



EIM Governance Review

*Straw Proposal for Formation of an EIM Governance Review
Committee*

April 1, 2019

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I. Introduction and Overview

In 2013, when the California Independent System Operator (ISO) began developing a governance structure for the Energy Imbalance Market (EIM), the Board of Governors (Board) established an interim committee of stakeholders that played an important role in developing the proposal that was ultimately adopted. Working within the ISO's established public stakeholder process, this EIM Transitional Committee developed and published for stakeholder comment a series of issue papers and straw proposals for how an EIM governance structure could work, culminating in a draft final proposal that was widely supported by stakeholders and ultimately adopted by the Board. Management proposes the formation of a similar interim stakeholder committee that would now play the same basic role in the context of the recently initiated EIM governance review.

The EIM Governing Body recently commenced the EIM governance review pursuant to a provision in its Charter requiring it to initiate, by no later than September 2020, "a review of EIM governance in light of accumulated experience and changed circumstances."¹ The review was commenced on December 14, 2018, when at the request of EIM Governing Body, ISO staff published an initial Issue Paper and Straw Proposal on the topic.

The December 14 paper proposed an incremental change to the EIM Governing Body's approval authority, which was the "straw proposal" component of the paper. This change was supported by most stakeholders and by the EIM Governing Body, and was recently approved by the Board.²

The "issue paper" component of the December 14 paper identified various potential topics that the governance review might consider, asked stakeholders for initial comments on which topics should be addressed, and sought stakeholder input on the process that should be used to complete the governance review. With respect to process, the issue paper asked stakeholders for input specifically on whether a stakeholder

¹ See Charter for Energy Imbalance Market Governance, Section 2.2.4 ("No later than September 2020, the EIM Governing Body will initiate a review of EIM governance in light of accumulated experience and changed circumstances."). For reference, the Charter is available at the following link:
<https://www.westerneim.com/Documents/CharterforEnergyImbalanceMarketGovernance.pdf>.

² The Board materials describing and approving this proposal are available at the following link:
<http://www.caiso.com/Pages/documentsbygroup.aspx?GroupID=7275A0CC-36AE-460D-91FC-8EF88FF72A86>.

committee similar to the Transitional Committee should be established to assist in developing any proposed governance refinements for stakeholder review.

Stakeholders generally agreed that the current EIM governance structure is functioning appropriately and identified various potential improvements.³ There was, moreover, relatively broad support for establishing an interim stakeholder committee modeled on the Transitional Committee to facilitate the process. Many stakeholders expressed support for this concept, and there were no stakeholder comments in opposition.

In light of this input and the successful experience with the Transitional Committee, the ISO proposes to develop a new interim stakeholder committee whose role would be focused on facilitating the ongoing EIM governance review. Like the Transitional Committee, this “EIM Governance Review Committee” (GRC) would have the role of developing potential proposals for public stakeholder comment and consideration. At the end of the process, the GRC would present a proposal to the EIM Governing Body and the Board for their consideration.

The ISO recommends developing such a committee largely for the reasons expressed in stakeholders’ comments. As the Transitional Committee experience demonstrated, on issues of governance an interim stakeholder committee can be an effective vehicle for identifying potential areas for refinement, developing and vetting proposals for broader stakeholder comment, and for building consensus among diverse stakeholders about the best options to pursue. While a committee can be helpful for developing and building consensus for such proposals, it is critical that such work takes place in the context of an iterative public stakeholder commenting process that allows all stakeholders to provide input into shaping any proposals the committee may ultimately recommend. This approach helped build stakeholder support for the Transitional Committee’s proposals on EIM governance and is equally important in this context.

The following section of this paper sets forth the ISO’s proposal for the role of the GRC and its scope of work, how its membership would be established, and how the Committee would operate to accomplish its assignment. A draft charter for the Committee is also provided with this paper, which describes each of these areas in greater detail.

As discussed below, we have in many respects closely modelled the charter for the GRC on the charter that guided the successful work of the Transitional Committee. There are, however, two important ways in which this proposal differs. First, because the task of refining EIM governance is more limited than developing a governance model in the first instance, the Charter contemplates a shorter time period for the Committee to complete its work. While the Transitional Committee took a little over a year to develop its proposal, the Charter for the GRC assumes that the GRC would need approximately six to eight months to develop its proposal. Second, while the Transitional Committee was established by the Board and operated as an interim advisory committee to the Board, the

³ For reference, the stakeholders’ comments on the December 14 paper are available at the following link: <https://www.westerneim.com/Pages/Initiatives/Default.aspx>.

GRC would be jointly established by the EIM Governing Body and the Board and would hold an advisory role with respect to both bodies.

II. The Proposed Governance Review Committee

A. Role of the Committee and Scope of Work

The role of the GRC, as set forth in the draft Charter,⁴ is to develop through an iterative public stakeholder process a set of proposed revisions to the current EIM governance structure in light of experience to date and changes to the EIM since its inception. The Committee would accomplish this by developing a series of issue papers and straw proposals for public stakeholder comment, culminating in a draft final proposal for consideration by the Governing Body and the Board.

The draft Charter directs the GRC to develop, if possible, a consensus proposal that has broad support among stakeholders and that is supported by all members of the Committee. If unable to reach a unanimous proposal, the Committee would be permitted to develop a main proposal and one or more minority proposals, but any minority proposal would be forwarded to the Governing Body and the Board only if it has the support of at least three members of the Committee. This minimum support provision is intended to encourage the Committee to develop a proposal that all of its members, and all stakeholders in general, can support. The same approach was used for the Transitional Committee, which was successful in producing a consensus proposal supported by all members of that committee.

Unlike the Transitional Committee, the GRC will focus solely on issues relating to governance and will not be asked to address any issues relating to market design or existing market rules. The Transitional Committee was tasked with addressing such areas because it was serving in a transitional capacity before an existing EIM governance structure was in place. Such matters are now within the purview of the EIM Governing Body and are addressed through the ISO's established public stakeholder process that feeds into decisions of the EIM Governing Body and the Board.

The draft Charter does not prescribe the specific governance areas that Governance Review Committee should consider because that decision should be guided by comments and further input the Committee will receive from stakeholders. The draft Charter authorizes the GRC to undertake a broad review that considers all of the main components of the existing governance structure. Because stakeholders have generally expressed the view that the current EIM governance structure is functioning well, the GRC would be asked to look for ways to refine and improve that structure rather than to develop an entirely new model from scratch.

⁴ See attached Draft Governance Review Committee Charter, Section II.

If the ongoing feasibility assessment of an extended day-ahead market (EDAM) that would include EIM balancing authority areas produces a positive outcome, then the GRC's scope of work also would include considering any potential governance enhancements that may be necessary for EDAM. The Committee would be in a position to focus on potential EDAM governance enhancements in parallel with separate stakeholder proceedings to develop the EDAM market design.

B. Process for Establishing Committee Membership

The draft Charter contemplates a GRC with 11 to 13 members, including one member each from the EIM Governing Body and the Board, and if available, one member from the Body of State Regulators (BOSR).⁵ The remaining eight to ten members would be jointly selected by the EIM Governing Body and the Board from a ranked list of nominees established through a stakeholder sector-based nomination and ranking process.⁶

As was the case for the Transitional Committee, the stakeholders who serve on the GRC would serve on a volunteer basis, without compensation or reimbursement by the ISO.

The proposed stakeholder nomination and candidate ranking process is closely modeled on the process currently used to nominate and rank potential candidates for the EIM Governing Body.⁷ Stakeholders are grouped into five sectors, and each sector holds meetings or teleconferences to identify and nominate potential candidates for the GRC based on the requirements outlined in the draft Charter. Each sector is asked to identify at least three nominees for consideration by all stakeholders.

The sector nominees are then aggregated into an overall list of nominees, which goes back to the sectors for ranking. The sectors are encouraged to rank the entire list in order of preference, but are required at minimum to rank their top 12 nominees. An aggregated version of the sector rankings is then provided to the EIM Governing Body and the Board, which will consider the rankings in deciding who to appoint. The draft Charter requires that all of the eight to ten stakeholder members of the GRC must be selected from the list of candidates developed by the stakeholder sectors.

The proposed stakeholder sectors are as follows:

⁵ The BOSR would be invited to appoint one of its members to participate on the GRC. As an autonomous body, the BOSR would decide whether its participation is appropriate.

⁶ See attached draft Charter, Sections III.A – III.C for a more detailed description of the membership selection process and related criteria.

⁷ For reference, the process used for the EIM Governing Body members is available at the following link: https://www.westerneim.com/Documents/SelectionPolicy_EIMGoverningBody.pdf. A similar version of this process was also used to nominate and rank the candidates for the EIM Transitional Committee.

- **EIM Entities:** This sector includes each EIM Entity (as defined in the ISO tariff) and any entity that has executed an EIM implementation agreement to become an EIM Entity or any balancing authority that has entered into a formal public process to consider joining the EIM.
- **Participating Transmission Owners:** This sector includes every Participating Transmission Owner (as defined in the ISO tariff).
- **Publicly-Owned Utilities:** This sector includes every publicly-owned utility that is located within the balancing authority of the ISO, an EIM Entity, or a balancing authority that has entered into a formal public process to consider joining the EIM. A publicly-owned utility is any utility that is excluded from certain provisions of the Federal Power Act by virtue of Section 201(f) of the Act. By way of illustration, this includes, without limitation, municipally owned utilities, power cooperatives, and federal power marketing agencies. A publicly-owned utility that also falls within either the EIM Entity sector or the Participating Transmission Owner sector shall instead participate in that sector.
- **Suppliers and Marketers of Generation and Energy Service Providers:** This sector includes every entity that is party to a Scheduling Coordinator Agreement or a Participating Generator Agreement (as defined in the ISO tariff) with the ISO, provided that it does not qualify for the EIM Entities sector, the Participating Transmission Owners sector, or the Publicly-Owned Utilities sector. If the entity qualifies for one of those three sectors, then it shall instead participate in that sector.
- **Public Interest and Consumer Advocates:** This sector includes all public interest or consumer advocate groups that are actively involved in energy issues with the balancing authority of the ISO, an EIM Entity, or an entity that has executed an EIM implementation agreement to become an EIM Entity or a balancing authority that has entered into a formal public process to consider joining the EIM.

These sector definitions are the same as are currently used for nominating and ranking candidates for the EIM Governing Body, with the exception that the scope of participation has been broadened somewhat to include balancing authorities or entities within balancing authorities that have entered into a formal public process to consider in joining the EIM.⁸ The ISO proposes to include such entities in order to ensure that a broader spectrum of stakeholders will be able to play a role in identifying potential candidates for the GRC. We propose otherwise using the same basic sectors as are used

⁸ The sector definition used for nominating EIM Governing Body members includes balancing authorities that have entered into a formal implementation agreement to become an EIM Entity, but does not include balancing authorities that have not yet signed an agreement but have entered into a formal public process to consider joining EIM.

for EIM candidates because those sectors already exist and have operated successfully for the last several years. Leveraging this existing structure will enable the sectors to more quickly and efficiently organize and identify potential candidates for the GRC.

The draft Charter identifies a set of qualifications and criteria for the sectors to consider in nominating and ranking candidates and for the EIM Governing Body and the Board to weigh in appointing the members of the Committee.⁹ In particular, the draft Charter emphasizes the importance of establishing a diverse and sophisticated committee, comprised of members with strong leadership skills, broad industry experience in various areas relevant to governance, and a strong understanding of the regional issues and the regional political landscape. The draft Charter also emphasizes that the Committee must be geographically diverse and collectively reflect a broad range of stakeholder and industry sectors that are involved in EIM. On an individual basis, each member also should be committed to the success of the EIM and to the successful completion of the EIM governance review process.

Although it provides a clear set of guidelines for establishing the Committee, the draft Charter avoids prescriptive provisions identifying the number of members of the Committee that should be from any given stakeholder sector or region. This approach is consistent with the approach used in developing the Transitional Committee, which did not designate in advance the number of slots that each stakeholder class or region would have on the committee. While it will be important to establish a Committee that is well balanced both regionally and across stakeholder sectors, it will also be important to ensure the Committee has a good mix of substantive experience in the various areas that are relevant for its work. The proposal embodied in the draft Charter vests the EIM Governing Body and the Board collectively with the responsibility for weighing the various competing considerations, including the input received from the stakeholder ranking process, and developing a Committee that is balanced in all relevant respects.

This approach also is more consistent with the role Committee members will be asked to play, which is to focus on collaborating to develop a consensus proposal that is responsive to the interests and input of all stakeholders, including those who are not on the Committee. As was the case with the Transitional Committee, members of the GRC will be asked to consider matters not only from the perspective of their respective region or stakeholder sector, but to work towards identifying proposals that will bridge divides and enjoy broad stakeholder support. Because Committee members will not be charged with voting for their narrow interests or as a representative for individual sector, a prescriptive approach that focuses on the number of members from each sector or region seems ill-suited for the task.

⁹ See draft Charter, Section III.A.

C. Operation of the Committee

The draft Charter establishes provisions governing the operation of the GRC that are closely modeled on the charter that governed the operations of the Transitional Committee.¹⁰

The GRC will meet in person or by phone/web conference and will follow the ISO's existing Open Meeting Policy, which prescribes the process and rules for providing public notice of and access to committee meetings.¹¹

The Committee members will select a Chair, who will be responsible for presiding over the meetings, managing the Committee's work, and serving as the Committee's primary contact for the ISO, the Governing Body and the Board.

The ISO's management, in turn, will appoint a member of its staff to serve as an ISO Liaison. The ISO Liaison will provide administrative support for the Committee and ensure the Committee has any other substantive support it may need from the ISO to complete its work. The ISO Corporate Secretary or his or her designee also will be available to act as a secretary to the Committee to advise it on matters related to its Open Meeting Policy obligations.

Although the Committee will generally operate by consensus, there may be instances where a vote of the Committee is required. In that context, a quorum of two-thirds of the Committee members then in office must be available to participate, and an affirmative vote of a majority of the quorum is necessary for any decision to be approved.¹² These are the same voting rules the Transitional Committee used in developing its governance proposal.

III. Schedule for Comments and Next Steps

The ISO will host a stakeholder call to discuss this proposal on April 10. Stakeholders should submit any written comments to initiativecomments@caiso.com by close of business on April 29, 2019.

¹⁰ These provisions are set forth in detail in Sections III.D – III.H, and Section IV of the draft Charter.

¹¹ For reference, a copy of the ISO's Open Meeting Policy is available at: <http://www.caiso.com/Documents/CaliforniaISOOpenMeetingPolicy.pdf>

¹² See draft Charter, Section IV.B. The only exception to this voting rule is for any decision to submit a minority opinion on a proposal to the EIM Governing Body and Board, which as noted above requires an affirmative vote of at least three Committee members.