

**VALLEY CLEAN ENERGY  
COMMUNITY ADVISORY COMMITTEE**

**Staff Report - Item 10**

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**TO:** Community Advisory Committee

**FROM:** Mitch Sears, Executive Officer  
Yvonne Hunter, Legislative and Project Specialist

**SUBJECT:** SB 540 (Becker). Regional Organization. West-wide Governance Pathways Initiative

**DATE:** April 24, 2025

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**RECOMMENDATION**

Staff recommends that VCE support SB 540 for the reasons described on page 10 of this staff report (page 43 of the packet).

**BACKGROUND**

At its March 27, 2025 meeting, the Community Advisory Committee (CAC) received a briefing about SB 540 and the West-Wide Governance Pathways Initiative. The CAC engaged in a lengthy discussion and raised numerous questions for staff to analyze and report on at the April 24<sup>th</sup> CAC meeting. The CAC's Legislative and Regulatory Task Group (LRTG) met four times to discuss Pathways and SB 540 with the goal of arriving at a recommendation to the full CEC on whether and if so, what position VCE should take on SB 540.

The March 27<sup>th</sup> CAC [Staff Report](#) and [slides](#) for the overview of western energy markets presented by CAC member and retired California Independent System Operator (CAISO) staff person Lorenzo Kristov are available for review.

Staff Report Overview

As a follow up to the March 27<sup>th</sup> CAC discussion, this staff report includes the following sections:

- A brief summary of the Pathways Initiative and SB 540
- A brief summary of staff's analysis of key questions posed by CAC members
- The LRTG recommendation
- Staff's recommendation
- Attachment 1: A list of questions posed by CAC members during/after the March 27<sup>th</sup> meeting and by the public with accompanying staff analysis.

**ANALYSIS**

The West-Wide Governance Pathways Initiative

Initiated in July 2023, a letter from regulators from five western states, including California, stressed the desire to find common ground in seeking the benefits of an expanded regional energy market.

Representatives and key stakeholders from those states participated in an extended effort to shape an approach to an expanded regional energy market. The resulting report, "[West-Wide Governance Initiative. Launch Committee: Step 2 Final Proposal. November 15, 2024](#)" lays out in detail the parameters of such a regional approach.

### Expanding Western Energy Markets

The key goal of the Pathways Initiative is to capture the benefits of an expanded number of states/entities participating in the soon-to-be operational Extended Day Ahead Market (EDAM), a day ahead energy market which includes states within and outside the CAISO balancing authority. This day-ahead market would work in tandem with CAISO's existing real-time Western Energy Imbalance Market (WEIM).

California's Governor-appointed CAISO Board of Governors, however, has proved to be an impediment in attracting broader interest across the West in an expanded EDAM. Several key Western balancing authorities have declined to participate in EDAM unless the CAISO's markets come under independent governance. Thus, the Pathways Initiative worked to find an alternative for regional energy markets. The result is the proposal to form an independent regional authority for energy markets.

### Why is SB 540 Needed and What it Does and Does Not Do

To participate in the proposed Regional Organization (RO), California needs SB 540 because CAISO was created statutorily and changes to its authority require legislation. Other states may also need enabling legislation or public utilities approval to participate. But, specific legislation is needed for CAISO and California to join the RO. It is important to note that all of the CAISO's other responsibilities, such as transmission planning, remain with CAISO.

CAC Committee Member Lorenzo Kristov described succinctly what SB 540 "*actually does*" as follows:

*"Does NOT establish any new functionality in western markets that is not already operational in WEIM (11 years, \$6.6 B benefits) or scheduled for EDAM in Spring 2026. These two embody the full functionality of the CAISO real-time and day-ahead markets.*

*The crucial matter SB 540 addresses is to make WEIM & EDAM more attractive to western participants, to try to achieve as large a footprint as possible (i.e., current WEIM footprint) to yield the greatest benefits.*

*The main attraction SB 540 offers western parties is that the future Regional Organization (RO) would have sole authority to propose market rule changes to FERC. Today that authority is shared between CAISO Board & independent WEM Governing Body. For some large western parties that could be pivotal in their decision to join or not.*

*SB 540 does NOT commit California to join the RO. It grants legislative authority and specifies a process for the CAISO Board to decide whether to join later, once a detailed RO proposal is fleshed out (by a multi-stakeholder "Pathways" working group) that meets the 12 requirements specified in SB 540.*

*The RO, if it goes forward, would only assume the CAISO market functions, i.e., design and operation of the DA & RT markets, and would leave other core CAISO functions under authority of CAISO Board: (a) transmission grid operation & “balancing authority” responsibility; and (b) transmission planning & cost allocation.” [emphasis included in original text]*

The bill also includes provisions to address risk. Specifically, the legislation authorizes CAISO and California utilities to participate in energy markets governed by the RO only when CAISO demonstrates that twelve statutory requirements<sup>1</sup> are met, including the following:

- Confirming that California regulatory agencies and CAISO retain control over Renewables Portfolio Standard and other procurement requirements, climate policy, transmission planning, CAISO’s interconnection queue, and resource adequacy requirements
- Providing a procedure for withdrawal from the RO if it no longer benefits California
- Maintaining the capability for CAISO to operate its own market if California decides to withdraw from the RO
- Ensuring the RO makes decisions in an open process
- Making funding available for consumer advocates to engage in the process

In evaluating the benefits, costs and options related to creating a Regional Organization (RO) to manage energy markets formerly handled by the CAISO, the Pathways Initiative built on the modeling and analyses by [The Brattle Group](#), “Preliminary Day-Ahead Markets Impacts Study: Impact of Market Footprints on California Customers”,<sup>2</sup> under a contract with the California Energy Commission.

In general, the Brattle Group study found:

“... that expansion of day-ahead markets in the WECC creates net benefits for California customers under all scenarios analyzed, with benefits ranging from approximately \$100 million/year to almost \$800 million/year depending on the market footprint that emerges in the region.”<sup>3</sup> The report also found a wider EDAM footprint and related expanded energy markets would result in improved grid reliability, reduced curtailment, lower greenhouse gas emissions and lower energy costs.

As noted in the March 27<sup>th</sup> CAC staff report, those supporting SB 540 cite the information in this study and the protections included in the legislation outlined above that reduce the risks faced by participants, including California.

As also outlined in the March CAC staff report, those in opposition to SB 540 point to the speculative nature of the benefits and the risks associated with ceding California’s control of regional markets to an independent RO.

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<sup>1</sup> See SB 540 section 345.6(a)

<sup>2</sup> The link provides a presentation by the Brattle Group to the California Energy Commission about the study’s results.

<sup>3</sup> [Brattle Group website summary of study findings](#).

Opponents express concern about the potential impacts on: (1) California’s energy and climate change policies, (2) interference by FERC into California energy and climate change policies and (3) the potential for more coal used for electricity generation in California. They also point to the potential prioritization of centralized energy production and long-term transmission over local distributed energy resources (DERs).

Key issues related to both the support and oppose positions are addressed in the section below that outlines key questions raised by the CAC and others. As noted, a more comprehensive list of questions and analysis is provided in Attachment 1.

### Questions and Analysis – Key Questions Raised by the CAC and Others

#### 1. What exactly is SB 540 (and Pathways) doing that does not already exist?

Pathways aims to expand participation across the West in the day-ahead and real-time energy markets currently managed by the California Independent System Operator (CAISO). It aims to support this expansion by creating a governance framework independent of any single state (i.e., California) and overseen by a new regional organization (RO). This change recognizes that governance independence has long been a barrier to regionalization. The California-dominated CAISO has long been a stumbling block to expanding EDAM.

#### 2. Why Is SB 540 Needed?

Since the CAISO authority and governing board was created by statute, changing the role of CAISO to separate its market function requires legislation; hence, the need for SB 540. To participate in the new RO, other states may need authorizing resolutions from their regulatory bodies, legislation or nothing.

#### 3. What About Governance? SB 540 Does Not Spell Out the RO’s Governance Structure.

While it is true that SB 540 does not specifically spell out the new RO’s governance structure, it does lay out the criteria of the “governance documents” that must be adopted in order for the CAISO to approve California’s participation. Those criteria are examined and described in detail in the Pathways Final Report and are discussed in more detail in question 5 in Attachment 1.

SB 540 states:

“Section 345.6. (1) The independent regional organization is a nonprofit corporation whose governance documents include a corporate obligation to respect the authority of each state that has a load-serving entity or balancing authority participating in the market to set its own procurement, environmental, reliability, and other public interest policies.” [emphasis added]

#### 4. How Are California’s Interests Protected in SB 540?

SB 540 includes specific provisions to protect California’s energy and climate policies.

In addition to Section 345.6 (1) above, section 345.6 (e) of SB 540 states:

“(e) (1) This section does not change any requirement related to the California Renewables Portfolio Standard Program as provided in Article 16 (commencing with Section 399.11).

(2) This section does not change the policy of the state to reach specified targets by specified dates for supplying eligible renewable energy resources and zero-carbon resources as provided in subdivision (a) of Section 454.53.”

#### 5. What If California Decides It Wishes to Leave the RO?

If California decides that the benefits it anticipated from the RO do not materialize or other problems occur, one of the twelve requirements that the CAISO must find satisfactory in the RO’s corporate governance documents is the ability of California to leave the RO.

Section 345.6(a)(12) states:

“(12) The independent regional organization provides a procedure for unilateral withdrawal by any participant with reasonable prior notice and without any further approvals.”

#### 6. How Were the Benefits of the RO Calculated?

The benefits attributed to the RO come from the Brattle Group study. It evaluated several different scenarios related to the size of the possibly expanded EDAM footprint, as well as a scenario of a so-called “split-market” where some states, utilities, and/or energy entities do not join the RO and instead leave EDAM (and join the emerging Markets+ program from the Southwest Power Pool, headquartered in Arkansas). As seen from the chart below from the Brattle Group, benefits are the result of the potential cost savings, enhanced grid reliability, and reduced air pollution that could result from implementing SB 540. How these potential savings and reliability enhancements translate into individual customer benefits is difficult to calculate. Also, potential savings are related to generation costs and do not relate to distribution and transmission costs.

# Market Dynamics and Expected Outcomes



<p><b>Larger and More Diverse Pool Transmission and Generation Resources</b></p>	<ul style="list-style-type: none"> <li>• Shift from less efficient to more efficient resources, leading to production cost savings for customers. <i>Customer Cost Savings</i> ↑</li> <li>• Emissions potentially decline due to shift to more efficient generation. <i>Potential Environmental Benefit</i> ↔</li> <li>• Better management of extreme weather events and unexpected grid challenges (e.g., outages). <i>Reliability Benefit</i> ↑</li> <li>• Reduced sale of short-term transmission service, as transmission is “donated” to the market (offset by EDAM TRR Settlement). <i>Customer Cost Increase</i> ↓</li> </ul>
<p><b>Reduced Curtailment of Wind and Solar due to Increased Resource and Load Diversity</b></p>	<ul style="list-style-type: none"> <li>• Lower emissions due to avoided curtailed energy displacing fossil generation. <i>Environmental Benefit</i> ↑</li> <li>• Lower power costs for customers due to zero variable cost energy displacing higher variable cost energy. <i>Customer Cost Savings</i> ↑</li> <li>• Better investment environment for renewable projects. <i>Customer Cost Savings</i> ↑</li> </ul>
<p><b>Increased Trading between Market Members</b></p>	<ul style="list-style-type: none"> <li>• Reduced bilateral trading as markets trades become more profitable, lost bilateral trading margins. <i>Customer Cost Increase</i> ↓</li> <li>• Increased market congestion and transfer revenues. <i>Customer Cost Savings</i> ↑</li> </ul>

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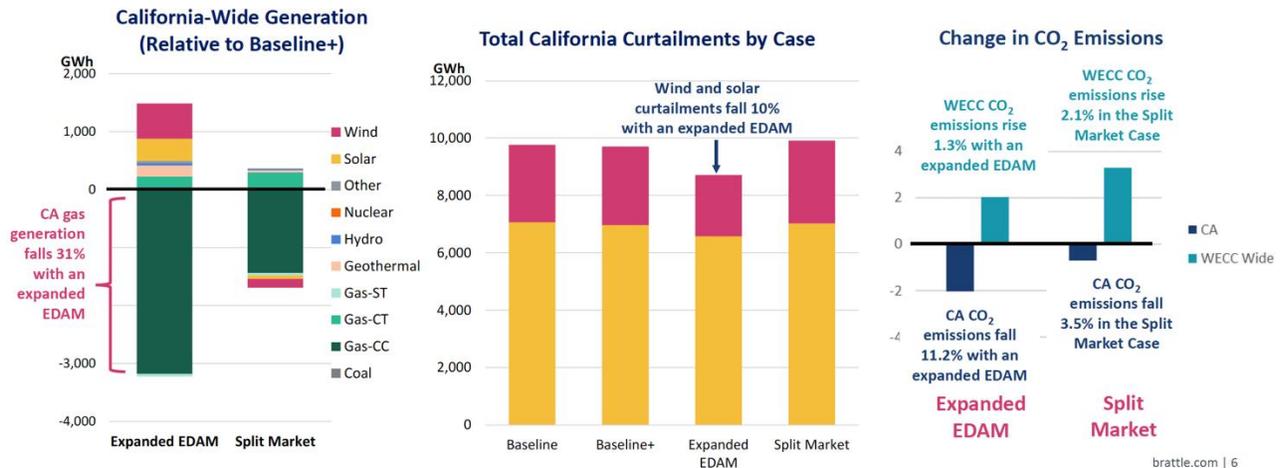
## 7. What about GHG emissions and a new RO?

The Brattle Group study identified several impacts on GHG emissions in California and the West based on the size of the RO and whether some states and/or entities leave EDAM and the RO and join the SPP Markets+ program (the split-market scenario). The analysis shows that if California does nothing, causing the "Split Market" to form, GHG emissions will be higher in California and the West than they would under a successful “Expanded EDAM” case enabled by SB 540.

These impacts are summarized in the chart below.

## GHG Emissions Impacts

The expansion of EDAM reduces gas generation and the curtailment of wind and solar in California, resulting in lower GHG emissions in the state.



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### 8. Will SB 540 lead to a new Regional Transmission Organization?

Some have expressed concern that SB 540 and the new RO will lead to a new Regional Transmission Organization (RTO), similar to what was proposed in past, failed legislation. While the new RO may decide to offer additional ancillary services including formation of an RTO in the future, participation by individual members will be voluntary. And, California participation in an RTO would require legislative authorization.

### 9. Will the new RO expand FERC’s authority in California?

Today, FERC regulates the CAISO-managed wholesale energy markets, including EIM and EDAM, and transmission grid. This will not change if SB 540 becomes law. Pathways and SB 540 shifts governance of the EIM and EDAM energy markets to a new FERC-regulated entity: the regional organization (RO). The key jurisdictional change is replacing the California Governor’s unilateral right over CAISO board appointments with a regional board selection process. SB 540 and the RO does not increase or expand FERC’s authority in California.

### 10. Will SB 540 Result in More Coal Generated Electricity Entering California?

No. It is illegal for California load serving entities to contract for coal-generated electricity. This will not change if SB 540 becomes law and California subsequently joins the RO.

11. Will SB 540 affect VCE or the State’s ability to implement and deploy distributed energy resources (DERs)?

Not directly. SB 540 does not address DERs so neither it or the RO will affect a CCA’s or any other Load Serving Entity’s ability to implement and deploy DERs. As noted, SB 540 addresses large central point utility scale generation which continues to focus planning and resources on these types of facilities. This focus can indirectly impact deployment of DERs if sufficient policy and financial support are not also provided to DER efforts.

### SUPPORTERS AND OPPONENTS

As of the writing of this Staff Report, a complete list of supporters and opponents is not available. SB 540 will be heard in the Senate Energy and Utilities Committee on April 21<sup>st</sup>. The Senate Committee staff analysis will include a comprehensive list of supporters and opponents. When that analysis is available VCE staff will share it with the CAC and post an updated Staff Report, including identifying where in the Senate Committee analysis the list of supporters and opponents may be found.

### **RECOMMENDATIONS**

Three options are available to VCE for a position on SB 540: No position, support or oppose.

#### Leg/Reg Task Group Recommendation

The LRTG discussed SB 540 and the Pathways Initiative over multiple meetings. At its April 11<sup>th</sup> meeting, the three members of the Task Group present considered the question, “Should VCE take a position on SB 540, and if so, what position?” It agreed to make a recommendation to the CAC only if the Task Group was unanimous on what the recommendation should be. Otherwise, it would report to the CAC that no consensus was reached.

The LRTG reached no consensus on what position to recommend to the CAC on SB 540. Task Group members will have an opportunity to provide individual comments to the CAC at the April 24<sup>th</sup> meeting.

#### Staff Recommendation

In deciding on a recommendation, staff considered the potential pros and cons of SB 540, the available data and analyses of a new RO, split-market vs. the status quo, the arguments of the supporters and opponents of SB 540, as well as how a new RO might impact VCE, its operations and mission. In evaluating these items, staff considered the following principles and includes brief responses to each.

1. Preserve the local autonomy and authority of CCAs to set rates, decide on resource portfolios, procure local resources, and implement programs to meet their unique community needs.
  - a. The RO does not change the autonomy or authority of CCA’s to set rates, choose portfolios, make procurement decisions, or establish programs based on local need. [SB 540 section 345.6(a)(1)]

2. Preserve California’s authority to establish and implement renewable energy standards, greenhouse gas reduction goals, zero-carbon based goals and distributed energy resources (DERs).
  - a. The RO does not change the authority of California to establish and implement renewable energy standards, greenhouse gas reduction goals, zero-carbon based goals and distributed energy resources (DERs).  
[SB 540 sections 345.6(a)(1), 345.6(e)(1) and 345.6(e)(2) and Pathways Report pages 56 and 61]
  
3. Ensure a structure that is transparent and permits stakeholder engagement.
  - a. The RO provides an open decision-making structure and process.  
[SB 540 sections 345.6(a)(4) and 345.6(a)(5) and Pathways Report pages 59 and 62].  
The RO provides a structure for and permits stakeholder participation in its decision making process  
[SB 540 section 345.6(a)(5) and Pathways Report Chapter 4, Public Interest, pages 64-71].
  
4. Includes a process for California to withdraw from the regional organization with appropriate notice.
  - a. The RO establishes a process for California to withdraw from the regional organization within a reasonable timeframe.  
[SB 540 section 345.6(a)(12)]
  
5. How does a new RO impact VCE?
  - a. Generally, the establishment of an RO that may facilitate wider participation in EDAM is anticipated to have limited direct impact on VCE. With the appropriate risk limiting provisions incorporated into the design, the RO may allow VCE to avoid some curtailment of solar resources that lack storage and expand energy resources available for VCE to transact with. Overall, there appears to be limited risk and somewhat expanded energy market opportunities for VCE. In addition, enhanced grid stability and reliability may indirectly impact VCE customers.

Staff recognizes that some of the arguments of the supporters and opponents may be speculative. For example, the impacts of the Brattle Group report are the result of computer modeling which necessarily incorporate assumptions on the ultimate size of the EDAM market. These model runs show the sensitivity of the ultimate market footprint to those assumptions (e.g. potential monetary benefits ranging from \$100M to \$800M per year depending on the EDAM footprint). On balance, staff believes that the variability of the model run outcomes is addressed by the protections incorporated into the design of the Regional Organization (e.g. unilateral withdrawal provisions).

Staff also acknowledges the speculative arguments of the opponents of SB 540 and agrees that it is important for the concept of an RO and expanded market footprint to be scrutinized. Based on the responses to questions raised by the opponents and discussed in Attachment 1, staff believes the primary concerns are accounted for in the design of the RO and provisions that maintain the ability of

VCE and the State to exercise independence if necessary (e.g. VCE procurement autonomy, State withdrawal provisions).

What is less clear is the cumulative impact that forming an RO will have on the growth and widespread deployment of distributed energy resources (DER's). Staff believes that these localized deployments are an important part of the future of the electricity sector and warrant attention in system planning where they show cost-effectiveness and co-benefits accrued to the grid and local reliability.

**After consideration, staff recommends that VCE support SB 540 for the following reasons:**

- A regional organization for energy markets that has the largest footprint will benefit California more than the status quo or a split-market, especially given that without a governance structure that is not dominated by California, many states may not choose to join EDAM or leave it and may instead join the South West Power Pool Markets+ regional market.
- Based on the best available information, California and VCE and its customers are most likely to benefit from the larger RO through cost efficiencies, more opportunities to trade energy surpluses, enhanced grid reliability (especially during extreme heat events), and reduced greenhouse gas emissions.
- VCE may benefit from decreases in curtailment of renewable electricity sold to the grid (i.e., what happens periodically at the Aqua Marine Solar Facility which is under contract to VCE).
- The provisions in SB 540 (and the governance structure included in the Pathways Initiative) protect California energy and climate policies, as well as VCE's rate-setting and procurement policies and practices.
- SB 540 includes clear and unambiguous language that would permit California to leave the RO if it wishes to do so.
- SB 540 does not prevent planning for or deploying DER's.

**ATTACHMENT 1**  
**QUESTIONS RAISED BY CAC MEMBERS AND THE PUBLIC AT MARCH 27 CAC**  
**MEETING AND STAFF ANALYSIS AND COMMENTS**

**INTRODUCTION**

During and after the March 27 CAC meeting, questions about SB 540 were raised and discussed. Staff was asked to provide additional information and analysis for the CAC's April 24 meeting. This document summarizes the main questions and provides analysis and comments. Some duplicate or similar questions have been combined to streamline the analysis.

**1. What does SB 540 propose to do that does not already exist through WEIM (Western Energy Imbalance Markets) and the soon to be active EDAM (Extended Day Ahead Markets)?**

Expanding the existing western energy markets to include as large a footprint as possible (EDAM and an expanded EDAM) has been limited due to California's dominance through its management of the CAISO. Many states are reluctant to join an expanded EDAM or are considering leaving EDAM because of this. Thus, SB 540 proposes a new, independent RO to manage the western energy markets currently administered by the CAISO, thus alleviating this concern.

**2. Why the urgency for SB 540?**

Proponents of SB 540 observe that time is of the essence. If a new independent RO is not created, the newly emerging Southwest Power Pool (SPP Markets+) will make it difficult for the CAISO to expand EDAM or retain EDAM members and it may also lose participants from WEIM. It is expected that if SB 540 is enacted, the new RO will be up and running around 2028.

**3. Please explain more about the financial and other benefits of the Regional Organization proposed by Pathways and SB 540 and how they were determined.**

Studies commissioned by the California Energy Commission from the [Brattle Group](#) and [Stanford Climate & Energy Policy Program](#) highlight the potential cost savings, enhanced grid reliability, and reduced air pollution that could result from implementing SB 540 as seen in the chart below.

## Market Dynamics and Expected Outcomes

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In addition, CalCCA observes the following about potential benefits and cost savings.

- **Enhanced Reliability.** Geographic and weather diversity in a broader regional market allows participants to draw on a much wider resource pool during unexpected or extreme events. The increased EDAM footprint could expand California’s supply cushion by 25,000 MW, with most of this availability falling during the 10 tightest hours on the system.
- **Cost Savings.** California could achieve up to \$800 million annually in lower net total system costs compared to baseline assumptions due to:
  - *More efficient dispatch.* Pooling resources across a larger geographic area can lead to more efficient energy production and distribution, producing cost savings for consumers.
  - *Renewable energy integration.* Today, consumers may pay twice for energy when excess renewable contracts are curtailed on the CAISO system: they must pay for both the curtailed energy and the energy they consume. Regionalization provides a broader market for California’s solar and wind resources, reducing curtailment of existing resources and lowering customer costs.
- **Environmental Benefits.** By optimizing the use of renewable resources across the region, regionalization, as envisioned by Pathways, reduces reliance on California’s gas resource fleet by up to 31% relative to baseline assumptions, thereby reducing greenhouse gas emissions and offering other environmental co-benefits. Collaborative efforts can enhance the effectiveness of environmental policies across state lines.

#### **4. Will regionalizing energy markets undermine California’s achievement of key policy?**

No. The crucial elements of reliability and climate policies will remain in the hands of California legislators and regulators. Resource adequacy, resource procurement, the Renewable Portfolio Standard, carbon reduction programs, retail rates, programs, and other functions will remain squarely within California’s control.

SB 540 includes twelve specific requirements to be satisfied before the CAISO can approve California entry into an RO. It includes the following provisions that protect California’s interests.

- “Section 345.6. (1) The independent regional organization is a nonprofit corporation whose governance documents include a corporate obligation to respect the authority of each state that has a load-serving entity or balancing authority participating in the market to set its own procurement, environmental, reliability, and other public interest policies. *[emphasis added]*
- Section 345.6 (e).  
“(e) (1) This section does not change any requirement related to the California Renewables Portfolio Standard Program as provided in Article 16 (commencing with Section 399.11).  
(2) This section does not change the policy of the state to reach specified targets by specified dates for supplying eligible renewable energy resources and zero-carbon resources as provided in subdivision (a) of Section 454.53.

#### **5. SB 540 does not define “governance” of the RO. How can we be sure the governance structure will be appropriate?**

While it is true that SB 540 does not specifically spell out the new RO’s governance structure, it does lay out the requirements in the “governance documents” that must be adopted in order for the CAISO to approve California’s participation. Those criteria are examined and described in detail in the Pathways Final Report as noted below.

SB 540 states:

“Section 345.6. (1) The independent regional organization is a nonprofit corporation whose governance documents include a corporate obligation to respect the authority of each state that has a load-serving entity or balancing authority participating in the market to set its own procurement, environmental, reliability, and other public interest policies.” *[emphasis added]*

The Pathways final report includes lengthy sections related to formation of the RO (pages 46-54) and governance (pages 56-63), including the corporate document. The report summarizes its recommendation for setting up the RO as follows.

##### **“Summary of Recommendations**

Setting up the RO involves three primary decisions: the form of incorporation, the state of incorporation, and the location of its principal place of business. The Launch Committee recommends incorporating the RO as a 501(c)(3) nonprofit corporation. Nearly all regional organizations are structured as nonprofits, either under 501(c)(3) or 501(c)(4), and using a 501(c)(3) will preserve the option for tax-exempt financing if needed in the future. The Launch Committee

also recommends incorporating the RO in Delaware, a neutral choice for the West that offers flexibility, ease of incorporation, and the most robust legal framework for corporations, along with an expertly trained judiciary. Additionally, several existing regional organizations are incorporated in Delaware. Finally, the Launch Committee anticipates that the RO will choose its principal place of business as Folsom, CA, due to the expected close interactions with CAISO during Step 2.0 and any structure beyond Step 2 that does not require full separation. However, RO Board meetings and SRC meetings should rotate among the market-participating states.” (page 46)

Relative to Governance, the report states:

“In addition to creating a durable structure for the RO as detailed in the section above, its governance is an equally key foundational aspect of creating a robust, independent body centered around protections for consumers, ensuring affordability and reliability in market design and operations, as well as respecting state, local, and federal policies across the entire West.” (page 56). What follows is a lengthy and detailed set of recommendations to guide the RO’s governance, development of corporate documents, board of directors, etc.

It is worthwhile to include key sections in the Pathways final proposal related to corporate documents.

### **“Corporate Documents**

The RO’s foundational documents will include language centering on protecting the public interest. The RO will be a stand-alone corporate entity fully separate from CAISO and its governing structures and the governing structures of any individual state. To implement this Proposal, the Formation Committee will develop Articles of Incorporation, bylaws, and any other official policies and procedures (collectively the “Corporate Documents”) that become the foundational rules and procedures the RO will use to govern the WEIM, EDAM, and any other new program in the energy markets. The purposes and processes set forth in the Corporate Documents are enforceable under state corporation law and would be referenced in provisions of the tariff filed at FERC.

The stated corporate purposes would define what “public interest” means for the RO by incorporating principles and standards found in state and federal laws applicable to existing ISOs/RTOs. Language such as a commitment to expand public benefits by attracting new participants, as well as requirements to respect individual state and local generation preferences should be included. For example, the CAISO Articles state “the specific purpose of this corporation is to ensure efficient use and reliable operation of the electric transmission grid[.]” The Launch Committee recommends that the recent amendment to the WEM Governing Body charter that clarifies that the Governing Body must preserve and enhance the benefits to customers that arise from participating in the energy markets as well as requiring the body to “respect state authority to set procurement, environmental, reliability, and other public interest policies” be included in the RO Corporate Documents. Additionally, the RO Corporate Documents should include a commitment to just and reasonable electricity rates for consumers as a result of RO participation by seeking efficient dispatch and appropriately disciplined price formation. The RO should

incorporate these standards and purposes, with the addition of other relevant protections, into the Corporate Documents.

The Corporate Documents also set forth the standards and processes to govern the operation and decision-making of the RO designed to protect the public interest.” (pages 61-62)

**6. How Are California’s Interests Protected in SB 540?**

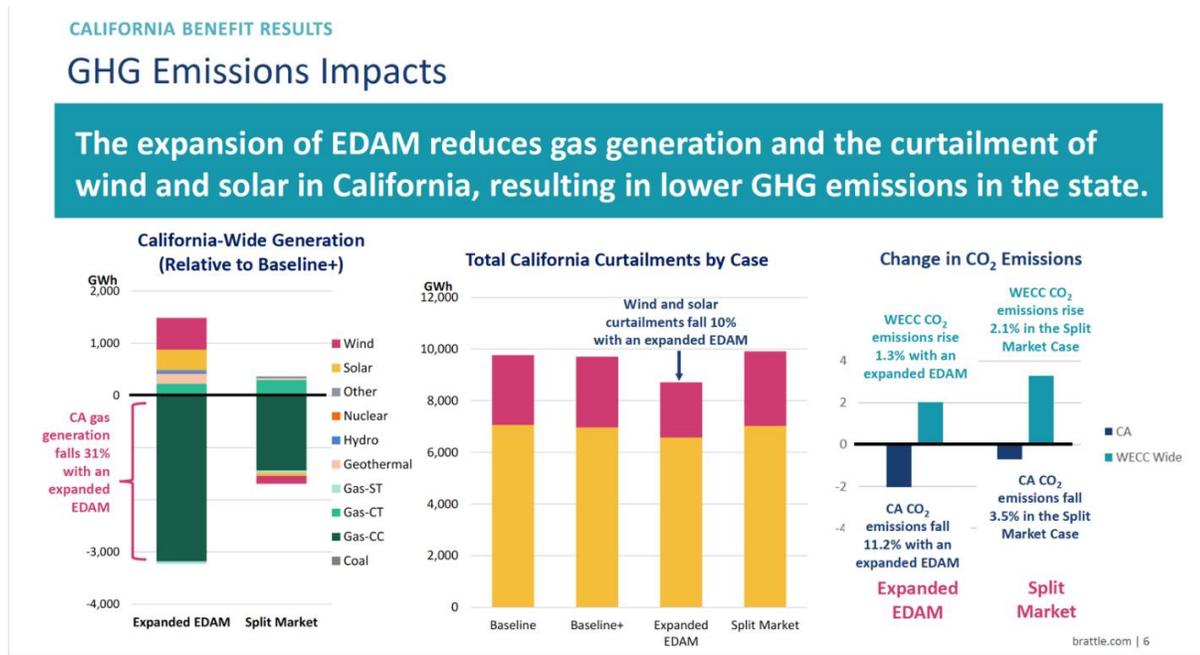
See answer to question 4.

**7. What happens if California does not join the RO?**

If California does not join the RO, then the existing CAISO managed regional markets (i.e. EDAM) will remain. However, if California does not join, it is likely that many existing EDAM members will move to the emerging SPP Markets+ and no new RO will be viable or exist.

**8. What are the GHG emission impacts of the proposed RO? Does who joins the RO impact the GHG emissions?**

The Brattle Group study identified several impacts on GHG emissions in California and the west based on the size of the RO and whether some states leave EDAM and the RO and join the SPP (the split-market scenario). The analysis shows that if California does nothing, causing the "Split Market" to form, GHG emissions will be higher in California and the West than they would under a successful "Expanded EDAM" case enabled by SB 540. So, yes, the size of the RO potentially impacts the GHG emissions. The Brattle Group estimates, for example, reduced GHG emissions with the RO by reducing reliance on California’s natural gas.



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**9. What about FERC’s influence or impact on a new RO? Is this something to be concerned about, given the new federal Administration?**

No. Today, FERC already regulates the CAISO-managed wholesale energy markets, including EIM and EDAM, and transmission grid. Pathways and SB 540 shifts governance of the EIM and EDAM energy markets to a new FERC-regulated entity: the regional organization (RO). The key jurisdictional change is replacing the California Governor’s unilateral right over CAISO board appointments with a regional board selection process. SB 540 and the RO does not increase FERC’s authority. This is not to say that the new federal Administration may attempt to impact California’s energy and climate policies through other means.

**10. What happens if California decides it no longer wishes to be a member of the RO? Please explain the opt-out “rip-cord” provision.**

The so-called rip-cord provision of the RO and SB 540 is straightforward. One of the twelve requirements that the CAISO must find are satisfied before authorizing California to join the RO states: “Section 345.6(a)(12). The independent regional organization provides a procedure for unilateral withdrawal by any participant with reasonable prior notice and without any further approvals.”

The RO corporate documents and governing procedures will include procedures for any participant to leave the RO. The Pathways final report includes a discussion about options and existing models to adapt for the RO rip-cord option.

**11. Will California and the west have more coal generated electricity with the RO?**

No. It is already illegal for LSE’s in California to procure coal generated electricity. Some have asked about PacificCorp’s support of SB 540. PacificCorp, a part of Berkshire Hathaway, is a large energy company in the west and the largest grid owner/operator in the west. PacificCorp serves customers in Oregon, Washington, California, Utah, Idaho and Wyoming. In California, it is the utility provider for the cities of Crescent City, Dunsmuir, Mount Shasta and Yreka. Its generation portfolio includes hydro, wind, natural gas, coal, solar and geothermal resources. PacificCorp has already expressed interest in joining the EDAM so whether or not a new RO is formed, PacificCorp will have a presence in the west through its membership in EDAM.

**12. Why was SB 540 amended on March 24 to add the word “voluntary?”**

The March 24 amendments to SB 540 added the word “voluntary” to section 345.6 (a) about participating in the RO in order to clarify that California participation is indeed voluntary. Some opponents were arguing that once SB 540 is enacted, California is committed to joining the RO. This is not correct.

**13. What about the impacts on DER (distributed energy resources) from a new RO?**

Advancing DER and creating a new RO are not mutually exclusive. And, since SB 540 is about governance, it does not impact DER policy in California. However, some have expressed concern that SB 540 and the new RO will favor large utility scale renewable projects rather than smaller, more localized DER projects. Unfortunately, there are many factors limiting the meaningful advancement of

DER projects. Interestingly, many distributed energy companies support SB 540. VCE will still be free to pursue DER projects as it has done in the past.

**14. If California joins the RO, does this mean the next step is a Regional Transmission Organization?**

No. The concept for the RO, as laid out in the Pathways report, includes an option for the RO to add additional market services for participating stakeholders who want them. For example, utilities in other states may wish to join together to form a collective Balancing Authority under the RO. But, no entity would be required to participate in any offering they do not want. For California, participating in services beyond the WEIM and EDAM (that are included in SB 540) would require additional changes in California law.