

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.