

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. ER26-2789-000**

**Updated Attachment D of Tariff Amendment to Support Startup
Funding for the Regional Organization for Western Energy**

Dear Secretary Reese:

On June 11th, 2026, the California Independent System Operator Corporation (CAISO) submitted a 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."

Due to an administrative error, an incomplete version of Attachment D, Memoranda for WEM Governing Body and CAISO Board of Governors, was included in the initial filing. The CAISO now files this updated and complete Attachment D, Memoranda for WEM Governing Body and CAISO Board of Governors.

Respectfully submitted,

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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.

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 amount³ 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.

Memorandum

To: Western Energy Markets Governing Body
From: Ryan Seghesio, Vice President, Chief Financial Officer and Treasurer
Date: April 21, 2026
Re: Decision on rate design for Regional Organization for Western Energy start-up funding

This memorandum requires action by the Western Energy Markets Governing Body (primary authority) and the ISO Board of Governors (consent agenda).

EXECUTIVE SUMMARY

This memorandum seeks approval for tariff amendments to implement a cost recovery mechanism in support a broader proposal to provide start-up debt financing for the Regional Organization for Western Energy (ROWE).

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 to secure the debt financing part of the start-up funding amount. 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 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. Management will be seeking authorization from the ISO Board of Governors at its April 30, 2026, general session meeting to provide this guarantee for the ROWE. This authorization would be contingent upon FERC acceptance of a tariff-based mechanism to enable repayment of the loan.

This memorandum concerns the proposed tariff amendments to recover the costs of the loan from market participants. 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 separate 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.

Most stakeholders generally supported or did not comment on the ISO's cost recovery proposal. There were several that were concerned that this cost recovery mechanism would be used for the on-going funding needs of the ROWE and, therefore, argued that this approach unfairly allocates more to day-ahead market participants than justified. Management is committed to continuing to work with the ROWE and stakeholders on developing the long-term funding strategy for the ROWE, which could employ a different approach to allocating the costs.

Management recommends approval of the proposed cost recovery mechanism, which would ensure a reasonable 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.

Moved, that the Western Energy Markets Governing Body approves the proposed tariff amendment to establish a cost recovery mechanism for ROWE start-up costs, as described in the memorandum dated April 21, 2026, and requests that Management place this initiative on the ISO Board of Governors' April 30, 2026, consent agenda; and

Moved that the Western Energy Markets Governing Body authorizes Management to make all necessary tariff revisions and appropriate filings with the Federal Energy Regulatory Commission to implement the changes proposed in the memorandum dated April 21, 2026.

BACKGROUND

The ROWE's Need for Start-up 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

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

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 have also 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. 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 start-up costs” in a way “that would be repaid by market participants.”²

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 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 to Guarantee Loan

To support the ROWE and the Pathways initiative, Management will seek authority from the ISO Board of Governors during its general session meeting on April 30, to provide credit backing for a commercial loan or line of credit to the ROWE to fund the ROWE’s start-up costs in an initial principal amount 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, including a payment schedule that would begin and end with full repayment during 2028.³

This proposal will be submitted to the Board of Governors only, and not the WEM Governing Body, because it does not involve a tariff amendment. The proposal will be conditioned,

² The letter is available [here](#).

³ Management would oppose any terms that might accelerate the payment schedule, even if the acceleration could be triggered only under circumstances that are not anticipated. But in the unlikely event such terms are necessary to secure a loan on otherwise reasonable terms, and that the acceleration clause were triggered, it is possible that the tariff amendments described here might become effective earlier than 2028.

however, on the ultimate acceptance by FERC of a tariff amendment to facilitate recovery of the costs of the loan from market participants. The proposed tariff amendment is described below.

PROPOSAL FOR COST RECOVERY MECHANISM

This memorandum seeks the Governing Body's approval of the tariff amendment to establish a cost recovery mechanism. This proposed amendment would become effective shortly before loan repayments commence, so that the ISO can remit amounts to the ROWE for loan repayment. It would establish two new settlement charges – a market services charge and a real-time dispatch charge - that appear on daily settlement statements, for billing and collection like other settlement charges. This approach is similar to how other ISOs and RTOs administer and recover costs for affiliated stakeholder, governing, and regulatory bodies.

The new charges will be structured like the parts of the ISO's Grid Management Charge (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 ISO 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. The ISO selected these readily available models in light of time constraints, because the GMC charges allocate similar costs, use cost allocation methodologies that have been approved by FERC and are familiar to market participants. 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.

These two new ROWE charges would supplement, not replace, the current 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 would use the currently effective 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.

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.

Management emphasizes that this proposed cost recovery mechanism will apply to these limited start-up charges only. It will not constrain any forthcoming stakeholder processes concerning ongoing ROWE costs, with respect to the collection methodology, the cost allocation or any other issue.

Monthly Adjustment and Over- or Under-collection

The ISO will calculate the rates to be charged using estimated volumes, and likely also estimates of the principal amount the ROWE will draw on the loan and the ultimate interest charges (assuming the loan has a variable rate). So that the amounts collected from market participants approximate as closely as possible the amount due on the loan, Management proposes the following.

When 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. Beginning February 1, 2028, the ISO will adjust the rates at the start of each month based on the latest available information.

The remaining amount after the final payment to the bank 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. In the event the ROWE is no longer 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.

POSITIONS OF THE PARTIES

The ISO 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.

Most stakeholders generally supported or did not comment on the ISO's cost recovery proposal. The California utilities—PG&E, SDG&E, SCE, and the Six Cities—however, advocated in response to the issue paper and straw proposal that the ISO should change its proposal in order to assess ROWE costs 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 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.”

Management believes that the proposed methodology based on the ISO's currently effective cost allocation is reasonable and fair for the limited purpose of start-up financing. In particular, Management believes it is reasonable to charge more of the limited start-up 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.

CONCLUSION

The proposed cost recovery mechanism would provide for a reasonable sharing of the ROWE's start-up costs among market participants. It is necessary for the ISO to guarantee a commercial loan or line of credit to ROWE, thereby enabling the ROWE to continue work toward assuming its governance responsibility. Accordingly, Management recommends that the WEM Governing Body approve the proposed tariff amendment.