Department of Energy

Bonneville Power Administration
P.O. Box 3621
Portland, Oregon 97208-3621

Bonneville
POWER ADMINISTRATION

September 3, 2026

Regional Organization for Western Energy, Inc.
c/o Corporation Service Company
251 Little Falls Drive
Wilmington, DE 19808

To Whom It May Concern:

Bonneville Power Administration's history is one of using its infrastructure to link markets for power together, creating a stronger grid across the Pacific Northwest and the Western region in the name of the common good. Created by Congress nine decades ago, Bonneville began with a mission to electrify the region beyond its urban centers. We expanded this mission during last century's most urgent global conflict, uniting public and private utilities to build a vital wartime industrial base. In the era of growth after the Second World War, we rededicated ourselves to growing the grid by constructing major physical interties in the Western Interconnection, closing the electrical frontier and unlocking mutually beneficial interstate trade.

Most recently, Bonneville advanced this legacy by participating in a real-time electricity market that at long last brought power dispatch into the age of computing. This Western Energy Imbalance Market (WEIM) unified most Western utilities into a common market and has resulted in significant production cost savings since its inception. Throughout this history, Bonneville has preserved the economic benefits of the federal hydropower system for our regional preference customers consistent with federal law. With great respect for this heritage, I offer this letter today in the hope that we might build upon our past progress, continue to improve service to our customers, and seize a fleeting opportunity to secure a more unified grid in the West.

As those reading this letter are likely aware, Bonneville chose to pursue development of a wholesale centralized power market through the Southwest Power Pool's Markets+ alongside other utilities in the region, following the adoption of Bonneville's 2025 Day-Ahead Market Policy. Markets+ on the one hand represents a reversal of a signature accomplishment of the region, the real-time WEIM. On the other hand, the Markets+ effort allowed us to collaboratively design a market from the ground up, tailored to values of Bonneville and Pacific Northwest consumer and publicly owned utilities. The Markets+ footprint offers less depth and liquidity than a more fully unified grid, but at the same time it seemed to provide greater selfdetermination and a market design better suited to Bonneville's needs. The 2025 Day-Ahead Market Policy and Record of Decision reasoned that a smaller market was worth that trade.

As Administrator, I have committed to review this course of action with fresh eyes and my evaluation is based upon three key principles: 1) the ability to trust in the durability of the rules governing the market, 2) the depth and liquidity of the market, and 3) the impacts on reliability and economic efficiencies resulting from new seams between adjoining markets.

Starting with the last of these items, seams are a major issue for Bonneville because our transmission system serves more than 400 customers, most of whom take service that transits our grid as opposed to "sinking" into our network. Bonneville has direct interfaces with 18 other balancing authorities. The presence of two organized electricity markets adds further complications to this already complex system. In many places, Bonneville transmission that would be configured in Markets+ overlays the retail service territory of utilities otherwise heading toward the Extended Day-Ahead Market (EDAM) evolving out of WEIM. In other places, the situation exists in reverse, with Bonneville a power supplier using other utilities' transmission systems.

This poses commercial complications, of course, but it also poses questions for the efficiency and reliability of the markets. To ensure transmission service is provided safely within its system operating limits, particularly where participants across multiple markets maintain transmission rights, Bonneville may have to withdraw certain transmission capacity from optimization within the market—an outcome antithetical to the ostensible goal of efficiently utilizing system infrastructure, which is the bedrock of attempts at well-functioning electricity markets. While the existence of seams is inevitable, the contiguity of a market across significant transmission paths would seem a better point of departure than further balkanization in the West's fragmented grid.

By the same token, the depth and liquidity of a more unified marketplace allow for greater trade and investment opportunities. Based on the latest Energy Information Administration data, average net generation in EDAM totaled 39 GW versus 19 GW in Markets+, and average demand in the same year totaled 48 GW in EDAM versus 19 GW in Markets+.[1] Moreover, the supply of resources in EDAM is increasing, and it has significant transmission connectivity with Bonneville as a result of our previous investments in transmission. As with a more seamless market, a market with greater volumes does not necessarily mean a more efficient market, but it provides a foundation for that objective.

What could overwhelm these two aspirations—a more seamless market, with greater depth and liquidity—is governance. In Bonneville's prior evaluation, Markets+ was the clear winner in this respect. Yet, notably, in just the last year, the State of California revised its laws to offer an opportunity for WEIM and EDAM to be governed by a separately incorporated regional entity

[1] Excluding Bonneville's Balancing Authority generation and demand for the sake of comparison.

with a Board of Directors appointed through an independent process rather than by state actors. This letter constitutes from my perspective what would be necessary for Bonneville to consider joining a market that is governed regionally but operated by the California Independent System Operator (CAISO).

Bonneville faces near-term decisions on whether to further its earlier policy direction towards Markets+. Before the end of the year, Bonneville intends to issue a new decision either to continue on that course, to pivot toward EDAM, to remain in its *status quo*, or to adopt a different approach to markets that suits Bonneville and its customers. In the interim, and described with certain specific steps herein, if Bonneville sees concrete actions consistent with the prerequisites outlined below, I intend to propose a change of our current course of action in the next draft decision that Bonneville releases.

Before I describe what I regard as necessary for that opportunity to materialize, some additional background about how this market is governed must be highlighted. Today, CAISO serves as the Balancing Authority and Regional Transmission Organization for much of California's electricity load and resources and it also operates today's real-time market (the WEIM) across the wider West. California's governor appoints, subject to confirmation by the upper chamber of the California legislature, CAISO's Board of Governors. Through the CAISO Bylaws and Western Energy Markets (WEM) Governing Body Charter, the CAISO Board of Governors delegates primary authority over WEIM and EDAM to the regionally appointed WEM Governing Body. The WEM Governing Body governs WEIM and decides regional market questions, leaving the California-appointed CAISO board in a largely ministerial capacity limited to making such tariff filings to the Federal Energy Regulatory Commission that the WEM Governing Body may direct. Currently, there is no substantial, functional separation of CAISO staff between the state's CAISO Board of Governors and the regional WEM Governing Body.

This nascent regional governing structure has been understood, since its inception, as inadequate for a more fully evolved regional market. Governing structures matter most, not during normal operations but during crises marked by high prices and tight supply. They also matter because these markets are highly complex and inevitably vulnerable to administrative decision-making that subtly, but with great consequence, puts its thumbs on the scale. In a crisis or scarcity event, a California political actor could direct appointees to override normal market procedures, or the bureaucracy could subtly bias a highly complex market toward local participants. Although California's unique status raises this topic here, these issues are generally pervasive. From coast to coast, we see examples where in the very times when a consistency of the rules and their neutral application are most important, they have been lightly regarded.

Realizing that in order to grow, governance must change, strides towards regionalism and independence have been made. The Regional Organization for Western Energy (ROWE) was incorporated, and the ROWE's formation of a yet-to-be-seated Board of Directors and other bodies, such as the Pathways Launch Committee and the Regional Issues Forum, are a testament to this promise. The State of California recently passed Assembly Bill 825, which allows CAISO and participating transmission owners to participate in energy markets governed by a regional organization such as ROWE.

Both the ROWE and the legislation were still theoretical when Bonneville published its May 2025 Day-Ahead Markets Policy and Record of Decision, and Bonneville is now in a position to fully consider the latest opportunities presented. Healthy skepticism is warranted, as many of Bonneville's stakeholders already have advised me, but these advancements provide an undeniable opportunity. As Administrator, I would be neglecting my institution's esteemed heritage and neglectful of my duties, on behalf of Bonneville and our customers, if I did not clearly state the prerequisites within this paradigm that I regard as necessary for realizing a more contiguous Western market:

1. Independent Board Leadership

Bonneville will closely watch the selections made by the ROWE Nominating Committee and formation of a Board of Directors this month. The inaugural Board chair must possess the gravitas and capability to lead decisively. The remaining board members must demonstrate similar capabilities, operating as a "working board" to establish a genuine independent operation and thus the credibility required to win the region's trust.

A self-standing regulatory structure that provides for independent governance, embodying tariff filing rights under Section 205 of the Federal Power Act, will be an essential feature of the Board's independence.

2. Workforce and Location

Once seated, the new ROWE Board must swiftly establish a workforce that is directly accountable to it, functionally independent, and capable of overseeing its market services vendor, CAISO. These functions at a minimum should include compliance and auditing, market monitoring, legal, finance, and stakeholder relations as described below. To effectuate these functions, in the very near term the ROWE should employ at a minimum a chief executive officer, general counsel, and stakeholder-governance manager. Further, the roles of CAISO as a Balancing Authority and CAISO as a market services vendor must be clearly delineated and under distinct leadership. The CAISO Balancing Authority should receive no preferential market treatment or information over other participating balancing authorities.

Additionally, by the end of this October, the Board should establish a committee to select a headquarters and principal place of business outside of California, a committee which includes market participants such as Bonneville whose operations span multiple states.

3. Stakeholder-Driven Governance

The Board should understand its mission to be an electricity market that balances two variables, cost and reliability. That foundational principle in mind, questions around the details of how to achieve should be informed in the first instance by a stakeholder-driven governance process. While it is questionable whether a sector-based voting process is the *sine qua non* of market governance, Bonneville's public power and consumer-owned utility customers value it deeply. Out West, a democratic spirit must imbue the development of market rules. While stakeholder-driven governance can sometimes be slow or produce bargains that are not "first-best" outcomes, we have also seen recent successes when stakeholders rise to the occasion of a rapidly evolving industry, designing innovative market features to meet regional needs. Robust stakeholder involvement and empowerment instill the market with what it needs most: credibility and durability.

By the end of November, the ROWE should issue a resolution establishing a stakeholder governance framework that empowers market participants to initiate and evaluate major market proposals. This process must be run by ROWE personnel answerable directly to the ROWE executive team and board. When California's state regulators and CAISO interact with the ROWE as advocates for policy, they should do so on the same footing as all other stakeholders.

The ROWE must also establish robust conflict-of-interest protections and functional separation during Federal Power Act Section 206 disputes or processes involving divergent state interests. If CAISO provides technical advice during these processes, its staff must engage transparently in open forums, subject to the exact same rules and access provided to other ROWE stakeholders.

4. Protecting Against Unilateral State Action

Bonneville shares concerns that a unilateral political action in California could usurp regional governance by dissolving CAISO or barring it from serving as a vendor. To prevent this, the contract between the ROWE (as governor) and CAISO (as vendor) must include provisions that strongly discourage this gamesmanship. Legal mechanisms could include:

- Long contract-termination notice requirements;
- Requiring CAISO to transfer its market-operator functions to a ROWE-designated entity if CAISO dissolves or defaults; and
- Meaningful exit fees under specific termination conditions.

Because some of these terms could conflict with EDAM's voluntary nature, these considerations must be carefully balanced. A conceptual agreement should be reached by the end of 2026.

Furthermore, because disputes may arise about whether a particular topic appertains to CAISO's management of its balancing authority and ISO or the ROWE's prerogatives over the regional energy market, clear separation of the respective open access transmission tariffs is ultimately necessary. Tariff separation will take time, and it need not be a prerequisite for a Bonneville decision, but the ROWE Board should commit to this work through a corporate resolution or equivalent commitment by the end of this October, and such tariffs should be filed at FERC by mid-2028, incorporating such revisions into the previously tariffed ROWE governance tariff described above.

5. A Platform for Reliable Investment

There are a number of substantive questions of market design that weigh on the broad question of whether the market will be, as it must be, a vehicle to promote investment in reliable infrastructure. Specific concerns to an entity like Bonneville include (as discussed below) how resource adequacy will be assured, how transmission owners and rights holders will receive compensation in the EDAM market design, and the prerogatives we may assume in the marketing of our hydroelectric resources. In the first calendar of policy priorities it establishes, if not already in progress, the ROWE should announce these topics for expeditious stakeholder deliberation, with tariff filings on each of the topics scheduled for the later part of 2027 until mid-2028.

a. *Resource Adequacy.* Markets+ ensures that its footprint cumulatively possesses adequate operable capacity in power generation to serve regional loads by requiring its participants to make a showing thereof under the FERC-approved Western Resource Adequacy Program (WRAP). Bonneville believes such a program is necessary to promote investment in new generating capacity in the West, and WRAP or something like it should be a necessary and ultimately binding condition of EDAM participation.

b. *Transmission and Congestion Revenue Allocation.* In addition to adequate capacity in power resources, the grid that is the physical foundation of an electricity market must be paid for. Because of our historical investments in the regional and interregional grid, Bonneville's transmission revenue largely comes from point-to-point customers rather than network integration transmission service customers. A Western market must not penalize Bonneville for building these roads or disincentivize others from paying for their use. This also has direct implications for how the market allocates transmission congestion rents—an issue EDAM must prioritize and resolve.

   Congestion revenue generated across the EDAM footprint, inclusive of CAISO, must be allocated equitably and consistently among participating entities, strictly aligned with their transmission ownership shares and transmission purchases made through owners' tariffs. Specific mechanisms for major interties such as the Northwest AC Intertie/California-Oregon Intertie (NWACI/COI) and the Pacific DC Intertie (PDCI) are essential to ensuring fairness. Congestion revenue should be distributed using a standardized framework across the entire footprint while aligning seamlessly with internal CAISO Congestion Revenue Rights, without the further need to self-schedule, to safeguard the market against manipulation and gaming.

Bonneville is aware that this is the topic of an ongoing EDAM stakeholder process and expects meaningful progress toward the equitable distribution of congestion revenue. Bonneville will participate in this process and gauge the progress on this topic.

c. *Reserves and Energy-Limited or Dispatchable Resources.* Finally, Bonneville will be looking to ensure that the market parameterizes the need for operational capacity in a transparent and logical way, and in a manner that co-optimizes the trade in this product with that of energy itself so that appropriate price formation is assured. Bonneville applauds EDAM on its recent efforts to address this through the imbalance reserves product.

   Furthermore, in the status quo of bilateral trading, Bonneville and our counterparties determine the price and conditions under which we are willing to sell and buy our power at wholesale. It would certainly be ironic if what is often in shorthand described as a "market" were somehow more restrictive of our trading opportunities than the *status quo ante*. Bonneville's and others' determinations around the characteristics of energy- or duration-limited resources like our hydropower system, including its operational constraints and its opportunity costs, must be respected.

In closing, I appreciate the years of hard work dedicated to the effort of making Western electricity markets work for Western consumers by all parties, on all sides. Well-functioning electricity markets are a foundation for providing reliable and affordable service to Bonneville's utility customers and to people and businesses served by the federal power and transmission system across the Pacific Northwest. I look forward to communicating with stakeholders and observing timely, concrete actions consistent with the principles and actions envisioned in this letter.

Sincerely,

Travis R. Kavulla
Administrator and Chief Executive Officer

Statement of Principles

I. A Western Market that is Independent of its Vendor for Market Services

- ***Independent Governance:*** The market shall be governed by an independent Board of Directors, selected by a diverse regional nominating committee.
- ***Autonomous Capabilities:*** ROWE shall maintain independent executive leadership, legal counsel, regulatory affairs, policy design, market monitoring, and compliance auditing staff, supported by adequate financial reserves, to manage its vendor relationship with CAISO.
- ***Role Separation:*** The roles of CAISO as a Balancing Authority and CAISO as a market services vendor shall be clearly delineated; market-based tools and information available to the CAISO Balancing Authority shall be available to other participating balancing authorities. The ROWE Board must include this obligation in any vendor services contract between the ROWE and CAISO.
- ***Neutral Footprint:*** ROWE shall establish its headquarters outside of California through the work of a selection committee that includes multistate utilities such as Bonneville.

II. Stakeholder-Driven Governance

- ***Sectoral Voting:*** Stakeholders organized in a sectoral voting framework should be able to originate and develop market policies before their adoption by an independent Board. The sectors should be organized in a manner that prevents undue dominance by any single region, utility type, or interest group.
- ***Information Firewall:*** Strict ethical and operational firewalls shall prevent conflicts of interest between CAISO service-provider staff and ROWE policy-making personnel.

III. Market Stability and Regulatory Durability

- ***Bilateral Protections & Structured Exit:*** Service contracts shall feature robust provisions to prevent sudden market disruption in the event that CAISO becomes unavailable to act as a vendor as a result of unilateral state or CAISO Board action.
- ***Independent Tariff Authority:*** ROWE shall maintain filing rights over the regional market, and its governance should be reflected in a self-standing FERC tariff, which eventually evolves into a separate tariff that contains and separates the terms of the regional market from the CAISO tariff.

IV. Infrastructure Investment, Resource Reliability, and Market Design

- ***Value-Driven Grid Expansion:*** The market shall incentivize transmission expansion through transparent congestion management, clear cost-allocation policies, and equitable allocation of transmission rights.
- ***Price Formation:*** Market rules must accurately value the seasonal flexibility of the regional hydroelectric fleet through market design components and should allow market participants who offer those resources due respect for their judgments about their opportunity costs and operational constraints.
- ***Resource Adequacy:*** The market shall establish a resource adequacy program, or rely upon WRAP, to assure adequate operational capacity within the EDAM marketplace.