk that unanticipated reductions in offsetting revenues would necessitate additional tariff amendments, while remaining narrowly tailored to the ISO's expected funding requirements.

3. Draft Tariff Language

Together with this Draft Final Proposal, the ISO is posting draft tariff language for stakeholder review and comment.

4. Western Energy Markets Governing Body Role

This financial planning initiative proposes two tariff amendments:

- Increasing the cap on the costs that may be recovered through the Grid Management Charge, which is currently found in Section 11.22.2.5; and
- Adjusting the timing of the next Cost-of-Service study that will be used to recalculate the service charge percentages and the rates for the fees and charges that make up the Grid Management Charge.

ISO staff believe these proposed amendments fall within the primary authority of the WEM Governing Body. Under the Charter for WEIM and EDAM Governance[1], the WEM Governing Body has primary authority over proposals to change or establish tariff rules applicable to the WEIM and EDAM entity balancing authority areas, WEIM and EDAM Entities, or other market participants within those balancing authority areas in their capacity as participants in WEIM or EDAM. The scope of this primary authority excludes, without limitation, proposals to change or establish tariff rules applicable only to the ISO balancing authority area or to the ISO-controlled grid.

Both proposed amendments would apply to WEIM and EDAM entity balancing authority areas and the market participants within those areas in their capacity as WEIM or EDAM participants. Neither amendment would apply solely to the ISO balancing authority area or the ISO-controlled

[1] The Charter for WEIM and EDAM Governance § 2.2.1 is available here.

grid. Accordingly, ISO staff believe these matters fall within the primary authority of the WEM Governing Body.

Stakeholders are encouraged to submit a response to this proposed classification in their written comments, particularly if they have concerns or questions.

Start-up Funding for the Regional Organization for Western Energy

Draft Final Proposal

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Executive Summary

Since the passage of California Assembly Bill 825 last year, the West-Wide Governance Pathways Initiative has been working with the ISO on key steps needed to bring the Pathways Step Two Final Proposal to fruition. The centerpiece of that proposal, discussed below, involves transferring certain governance responsibilities over the regional energy markets operated by the ISO to a new independent entity – the Regional Organization for Western Energy or "ROWE" – which is a corporate entity separate from the ISO. The goal of this change is to promote the broadest possible participation in the regional markets operated by the ISO, which will benefit all market participants and consumers by reducing electricity costs and enhancing reliability.

This paper sets forth the ISO's Draft Final Proposal for how the bulk of the Regional Organization for Western Energy's start-up costs may be funded. The Draft Final Proposal is focused only on the costs the ROWE itself will incur to get started and become ready to take on its market governance responsibilities. Issues related to ROWE cost recovery for ongoing post-start-up costs will be addressed in a later stakeholder proceeding.

The total ROWE start-up costs at issue are projected by the Formation Committee of the Pathways Initiative to be between approximately $7 and $8 million. These start-up costs are expected to be incurred during the period approximately between early 2026 and early 2028, when the ROWE will be working with the ISO to achieve all the milestones needed for it to assume its governance role. The expenses primarily include costs for paying the ROWE's independent Board during the start-up period, retaining staff and consultants to perform key start-up activities, and other incidental expenses relating to start-up such as the costs for equipment, insurance and other vendor fees. The Formation Committee has identified three main sources of funding for the startup costs: stakeholder donations, non-profit foundation grants, and debt financing. It is expected that stakeholder donations and grants will raise ~$1.1-1.2 million. The balance of the necessary funding would be through debt financing.

This Draft Final Proposal contemplates that in mid-2026, shortly after the ROWE completes its incorporation activities and seats its initial independent Board, the ROWE would enter into a loan or commercial line of credit with a commercial bank to secure the debt financing part of the start-up funding amount. The ROWE would be responsible for making payments on the loan, with the ISO serving as guarantor. This is necessary because the ROWE at that point would not be able to obtain credit. The ROWE would draw upon the loan on an incremental basis throughout the start-up period to cover initial start-up costs. The loan or line of credit would be structured so that the ROWE's repayment obligations would not commence until 2028, after the ROWE is expected to assume its governance responsibilities.

Starting shortly before the loan repayments commence, the ISO would begin collecting a rate from ISO market participants that would be remitted to the ROWE for payment to the lender. Although this rate would be allocated in fundamentally the same way the ISO recovers its own market-related costs, the rate would be separate from what the ISO charges to recover its own costs. This approach ensures an equitable and broad-based sharing of the ROWE's start-up costs among market participants throughout the regional market footprint of the ISO, including market participants effectively utilizing the ROWE within the ISO Balancing Authority footprint and throughout the Western Energy Imbalance Market (WEIM) and Extended Day-Ahead Market (EDAM) regional footprint. The rate and collection mechanism would be set forth in the ISO's tariff and thus subject to acceptance by the Federal Energy Regulatory Commission (FERC).

This Draft Final Proposal addresses each of these issues in more detail, including comments that stakeholders submitted in response to the February 5 Straw Proposal. The paper responds to the stakeholder comments, in some instances by clarifying certain points or adding detail, and maintains substantially the same approach as the Straw Proposal.

1. Introduction

1.1 The West-Wide Governance Pathways Initiative and the Pathways Step One and Step Two Proposals

The West-Wide Governance Pathways Initiative ("Pathways Initiative") convened in 2023, in response to a July 14, 2023, letter from state regulators in California and several other Western states setting forth a vision of an independent regional governance structure for a regional market that includes the ISO's WEIM and EDAM. The letter recognized that WEIM had already delivered consumers "a value of nearly $4 billion"[2] in cost savings and observed that establishing a regional organization to oversee a more regional market including both WEIM and EDAM could unlock additional cost savings and other benefits for consumers by promoting the broadest possible participation in the market. The regulators expressed commitment "to the vision of maximizing the benefits of organized wholesale electricity for customers in the West" in

[2] Since the date of that letter, the benefits of WEIM have continued to accumulate. As of the end of the third quarter of 2025, they were nearly $8 billion.

a way that "maintain[s] and build[s] upon the proven benefits of EIM, and the promised benefits of EDAM," and invited stakeholders and state regulators throughout the West to collaborate in developing this concept.[3]

In response, stakeholders in California and throughout the West representing a diverse set of utilities, consumer advocates, public power, generators and power marketers, labor, public interest organizations, and others came together to form the West-Wide Governance Pathways Initiative Launch Committee ("Launch Committee"), which has spent the last two years working together and with state regulators to achieve the regulators' vision. The Launch Committee has done this work through an iterative public stakeholder process, using working groups to develop and present written proposals for public stakeholder comment, which are then refined and made final based on the input received.[4]

The ISO is not a member of the Launch Committee and has not been coordinating or administering this effort. We have, however, served as a technical resource for the Launch Committee and its working groups throughout their efforts.

The Launch Committee developed two major proposals through these efforts: (1) the Pathways Step One Final Proposal published in May 2024, and (2) the Pathways Step Two Final Proposal published in November 2024.[5]

The ISO has already successfully implemented the Step One Proposal. This proposal recommended enhancements to the ISO's existing WEIM and EDAM governance focused primarily on enhancing the role of the Western Energy Market Governing Body in approving proposals for changes to market rules and augmenting language in its Charter relating to consideration of the public interest. The Launch Committee recommended the ISO adopt those enhancements once it received a defined level of commitment from Western utilities to join the EDAM market. The ISO Board and WEM Governing Body jointly approved the Step One Proposal in August 2024, and the ISO obtained FERC approval for applicable tariff changes in April 2025. Those enhancements went into effect in July 2025, just after the required level of EDAM commitments were achieved.

The Step Two Final Proposal represents a more ambitious set of changes to the governance of the markets operated by the ISO. Consistent with the vision set forth in the July 14, 2023 regulators' letter, the proposal recommends replacing the WEM Governing Body, which sits within the ISO corporate structure, with an independent Regional Organization or "RO" that is a separate corporate entity from the ISO. The RO—now formally incorporated as the Regional Organization for Western Energy, or the ROWE—would assume a governance and oversight

[3] The July 14, 2023 regulators' letter is available here.

[4] The Western Interstate Energy Board ("WEIB") has hosted a page on its website for the Pathways Initiative, which is available here. This page includes the Launch Committee's foundational materials, the materials developed for each of its public meetings, and the output of their work including the final proposals adopted by the Launch Committee and, where applicable, any implementing materials.

[5] The Step One final proposal is available here. The Step Two final proposal is available here.

role with respect to the regional market offerings, including WEIM and EDAM, which the ISO would continue to provide as the market operator. As one of its central responsibilities, the ROWE would serve as the body responsible for the regional market rules, with the ROWE Board holding responsibility to review and approve any proposals to amend the WEIM and EDAM market rules in the FERC-approved tariff.

The Step Two Final Proposal contemplates that the ROWE will be a non-profit corporation, with a seven-member board selected through a broad-based nomination and selection process that includes stakeholders throughout the West, including California. ROWE board members would be required to meet the same FERC independence requirements as apply to the ISO Board and to the WEM Governing Body, meaning the board would be comprised of individuals who do not hold any financial interest in any entity that is a market participant in the WEIM or EDAM. The Proposal also contemplates that the ROWE would have its own professional and administrative staff that is limited in size, but with sufficient capability to perform its governance responsibilities.

1.2 California Legislation has Enabled the Pathways Step Two Proposal

Establishing an RO with governance authority over the regional market rules for WEIM and EDAM required legislation in California to permit the state's electrical corporations and the ISO to participate in such an arrangement. In September of last year, the Legislature passed and the California Governor signed Assembly Bill No. 825, which endorsed this concept and established a set of procedural and substantive requirements that, if met, will allow this transition to occur.[6]

The requirements in the legislation include, among others, many of the key structural concepts established in the Pathways Step Two Final Proposal, including a requirement that the ISO continue to operate the energy markets subject to market rules determined by the independent regional organization as accepted by the Federal Energy Regulatory Commission. Other RO-related requirements that directly track the Pathways Step Two Final Proposal include: a commitment to open and transparent decision-making, public participation, maintaining utility withdrawal rights, and respect for each state's authority to set its own procurement, resource adequacy, environmental, reliability, and other public interest policies and exercise oversight over its regulated entities.[7]

The legislation also established a process for reaching this outcome that includes FERC approval for applicable tariff changes, a resolution from the ISO Board certifying that the statutory requirements have been met, and a decision from the California Public Utilities Commission (CPUC) authorizing California electrical corporations to participate based on the CPUC's determination that the statutory requirements are met. Recognizing that these steps will

[6] The chaptered version of A.B. 825 is available here.

[7] *See* AB 825, Section 4 (adding Section 345.6 to the Public Utilities Code).

take time to accomplish, the legislation provides that implementation of the regional market governance structure may be implemented no earlier than January 1, 2028.[8]

1.3 Formation Activities and Fundraising to Date

After the passage of AB 825, the Pathways Launch Committee, with support and encouragement from California and regional regulators,[9] began to implement certain aspects of the Step Two Proposal, and has made substantial progress in last several months. The Launch Committee has developed and approved corporate bylaws and incorporation documents for the Regional Organization for Western Energy as well as other foundational corporate policies; appointed a temporary formation board; developed the materials for their IRS filing seeking tax-exempt status; finalized the stakeholder nomination and selection process for seating its independent board; and identified leads for each nominating committee stakeholder sector. These efforts culminated in the incorporation of the ROWE in Delaware at the end of January 2026. The ISO has continued to collaborate with the Pathways team on these efforts, providing technical advice and input as required.

From the inception of the Pathways Initiative to date, the participants have relied primarily on voluntary donations from Pathways participants and supporters to fund their expenses. They have also sought, and expect to receive, some grant funding from non-profit foundations that are not directly involved in the Pathways effort. Through these efforts, the Pathways Initiative is forecasting it will raise approximately $1.1 to $1.2 million, which has been and will be used to pay for its start-up activities. These amounts are in addition to thousands of hours of time that Pathways Launch Committee members collectively have spent, and will continue to spend, working on these efforts on a volunteer basis without any compensation. The funds that have been collected or pledged to date are expected to be sufficient to cover the start-up costs that will be incurred through the second quarter of 2026.

This leaves a gap from mid-2026 until early 2028, when the ROWE is expected to assume its governance role. On February 4, 2026, representatives of the Launch Committee wrote the ISO to explain that they had been exploring possible funding mechanisms to bridge that gap. The letter formally requests that the ISO facilitate a stakeholder process to develop a proposal to fund "the ROWE's debt financed startup costs" in a way "that would be repaid by market participants."[10]

1.4 This Draft Final Proposal

This proposal for ROWE start-up funding is intended to fulfill the request of the Launch Committee. On February 5, the ISO posted a Straw Proposal, which it presented and discussed during a call with stakeholders. Sixteen sets of written comments were submitted. This Draft

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[8] *See id.*

[9] *See* September 26, 2025 letter from state regulators to Pathways Launch Committee, available [here].

[10] The letter is available [here].

Final Proposal summarizes each issue from the Straw Proposal, followed by a summary of comments on the issue and the ISO's response. In some cases, this Draft Final Proposal clarifies the approach or provides additional information in response to the comments. The overall proposal remains substantially the same as the Straw Proposal.

2. Issues in Scope

This ROWE startup funding proposal addresses two issues:

- Whether the ISO should agree to guarantee or otherwise backstop a commercial loan to the ROWE for the purpose of funding its start-up costs; and

- The rate the ISO would charge market participants beginning in 2028 to fund repayment of the loan. This includes:
  - How the costs would be allocated to market participants; and
  - The mechanics of the charge – timing and responding to possible defaults.

3. The ISO Proposes to Guarantee a Loan to the ROWE

3.1 The Straw Proposal

The Straw Proposal recommended that the ISO provide credit backing for a commercial loan or line of credit to the ROWE in an initial principal amount[11] not to exceed $8.5 million to fund the ROWE's start-up costs. The expected start-up costs of the ROWE are reflected in the proposed amount of the loan. In the ISO's view, these costs are reasonable because they reflect only necessary costs. We note that significant work to support ROWE formation has been performed by stakeholders on a volunteer basis. While donations to date have provided for formation costs such as outside legal and consulting services, the expected start-up costs below reflect services that cannot be obtained on this basis.

- Legal advice and other consulting that must be independent of stakeholders;
- A placement firm to fill key positions;
- Compensation for board members and necessary staff (likely two positions in late 2026 and five positions through most of 2027);
- Office expenses, including IT, and travel; and
- Insurance.

[11] The ISO proposes that the cap on the loan amount it is willing to back should be based on the principal amount only. The amount of interest will be difficult to calculate precisely because the repayment schedule is unknown. With that said, the ISO expects that the terms of the loan will require full repayment in 2028, which will limit the interest payable, and will insist that the interest rate must be commercially reasonable.

3.2 Comments on the Straw Proposal and the ISO's Responses

Stakeholder comments reflect widespread support for the proposal to provide credit backing for a commercial loan or line of credit to the ROWE in an initial principal amount not to exceed $8.5 million. See comments of BANC, Cal CCA, EDF, PG&E, PacifiCorp, PG&E, SDG&E, SCE, CMUA, WWG Pathways, WRA. No stakeholders opposed the ISO backing a loan to the ROWE.

Portland General requests more information about the terms of the loan. The terms remain under discussion with potential lenders and will not be finalized for some time. With that said, the ISO and the ROWE have established certain parameters. The ROWE will be the holder of the loan, with primary responsibility for repaying the bank. The ISO would guarantee repayment of the loan and insist on a commercially reasonable interest rate, which is expected to be a variable rate rather than fixed. Payments would begin in early 2028, with the entire balance likely due by the end of the year in order to reduce the interest rate relative to a longer repayment period. Given this repayment period and the need for the ISO and the ROWE to remain financially neutral, it would not be feasible to extend the period when market participants are charged, as the EDF suggested we consider. Market participants must pay the ROWE charges on essentially the same schedule when loan repayments are due. If stakeholders wish to know more about other possible terms, please ask during the March 19 call.

EDF also commented on the ROWE's planned start-up spending, asking that it keep spending low in order to minimize charges to market participants. EDF observes that if additional funding becomes available to ROWE in the future, such as through a future grant from DOE or other sources, these funds could help offset the need for the full loan amount and ultimately reduce costs for market participants.

The ISO clarifies that the ROWE would be authorized to draw on the line of credit as needed for its expenses. The ISO believes the ROWE has proper incentives to incur expenses prudently, and that its board will provide appropriate oversight of spending. With that said, stakeholders will be able to raise questions or concerns about expenditures to the ROWE, which we expect will continue to follow transparent stakeholder processes similar to those followed during the ROWE formation process.

4. Rate Recovery – Cost Allocation

4.1.1 Straw Proposal

In the Straw Proposal, the ISO proposed to establish a new, distinct set of charges that allocate the start-up costs of the ROWE in proportion to market participants' benefits. These charges would begin in 2028 when the ROWE is expected to begin exercising its authority over market rules. These new charges would enable the ROWE to recover the amount needed to repay the loan. The ISO proposed that the charges to recover ROWE start-up debt financing costs would resemble Grid Management Charge (GMC) elements already used to recover ISO costs for administering the markets, exclusive of BAA-specific costs like transmission planning, interconnection studies, and congestion revenue rights. Doing so provides an already-approved platform for similar costs and uses cost allocation methodologies that have been approved by FERC and with which market participants are already familiar. Specifically, the ISO proposed that the ROWE charges would mirror the allocation and assessment methodologies of the market services charge and the system operations real-time dispatch charge, applying to both load and supply. As explained in detail in the ISO's 2023 Cost-of-Service study and related GMC filing with FERC,[12] the market services charge is designed to allocate the general costs of implementing and operating the ISO's markets. The system operations real-time dispatch charge then allocates the costs of real-time dispatch services specifically. Because the ROWE would have authority over the markets, duplicating the two market-based charges provides appropriate cost allocation methodologies for analogous ROWE start-up costs. These new ROWE charges would supplement, not replace, the existing market services charge and system operations real-time dispatch charge because they result from new, separate costs incurred by and benefits arising from the ROWE. The ISO also proposed to use the existing Cost-of-Service ratios to determine what percentage of ROWE start-up costs are allocated to the two new ROWE charges: 68% of ROWE start-up costs to the ROWE market services charge and 32% to the ROWE system operations real-time dispatch charge.

4.1.2 Comments on the Straw Proposal and the ISO's Responses

Most stakeholders generally supported or did not comment on the ISO's cost allocation proposal. The California utilities—PG&E, SDG&E, SCE, and the Six Cities—however, advocated that the ISO should change its proposal to assess ROWE costs based on real-time market participation only. The CPUC Energy Division likewise expressed concern that the proposed allocation could disproportionately affect California ratepayers because the CAISO BAA may bear a larger share of costs under the combined Day-Ahead and Real-Time allocation approach. The California utilities noted that day-ahead volumes are substantially larger than the incremental market volumes used for real-time balancing transactions, and as a result, participants in the day-ahead market will be assessed a greater proportion of the costs for the ROWE than market participants that only use the WEIM. SCE also expressed that this could create "an inequitable outcome akin to a free-rider scenario for WEIM-only participants."

Although the ISO agrees with the California utilities that real-time market participation is the only "common denominator" among all ROWE beneficiaries, the ISO disagrees that the benefits are the same between those customers that participate in both markets compared to those that participate in real-time only through the WEIM. The ISO believes that market participants in the day-ahead market benefit from the ROWE commensurate with their participation in that market.[13] A utility in the day-ahead market, for example, has virtually all of its demand and

[12] Available here.

[13] In its comments, the CPUC Energy Division expressed that it was unclear what benefits the ISO was referring to in the Straw Proposal discussion of the cost allocation methodology, asking whether this was meant to refer to a WEIM or EDAM benefits methodology. The ISO clarifies here that this reference was meant more generally to refer to a market participant's benefits from the ISO markets to the extent they use them, similar to how a retail ratepayer benefits from the electric grid based on its use. The ROWE

generation optimized by the ISO markets. In contrast, a utility participating in the real-time market only, brings only its imbalance needs to those markets—the incremental amount that has changed from its own base schedules. These volumes represent a lighter use of the market and therefore these customers are receiving less of a benefit from the market in general and from the value that the ROWE will provide to the market participants. Allocating costs based on real-time participation only would ignore the significant day-ahead benefits and result in day-ahead users free riding on them. Doing so would not follow cost causation principles, and would lead to real-time-market-only users subsidizing the day-ahead market beneficiaries.

A few stakeholders also expressed concern that this methodology for start-up costs should not establish precedent for future, ongoing ROWE cost allocation. The ISO agrees and reiterates that this proposal is limited to start-up costs only. A future stakeholder initiative will be required to assess and approve a collection and cost allocation methodology for ongoing ROWE costs, assuming such costs will be collected through the ISO.

SRP also sought clarification on how ROWE charges would apply to EDAM Scheduling Coordinators with transmission rights on an EDAM transmission system provider system but not otherwise be a member in WEIM or EDAM. The ISO clarifies that the ROWE charges are assessed on all scheduling coordinators' demand, energy, or ancillary services in the ISO day-ahead and real-time markets, regardless of whether that entity represents an EDAM entity. The assessment of the ROWE charges corresponds to the use of the markets, as described above. If SRP relies on existing transmission contracts or transmission ownership rights, the ISO clarifies how they are assessed ROWE charges just like GMC in Section 4.1.3, below. Effectively, the ISO assesses administrative costs on the ETC/TORs transmission schedules rather than the generation or demand on either side of the use of the transmission.

4.1.3 Draft Final Proposal

The ISO does not propose any changes to its proposed cost allocation methodology. The ISO proposes that the charges to recover ROWE start-up debt financing costs will mirror the allocation and assessment methodologies of the market services charge and the system operations real-time dispatch charge, applying to both load and supply. As explained in detail in the ISO's 2023 Cost-of-Service study and related GMC filing with FERC,[14] the market services charge is designed to allocate the general costs of implementing and operating the ISO's markets. The system operations real-time dispatch charge then allocates the costs of real-time dispatch services specifically. Because the ROWE would have authority over the markets, duplicating the two market-based charges provides appropriate cost allocation methodologies to assess ROWE benefits. As described above, this design also recognizes and allocates the

charges would assess costs based on use proportional to ISO markets use. The ISO did not intend to refer to any benefits from a particular benefits study or counterfactual comparing being in or out of specific markets.

[14] Available here.

distinct costs and benefits between day-ahead market and real-time market use compared to only incremental real-time market use.

These new ROWE charges would supplement, not replace, the existing market services charge and system operations real-time dispatch charge because they result from new, separate costs incurred by and benefits arising from the ROWE. The ISO believes that creating new, separate charges for these costs is preferable to simply adding the ROWE costs onto the ISO's existing market services charge and the real-time dispatch charge. Creating new charges provides market participants and stakeholders with greater transparency and helps separate distinct ROWE costs and benefits from ISO markets costs and benefits.

The ISO also proposes to use the existing Cost-of-Service ratios to determine what percentage of ROWE start-up costs are allocated to the two new ROWE charges. The ISO would allocate 68% of ROWE start-up costs to the ROWE market services charge and 32% to the ROWE system operations real-time dispatch charge. The ISO will assess the new ROWE market services charge and ROWE system operations real-time dispatch charge to the same market participants that pay their GMC analogs in the day-ahead and/or real-time markets today. The GMC charges are already vetted, approved, and established to reflect that market participants benefit from the ISO markets in proportion to their participation in those distinct markets. A market participant in the WEIM only, for example, incurs only GMC costs based on its real-time market participation; it is not assessed charges on its base schedules because those schedules were not optimized by the markets operated by the ISO.[15] In contrast, a market participant in the day-ahead and real-time markets (including EDAM market participants) would be assessed charges in both the day-ahead and real-time markets. This cost allocation reflects the significant optimization benefits a market participant receives by participating in the day-ahead market. Instead of only having its imbalance optimized in the real-time market, virtually all of its load and generation is optimized through the day-ahead market.

As such, the ISO proposes to assess the ROWE market services charge to scheduling coordinators based on their energy (MWh), virtual energy or demand (MWh), and ancillary services (MW in an hour).[16] The ISO proposes to assess the ROWE system operations real-time dispatch charge to scheduling coordinators based on their supply and demand (MWh) in the real-time markets.[17] Based on the 2026 forecasted volumes in these billing determinants, the combined new ROWE charges for loan repayment would be less than 2 cents per MWh. Presumably, 2028 market volumes will be significantly greater due to a full year operation of the

[15] *See* Section 29.11(i) of the tariff.

[16] *See* Appendix F, Schedule 1, Part A (1) of the tariff.

[17] The ISO does not propose to alter how it assesses administrative costs like GMC and now the ROWE charges on existing transmission contracts (ETCs)—transmission rights that predate the ISO—and transmission ownership rights (TORs)—rights to transmission within the ISO BAA but not under the transmission control agreement. *See* Sections 26.1(d), Part A of Appendix F to the CAISO tariff. Effectively, the ISO assesses administrative costs on the ETC/TORs transmission schedules rather than the generation or demand on either side of the use of the transmission.

EDAM, which would drive these per MWh charges even lower. See Appendix A: Cost Allocation and Cost Recovery for examples of these charges in practice.

In the straw proposal, the ISO noted that this methodology "could *potentially* be used as a model for funding the ROWE's ongoing post-start-up ROWE costs," but this would not happen without "a future stakeholder proceeding, most likely in 2027, devoted to that topic." To address concerns regarding whether this language meant the same methodology would be used in that proceeding, we clarify that no decisions are being made in the current proceeding with respect to either the collection methodology or the cost allocation that may be considered or adopted with respect to those future ongoing ROWE costs. Those issues will be fully considered and addressed only in the future stakeholder proceeding.

5. Rate Recovery – Billing and Payment

The tariff amendments will need to reflect how the ISO will invoice and collect these charges. The relevant tariff sections and resulting invoice charges are expected to become effective in 2028.

5.1 ROWE Charges Will Appear on Settlement Statements

5.1.1 Straw Proposal

The straw proposal recommended that the ROWE charge appear on the daily settlement statements of the relevant Scheduling Coordinators, similar to other settlement charges.

5.1.2 Comments on the Straw Proposal and the ISO's Responses

Portland General requested that the ROWE charges be clearly distinguishable other from other settlement charges so that market participants can readily identify, validate, and, if necessary, submit disputes. The ISO can confirm that the new ROWE startup charge will have a distinct charge code, so that it can be distinguished from other ISO settlement charges. Information sufficient to validate the charges will be provided to affected market participants, similar to the supporting details that the ISO provides for other settlement charges.

We note that Portland General's comments also seem to reflect an assumption that the ROWE charge will be a component of the Grid Management Charge. The ISO wants to clarify that this is not the case and, in particular, the ROWE charge will not count toward the cap on the Grid Management Charge in tariff section 11.2.2.5.

BANC commented that the tariff amendments may "reside in the ROWE tariff," and requests clarification about the ISO's plans for this issue. We do not believe that this would be viable for the ROWE start-up funding charges. It must be the ISO, as opposed to the ROWE, that collects the ROWE start-up charge. If the ISO at any point needs to make payments directly to the bank – e.g., in the event the ROWE were to fail – the ISO would need to be holding the funds in order to avoid the need to possibly draw on ISO corporate funds. This requires amendments to the

ISO tariff. Moreover, these amendments are time-sensitive, as the ISO needs them to be accepted by FERC before the ISO guarantees the loan. For these reasons among others, including that there is no ROWE tariff at this time, the ISO will need to add these terms to its own tariff later this year.

5.2 Invoicing, Default and Collection

5.2.1 Straw Proposal

The Straw Proposal recommended that the ROWE start-up debt financing charges should appear on the weekly market invoices that the ISO issues each Wednesday, as opposed to invoicing these charges separately. This would mean that any losses that may result from a payment default on a market invoice that includes ROWE start-up charges would ultimately be allocated across the entire ISO market pro rata.[18] In addition, the ROWE would not be included in any allocation of default losses, but instead receive payment in full similar how the ISO treats other internal accounts, such as the CRR or RAAIM balancing accounts.[19]

5.2.2 Comments on the Straw Proposal and the ISO's Responses

Puget Sound Energy asks how the ISO plans to handle over- or under-collection of the ROWE startup charge.

Imprecision is inherent in the rate assessment process due to the need to use estimated volumes when setting the rate. The ISO proposes the following:

At the same time that the ISO conducts its annual revenue requirement development process for 2028, the ISO will also post ROWE start-up funding rates – estimated draft rates in October 2027 and final rates in December 2027. The amount to be collected will be calculated based on principal amount drawn to date, forecasted principal to be drawn in early 2028, accrued interest to date, and forecasted interest charges through 2028. These amounts to be collected will be allocated to the respective ROWE charge categories and divided by forecast volumes to yield the rates.

The rates set through this process will be based on inputs that will necessarily vary from the figures used for the initial calculation. The final amount of the loan to be repaid could change, because principal amounts may continue to be drawn in early 2028, and also because interest charges will be based on a variable rate of interest. And, of course, the actual transaction volumes that become the billable quantities will vary from the forecasted volumes. To account for deviations, beginning February 1, 2028, the ISO will adjust the rates at the start of each month to account for final principal amounts drawn, actual interest charges, and actual volumes

[18] *See* tariff section 11.29.17.

[19] *See* tariff section 11.29.17.1. Internal accounts such as the CRR and RAAIM balancing accounts (and the RO) would not be subject to the shortfall allocation. They would collect the full amounts due from those invoices barring the entirely unexpected possibility of defaults by nearly every market creditor.

through the charge codes. The monthly rate adjustments will ensure amounts collected through the rates are consistent with the actual principal and interest due on the line of credit.

This adjustment process should minimize the amount of ultimate over- or under- collection. Actual amounts collected nevertheless will likely differ by a de minimis amount from the final payment amount due to the bank. The ISO proposes to treat this remaining amount differently depending upon whether or not the ROWE is operating. Assuming the ROWE is operating as intended, the over- or under- collected amount will be added to or subtracted from the ROWE's operating budget needs in 2029 (which will be established in a separate, later stakeholder proceeding). If the ROWE is not operating, the ISO will treat the difference in the same manner it treats expense variances from GMC, using operating reserves and revenue requirement adjustments through the operating reserve credit.

5.3 The Repayment Scenario Could Affect the Pace of Charges to Market Participants

5.3.1 Straw Proposal

The Straw Proposal observed that, while the ISO expects repayment of the full amount of the loan to be due in 2028, there is some possibility that the bank offering the best available loan would insist on different terms in the event the ROWE ceases operations before 2028. To be clear, the ISO does not expect the loan to include an acceleration clause and would not support it. But it remains possible that, in the event the ROWE were to fail during 2027, the repayment schedule for the loan could accelerate into 2027, in which case the ROWE start-up debt financing charges would need to begin at that time.

5.3.2 Comments on the Straw Proposal and the ISO's Responses

Salt River comments on the possibility that the loan repayment schedule could accelerate into 2027. They ask the ISO to confirm that any such change to the expected repayment schedule – i.e., ROWE charges beginning before January 2028 – would be addressed through a stakeholder process, with adequate notice to impacted entities.

The ISO emphasizes that it expects the ROWE charges to begin in January 2028, that it would not favor an acceleration clause in the loan, and that would oppose such a clause if a bank were to propose one. But to prepare stakeholders, the ISO is addressing this unexpected yet possible outcome through this stakeholder process.

The ISO commits to inform stakeholders if the loan secured by the ROWE does contain an acceleration clause. However, if that occurs and the acceleration clause were triggered, the ISO would be able to provide only a short advance notice to stakeholders before the ROWE charge would need to take effect. Further discussion with stakeholders would not be feasible at that point due to the ISO's need to begin collecting funds to repay the bank.

6. Draft Tariff Language

Together with this Draft Final Proposal, the ISO is posting draft tariff language for stakeholder review and comment.

7. Stakeholder Engagement and Western Energy Markets (WEM) Governing Body Role

6.1 Next Steps

Milestone	Date
Stakeholder Call on Draft Final Proposal and Draft Tariff Language	March 19
Comments Due on Draft Final Proposal and Draft Tariff Language	April 2
Decisions by WEM Governing Body and ISO Board of Governors	April 28-29

6.2 Western Energy Markets Governing Body Role

An ISO commitment to guarantee a loan or line of credit in the amounts contemplated would require approval of the ISO Board of Governors. The WEM Governing Body would have no role in this decision, because the delegation of authority to the WEM Governing Body extends only to proposed amendments to market rules.

The proposed tariff amendment to charge market participants the ROWE start-up debt financing rate would fall within the primary authority of the WEM Governing Body under the strict letter of the rules. Specifically, the WEM Governing Body has primary authority over any proposal to change or establish any ISO tariff rule(s) applicable to the Extended Day Ahead Market (EDAM) or Western Energy Imbalance Market (WEIM) Entity balancing authority areas, EDAM or WEIM entities, or other market participants within the EDAM or WEIM Entity balancing authority areas. This scope excludes from primary authority, without limitation, any proposals to change or establish tariff rule(s) applicable only to the CAISO balancing authority area or to the CAISO-controlled grid per charter for WEIM and EDAM Governance § 2.2.1. The tariff rule changes contemplated here would be "applicable to WEIM/EDAM Entity balancing authority areas, WEIM/EDAM Entities, or other market participants within WEIM/EDAM Entity balancing authority areas, in their capacity as participants in the WEIM/EDAM." None of the proposed tariff rules would be applicable "only to the CAISO balancing authority area or to the CAISO-controlled grid." Accordingly, the ROWE start-up debt financing rate would fall within the scope of primary authority.

With that said, this initiative involves unique factors that may lead the Board and WEM Governing Body to consider departures from the usual approach. These factors include that the proposed loan guarantee, which the Board would need to approve, is intertwined with approval of the proposed rate recovery mechanism. Moreover, the entire initiative is intended to facilitate significant structural changes to governance of the markets, as opposed to any particular market rule change.

Stakeholders did not submit any comments on this issue in response to the Straw Proposal.

Appendix A: Cost Allocation and Cost Recovery

The examples in this appendix are provided for illustrative purposes only. They are intended to demonstrate, at a simplified level, how the proposed ROWE Supplemental Charges could be allocated and recovered through existing ISO billing determinants and rate structures.

These examples do not reflect a complete ISO settlement statement and do not include incidental, ancillary, or other tariff-based charges that may apply under normal settlement conditions (*e.g.*, other market charges, congestion revenue rights, bidding charges, penalties, etc.). Actual bill impacts may differ.

Key Assumptions

The example cost allocation and projected cost recovery are based on the following assumptions:

1. For these examples only, the assumed total ROWE start-up debt financing funding recovery amount (inclusive of principal and interest) is estimated to be $8 million. Changes to the actual principal and interest required to be collected will result in immaterial variance in these examples.
2. Recovery period is January 1, 2028 through December 31, 2028 (one calendar year).
3. Cost category allocation percentages are based on the current cost allocation framework (*i.e.*, cost category percentages derived from the most recent approved Cost-of-Service study).
4. Rates and billing determinants use the 2026 GMC rate amounts, as calculated using estimated 2026 MWh volumes.
5. ROWE Supplemental Charges will be assessed on full load volumes, with no adjustment for any EDAM transitional load ramp-in effects.

A.1 Cost Allocation and Cost Recovery

The estimated $8 million recovery requirement is allocated across the equivalent to two GMC-related cost categories that align with existing ISO cost recovery and billing determinants:

- Market Services: customer participation in the day-ahead and real-time markets.
- System Operations Real-Time Dispatch: final metered values related to customer participation.

A.2 Settlement Examples

The following settlement examples illustrate how the ROWE Supplemental Charges may appear and be applied in customer settlements. These examples assume the applicable supplemental rates are:

- Regional Organization Market Services Supplemental Charge: $0.0067/MWh
- Regional Organization System Operations Real-Time Dispatch Supplemental Charge: $0.0041/MWh

Each example is simplified and intended only to demonstrate the incremental effect of the proposed ROWE Supplemental Charges. The example focuses on a scheduling coordinator participating in both the day-ahead and real-time markets. Physical location—CAISO BAA or non-CAISO BAA—would not matter for the applicability of the ROWE charges focused on here; however, location would matter for existing GMC charges like System Operations BAA Charge and CRR Services Charge, which are not assessed outside of CAISO. The charges in examples 1 and 2 apply to CAISO BAA scheduling coordinators and to non-CAISO BAA scheduling coordinators participating in EDAM or EIM, except for the charge denoted by an asterisk.

Table 1: Load Settlement Example

Example 1: Load Settlement Example (Demand)

Scenario: A Scheduling Coordinator (SC) represents load that consumes 200MWh in the CAISO Day-Ahead Market, which materialized in Real-Time. Charges below represent what the SC will pay the CAISO.

Variables	Quantity / Price Per Unit	Unit
Day-Ahead energy	200	MWh
Day-Ahead LMP	$ 65.00	/MWh
Market Services Charge	$ 0.1416	/MWh
Regional Organization Market Services Supplemental Charge	$ 0.0067	/MWh
System Operations Balancing Authority Area Services Charge	$ 0.1356	/MWh
System Operations Real-Time Dispatch Charge	$ 0.0901	/MWh
Regional Organization System Operations Real-Time Dispatch Supplemental Charge	$ 0.0041	/MWh

Charge Example	Amount	Formula
CAISO Energy Settlement	$ 13,000.00	(200MWh * $65/MWh)
Market Services Charge	$ 28.32	(200MWh * $0.1416/MWh)
Regional Organization Market Services Charge	$ 1.34	(200MWh * $0.0067/MWh)
System Operations Balancing Area Authority Charge*	$ 27.12	(200MWh * $0.1356/MWh)
System Operations Real-Time Dispatch Charge	$ 18.02	(200MWh * $0.0901/MWh)
Regional Organization System Operations Real-Time Dispatch Supplemental Charge	$ 0.82	(200MWh * $0.0041/MWh)

**This charge is not applicable for EDAM transactions*

Table 2: Generation Settlement Example

Example 2: Generation Settlement Example (Supply)

Scenario: A generator cleared 100MWh in Day-Ahead but is dispatched down to 60MWh in Real-Time and metered at 60MWh.
Charges below represent what the Generator will pay the CAISO.

Variables		Quantity / Price Per Unit	Unit
Day-Ahead award		100	MWh
Actual metered generation		60	MWh
Deviation		-40	MWh
Day-Ahead LMP	$	40.00	/MWh
Real-Time LMP	$	120.00	/MWh
Market Services Charge	$	0.1416	/MWh
Regional Organization Market Services Supplemental Charge	$	0.0067	/MWh
System Operations Balancing Authority Area Services Charge	$	0.1356	/MWh
System Operations Real-Time Dispatch Charge	$	0.0901	/MWh
Regional Organization System Operations Real-Time Dispatch Supplemental Charge	$	0.0041	/MWh

Charge Example		Amount	Formula
CAISO Energy Settlement (net)	$	800.00	-1 *((100MWh * $40/MWh) + (-40MWh * $120/MWh))
Market Services Charge	$	19.82	(ABS(100MWh - -40MWh)) * $0.1416/MWh)
Regional Organization Market Services Charge	$	0.93	(ABS(100MWh - -40MWh)) * $0.0067/MWh)
System Operations Balancing Area Authority Charge*	$	8.14	(60 MWh * $0.1356/MWh)
System Operations Real-Time Dispatch Charge	$	5.41	(60 MWh * $0.0901/MWh)
Regional Organization System Operations Real-Time Dispatch Supplemental Charge	$	0.25	(60 MWh * $0.0041/MWh)

**This charge is not applicable for EDAM transactions*

Table 3: WEIM Imbalance Energy Settlement Example

Example 3: EIM Imbalanced Energy Settlement Example (Demand)

Scenario: An EIM participant has a +25 MWh short imbalance (needs to buy energy).
Charges below represent what the EIM SC will pay the CAISO.

Variables		Quantity / Price Per Unit	Unit
EIM imbalance		25	MWh
EIM LMP	$	55.00	/MWh
EIM Market Services Charge	$	0.0913	/MWh
Regional Organization Market Services Supplemental Charge	$	0.0067	/MWh
System Operations Real-Time Dispatch Charge	$	0.0901	/MWh
Regional Organization System Operations Real-Time Dispatch Supplemental Charge	$	0.0041	/MWh

Charge Example		Amount	Formula
CAISO EIM Energy Settlement	$	1,375.00	(25MWh * $55/MWh)
EIM Market Services Charge	$	2.28	(25MWh * $0.0913/MWh)
Regional Organization Market Services Charge	$	0.17	(25MWh * $0.0067/MWh)
System Operations Real-Time Dispatch Charge	$	2.25	(25MWh * $0.0901/MWh)
Regional Organization System Operations Real-Time Dispatch Supplemental Charge	$	0.10	(25MWh * $0.0041/MWh)

A.3 Summary Observations

Across all examples:

- The ROWE Supplemental Charges are applied on a volumetric $/MWh basis, consistent with the underlying GMC cost recovery constructs.
- Total recovery is designed to match the $8 million obligation, assuming volumes materialize as projected.

Attachment D – Board Memo

Tariff Amendment – Startup Funding for the Regional Organization for Western Energy

California Independent System Operator Corporation

June 11, 2026

Memorandum

To: ISO Board of Governors

From: Ryan Seghesio, Vice President, Chief Financial Officer and Treasurer

Date: April 22, 2026

Re: Decision on Regional Organization and Western Energy loan guarantee for start-up funding

This memorandum requires action by the ISO Board of Governors.

EXECUTIVE SUMMARY

This memorandum seeks authorization to guarantee a commercial loan or line of credit for Regional Organization for Western Energy (ROWE) to fund its startup activities. This is part of a broader proposal that involves recovering the costs from market participants.

Since the passage of California Assembly Bill 825 last year, the West-Wide Governance Pathways Initiative has been working with the ISO on key steps needed to bring the Pathways Step Two Final Proposal to fruition. The centerpiece of that proposal involves transferring certain governance responsibilities over the regional energy markets operated by the ISO to a new independent entity – the ROWE – which is a corporate entity separate from the ISO. The goal of this change is to promote the broadest possible participation in the regional markets operated by the ISO, which will benefit all market participants and consumers by reducing electricity costs and enhancing reliability.

Management's full proposal contemplates that, in mid-2026, shortly after the ROWE seats its initial independent Board, the ROWE will enter into a loan or commercial line of credit with a commercial bank in a principal amount not to exceed $8.5 million. This will provide the ROWE with the balance of its start-up funding. The ROWE will be responsible for making payments on the loan, with the ISO serving as guarantor. A guarantee will be necessary to obtain the loan because the ROWE at that point would not be creditworthy. The ROWE would draw upon the loan on an incremental basis throughout the start-up period to cover its initial costs. The loan or line of credit would be structured so that the ROWE's repayment obligations would not commence until 2028, after the ROWE is expected to assume its governance responsibilities.

To enable the ROWE to repay the loan, Management is also, separately, proposing tariff amendments that would establish a cost recovery mechanism. The amendments, which would take effect shortly before the loan repayments commence, would enable the ISO to collect a rate from market participants that would be remitted to the ROWE for payment to the lender. Although this rate would be distinct from what the ISO charges to recover its own costs, it would be allocated in fundamentally the same way the ISO recovers its own market-related costs. The tariff amendments to implement this cost recovery mechanism are being proposed to the WEM Governing Body at its April 28 meeting and, if approved, will be on the Board's April 30 consent agenda. In contrast, this proposal is being submitted to the Board only, and not the WEM Governing Body, because it does not involve a tariff amendment and thus falls outside the delegation of authority to the WEM Governing Body.

This proposal to provide credit backing for a commercial loan or line of credit to the ROWE has widespread stakeholder support.

This memorandum recommends that the Board authorize Management to guarantee a commercial loan or line of credit to the ROWE up to a principal amount of $8.5 million, contingent on FERC ultimately accepting the tariff amendments establishing a cost recovery mechanism. This loan, which would fund the balance of the ROWE's expected startup expenses, is necessary to enable the ROWE to move ahead and ultimately assume its independent governance role.

> ***Moved, that the ISO Board of Governors authorizes Management to guarantee a commercial loan or line of credit to the ROWE to cover its startup costs, up to a principal amount of $8.5 million, contingent upon FERC accepting the tariff amendments establishing a cost recovery mechanism, as described in the memorandum dated April 22, 2026.***

BACKGROUND

The ROWE's Need for Startup Funding

The Pathways Launch Committee, with support and encouragement from California and regional regulators,[1] has begun to implement certain aspects of the Pathways Step Two Proposal. The Launch Committee has developed and approved corporate bylaws and incorporation documents for the Regional Organization for Western Energy as well as other foundational corporate policies; appointed a temporary formation board; incorporated the ROWE in Delaware in January 2026; and started the stakeholder nomination and selection process for seating its independent board. The ISO has provided technical advice and input for the Pathways team as required.

To fund these efforts, the Pathways Launch Committee relied primarily on voluntary donations from Pathways participants and supporters. They also have sought, and expect to receive, some grant funding from nonprofit foundations that are not directly involved in the Pathways effort. The funds that have been collected or pledged to date are expected to be sufficient to cover the start-up costs that will be incurred through the second quarter of 2026.

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[1] *See* September 26, 2025 letter from state regulators to Pathways Launch Committee, available here.

This leaves a gap from mid-2026 until early 2028, when the ROWE is expected to assume its governance role.

On February 4, 2026, representatives of the Launch Committee wrote the ISO to explain that they had been exploring possible funding mechanisms to bridge that gap. The letter formally requests that the ISO facilitate a stakeholder process to develop a proposal to fund "the ROWE's debt financed startup costs" in a way "that would be repaid by market participants."[2]

The total ROWE start-up costs at issue are currently projected, by the Formation Committee of the Pathways Initiative, to be between approximately $7 and $8 million, and approval for up to $8.5 million provides a moderate contingency allowance. These start-up costs are expected to be incurred during the period approximately between early 2026 and early 2028, when the ROWE will be working with the ISO to achieve the milestones needed for it to assume its governance role. The expenses primarily include costs for paying the ROWE's independent Board during the start-up period, retaining staff and consultants to perform key start-up activities, and other incidental expenses relating to start-up such as the costs for equipment, insurance and other vendor fees.

Proposal for Cost Recovery Mechanism

Management is seeking approval from the WEM Governing Body for tariff amendments that would establish a cost recovery mechanism. The amendment would establish new settlement charges to appear on daily settlement statements. The charges will be structured and allocated like the parts of the ISO's grid management charge (GMC) that currently recover the ISO's costs for operating its market. Based on current forecasted volumes in these billing determinants, the combined new ROWE charges for loan repayment would be less than 2 cents per MWh. The amendments would become effective shortly before loan repayments commence in 2028, so that the ISO can remit amounts to the ROWE to repay the loan.

PROPOSAL TO GUARANTEE A LOAN OR LINE OF CREDIT

The proposal to guarantee a commercial loan or line of credit to the ROWE requires Board authorization because the amount will exceed the dollar limit on the authority that the Board has delegated to Management for financial commitments.

Management specifically seeks authorization to guarantee a commercial loan or line of credit to the ROWE in a principal amount[3] not to exceed $8.5 million. Management would work with ROWE and commercial banks to ensure that any loan or line of credit includes reasonable terms, and that payments would begin and end with full repayment

[2] The letter is available here.

[3] Management proposes that the cap on the loan amount it is willing to back should be based on the principal amount only. The amount of interest will be difficult to calculate precisely because the repayment schedule is not yet known.

during 2028. The authorization would be conditioned on the ultimate acceptance by FERC of a tariff amendment to facilitate recovery of the costs of the loan from market participants.

A commercial loan or line of credit will be necessary to fund the projected startup costs of the ROWE, which Management believes are reasonable, and to enable the ROWE to ultimately assume its role in providing independent governance for the markets.

POSITIONS OF THE PARTIES

Stakeholder comments reflect widespread support for the proposal to provide credit backing for a commercial loan or line of credit to the ROWE in a principal amount not to exceed $8.5 million. During the course of the stakeholder proceeding, Management responded to requests for additional details about the expected financing arrangement.

CONCLUSION

The proposed credit guarantee is necessary for the ROWE to obtain a commercial loan or line of credit, and to continue work toward assuming its governance responsibility. Accordingly, Management recommends that the Board authorize Management to proceed subject to the limits and conditions specified in this memorandum.