

Pathways Step 2 Fact Sheet - September 2024

What is the Westwide Governance Pathways Initiative?

The Westwide Governance Pathways Initiative (Pathways Initiative) is an effort led by a group of stakeholders from the eleven western states in the Western Interconnection (Arizona, California, Colorado, Idaho, Montana, New Mexico, Nevada, Oregon, Utah, Washington, and Wyoming) with the goal of creating a new entity with independent governance capable of offering an expansive suite of West-wide wholesale electricity market functions across the largest possible footprint.

What are the 3 Steps?

- **Step 1: Early success.** This step demonstrated early commitment to the regulators' vision of independent governance by elevating the authority of the Western Energy Market Governing Body from joint authority with the CAISO Board of Governors to primary authority over the Western Energy Imbalance Market (WEIM) and the Extended Day-Ahead Market (EDAM). These substantive changes in decision-making authority can occur within the scope of existing law. *This change was unanimously approved by both bodies on August 13, 2024.*
- **Step 2: Durable, independent governance of markets and other potential services.** This step includes forming a new, independent Regional Organization (RO) that would have sole authority over the WEIM and EDAM. It implements the regulators' vision of a regional energy market with a large and inclusive footprint, maximizing independence while retaining and leveraging the existing market infrastructure to minimize costs.
- **Step 3: Beyond the Pathways Initiative.** Solutions in Steps 1 and 2 have been developed with a clear line of sight to enable potential additional voluntary future regional services beyond the scope of existing energy markets. The Launch Committee refers to this later evolution of additional services as Step 3.

How did the Launch Committee develop the Step 2 Proposal?

In addition to recommending Step 1, the first Straw Proposal also included several options for Step 2 for stakeholder consideration and input. With stakeholder comments and feedback in hand, in June the Launch Committee established six work groups focused on different topic areas including: RO Formation, RO Governance, Stakeholder Process, Public Interest Issues, CAISO Issues, and Tariff. These work groups met throughout the summer, drafted discussion papers and proposals, hosted seven public workshops, and collected written comments. This culminated in the Step 2 Draft Proposal.

What is in the Step 2 Proposal?

The Step 2 Draft Proposal contains the following components that serve as the foundation for establishing the RO. It is important to note that this Proposal is *not* a consensus document but a *draft* proposal with wide-ranging recommendations to solicit additional stakeholder feedback.

RO Scope and Function

- The RO will launch in the form of Option 2.0, serving as a policy-setting organization to set market rules for the WEIM and EDAM. The Launch Committee recommends that the RO consider transitioning toward Option 2.5, or a similar structure, after it performs additional analysis and receives stakeholder feedback.
- Under Option 2.0:
 - The RO will have full authority over market rules, sole Federal Power Act Section 205 rights, and ultimate authority over associated business practice manual provisions.
 - Market operations will continue to be performed and overseen on a day-to-day basis by the CAISO within the scope of its existing corporate authority, with varying levels of input from the RO.
 - The RO and CAISO rules will remain in a single integrated tariff.
 - The CAISO will remain the counterparty to existing market contracts.
- Under Option 2.5:
 - Reorganizing the tariff in Option 2.0 could enable separating the RO tariff from the CAISO tariff under Option 2.5 if the RO determines this would be beneficial.
 - CAISO will continue to operate the markets under a vendor contract with the RO.

Formation of the Regional Organization

- The RO will be incorporated as a 501(c)(3) nonprofit corporation in Delaware.

Governance of the Regional Organization

- The RO Board of Directors will be a seven-member body that exercises sole authority over the WEIM and EDAM and meets FERC independence requirements.
- Articles of Incorporation, bylaws, and other corporate documents will center on public interest protections and transparency.
- Public Policy Committee of the Board will engage with states, local power authorities, and federal power marketing administrations about potential impacts to state, local, or federal policies before final board adoption of a tariff change or an initiative through the stakeholder process.

Public Interest protections

- The focus and definition of “public interest” is centered around the dual principles of:
 - How customer interests, including affordability and reliability, are safeguarded in non-discriminatory market design and operations; and
 - How state and local policies, even as they differ across the West, are respected in market design.
- In addition to those mentioned in other recommendations, the following suite of tools will be used to protect the public interest:

- The RO Board will embed a fiduciary duty to the public interest in its founding documents and operations.
- The existing Board Of State Regulators will engage with the RO.
- A new Consumer Advocate Organization (CAO) will be formed.
- A new Office of Public Participation (OPP) will be formed.
- There will be joint report by the Independent Market Monitor to CAISO and RO Boards.

Stakeholder Process

- Creation of a Stakeholder Representatives Committee (SRC) - as a successor to the Regional Issues Forum (RIF).
- Sectors - The Launch Committee received extensive comments on sectors and will continue stakeholder engagement to refine this recommendation.
- Classification of Stakeholder Initiatives within three categories: (1) Compliance/Non-Discretionary; (2) Compliance with State and Local Public Policy; (3) Discretionary Initiatives
- A three-part Stakeholder Process: (1) Issue Identification and Prioritization (2) Stakeholder Phase; (3) Approval by the RO Board
- Voting: Advisory voting at the individual entity level. At a minimum, voting will occur during the Policy Roadmap process and at various points during work group and initiative phases. Tabulated reporting of all underlying votes available to the RO Board and the public.

What are the next steps?

There is more work to be done to truly maximize benefits including affordability and reliability, minimize inefficiencies, and enable more clean energy resources and transmission infrastructure in the West. However, this proposal breaks through a significant barrier and enables additional progress for electricity markets through voluntary structures that the West has been working towards for decades.

- The Launch Committee will host a Stakeholder Meeting on October 4 to present the Pathways Step 2 Recommendation Draft proposal and take public questions and comments.
- Written stakeholder comments on the Pathways Step 2 Recommendation Draft proposal are due October 25.
- The Launch Committee expects to release a final Step 2 recommendation, after considering and incorporating stakeholder comments, the week of November 15.
- The Launch Committee will create a Formation Committee this fall to coordinate with the CAISO to develop and implement steps necessary to create the RO over the course of 2025 including establishing a Nominating Committee comprised of stakeholder representatives to select the initial RO Board.

Does Step 2 require California legislation?

The new RO can form and operate without any change to California law. However, for California investor-owned utilities (PG&E, SCE and SDG&E) to participate in the markets overseen by the new RO, California law must be amended. We anticipate that the California Legislature will consider legislation during its 2025 session.