

Memorandum

To: ISO Board of Governors

From: Stacey Crowley, Vice President, External Affairs

Anna McKenna, Vice President, Market Policy and Performance

Date: September 15, 2021

Re: **State, Regional, and Federal Affairs update**

This memorandum does not require Board action.

STATE AFFAIRS

Regulatory update

Expedited Procurement Proceeding Phase 2 – Reliability for 2022-23 – Update:

On August 2, the California Public Utilities Commission (CPUC) opened phase 2 of its existing summer 2021 rulemaking (R. 20-11-003) in response to Governor Newsom's July 20 emergency proclamation directing the CPUC and energy agencies to mitigate the risk of capacity shortfalls. Phase 2 focuses on efforts at the CPUC to both increase peak and net peak supply resources and reduce demand in 2022 and 2023.

On September 1, the ISO supported two testimonies urging the CPUC to officially recognize an additional obligation at the net demand peak period within the existing resource adequacy program in addition to the existing requirement at gross peak. The ISO proposed to set the time of obligation to 8:00 p.m. as a proxy for the net demand peak period when solar generation is significantly reduced or zero but demand remains high. This additional obligation would require load-serving entities to ensure there are sufficient non-solar resources at 8:00 p.m. to serve load plus a planning reserve margin. Given the timing of the CPUC proceeding, the ISO proposed that the CPUC enforce this new obligation starting in 2022 from June through October, but for the full year starting in 2023. Based on the May through September 2021 resource adequacy showings, the non-solar resources being shown to the ISO to meet the current 15% planning reserve margin only amount to an implied 10-12% planning reserve margin. The ISO also advocated for increasing the planning reserve margin from 15% to 17.5% to reflect mandatory operating reserves, forced outages, and the forecast increase from a 1-in-2 to 1-in-5 demand level. Lastly, the ISO's testimony provided a proposal for the CPUC to

implement these new requirements. The CPUC aims to have a proposed decision in this proceeding by October and a vote on a decision in November.

Legislative update

Governor:

On September 14, a special election was held to determine whether California Governor Gavin Newsom would be recalled from office. Early returns demonstrate strong support for the Governor, with approximately 64% of voters opposing the recall. The Governor received ads and support from many influential Democrats, including former President Obama, helping ensure the recall was unsuccessful. Officials have 30 days to count the ballots and must certify the results by October 22. As a reminder, Governor Newsom is up for re-election next year. While the numbers will continue to be updated, it is clear the Governor has defeated the recall.

Legislature:

With September 10 marking the last day for the Legislature to pass bills and with Interim Recess beginning upon adjournment, the first year of the two-year legislative cycle came to a close. The California Governor will have until October 10 to sign or veto bills passed by the Legislature. Last year, due to constraints imposed by COVID-19, many of the legislative proposals related to the energy sector were shelved. However, bills that were not passed this year can be brought up again next year for consideration.

Oversight hearings:

On August 25, Senator Ben Hueso, Chair of the Senate Energy, Utilities and Communications Committee, convened an oversight hearing entitled *Keeping the Power On: A Focus on Electricity Reliability and The California Public Utilities Commission and the Public Advocates Office Annual Update to the Legislature*. The purpose of the hearing was to both receive an update on the actions underway, and completed by, the ISO, CPUC and California Energy Commission (CEC) to maintain reliability this summer, as well as hear the CPUC's annual update to the Legislature. Speakers for the first part of the hearing "Preparing the Electric Grid for Extreme Heat Events" consisted of CPUC President Marybel Batjer, CEC Commissioner Siva Gunda and ISO President and CEO Elliot Mainzer. This was the first oversight hearing held by the Senate, following the Assembly oversight hearings on October 12, 2020, and May 18, 2021, which focused on the Preliminary and Final Root Cause Analyses and the actions that were being initiated by the energy organizations.

REGIONAL AFFAIRS

EIM Governing Body:

The EIM Governing Body met in a joint session with the ISO Board of Governors (Board) on August 20 and both bodies unanimously approved the EIM Governance Review Committee's part two proposal on EIM governance changes. The EIM Governance Review Committee proposed to create a shared authority between the ISO Board and the EIM Governing Body, and to create new processes to support this new decisional model.

The EIM Governing Body met again on September 8 and voted, in their primary authority role, to approve the EIM sub-entity scheduling coordinator role, which will go to the ISO Board on their consent agenda at their September meeting. Also, in their advisory capacity, the EIM Governing Body voted to provide a verbal supportive advisory opinion on the governance document changes to implement the jointly approved EIM Governance Review Committee's part two proposal. These changes will be presented to the ISO Board at its September meeting. Also at the September 8 meeting, the EIM Governing Body voted to recommend a new revision to the ISO bylaws about how advisory committees are established for issues related to joint authority or governance of the energy imbalance market, either currently or as it may evolve. The EIM Governing Body concurred with Management's recommendation that there should be an opportunity for stakeholder feedback on the proposal before it is considered by the ISO Board, which could occur at their November meeting. The EIM Governing Body also heard from ISO Management on EIM market performance and on the progress of the resource sufficiency evaluation enhancements initiative.

The EIM Governing Body's next meeting is scheduled for October 20.

Body of State Regulators:

The next meeting of the Body of State Regulators is scheduled for October 18 in San Diego.

Regional Issues Forum:

The Regional Issues Forum (RIF) held a conference call on September 1 to discuss and approve changes to their operating guidelines, in part changed due to the EIM Governance Review Committee's part one proposal on EIM governance changes and in part changed due to the evolution of the RIF liaison selection process. There are number of upcoming RIF liaison vacancies, and the sectors are working on collecting nominations to vote on later this month.

The Regional Issues Forum's next meeting is tentatively scheduled for December.

EIM Governance Review Committee:

With the August 20 unanimous approval of the EIM Governance Review Committee's part two proposal on EIM governance changes by both the EIM Governing Body and the ISO Board of Governors, the EIM Governance Review Committee has completed their initial work. The group may be called upon again when the discussion on an extended day-ahead market resumes.

FEDERAL AFFAIRS

Administration:

On July 28, President Biden issued a National Security Memorandum directing the Department of Homeland Security's Cybersecurity and Infrastructure Security Agency to work with the National Institute of Standards and Technology to develop voluntary cybersecurity performance goals for critical infrastructure. The Memorandum also establishes a President's Industrial Control System Cybersecurity Initiative aimed at encouraging deployment of technologies and systems that facilitate cyber response capabilities.

On July 30, the White House announced a new Extreme Heat Interagency Working Group that will include President Biden, Vice President Harris, and the governors of California, Washington, Montana, Idaho, Oregon, Minnesota and Wyoming.

On August 5, President Biden signed an Executive Order calling for half of all vehicle sales to be zero-emission by 2030. The new target was announced at a White House event where the President was joined by U.S. auto industry executives, union officials, and environmental leaders. The White House press release included a statement from Governor Newsom advocating the state-federal alliance in support of the clean vehicle infrastructure.

On August 12, the U.S. Census Bureau released the official data that states will use in determining their congressional districts for the next 10 years. California, New York, Illinois, Michigan, Pennsylvania, West Virginia and Ohio will each lose one seat. Texas will gain two seats, and Florida, North Carolina, Colorado, Montana and Oregon will each gain one seat in the next federal election.

Congress:

On August 10, the Senate passed Amendment 2137 to H.R. 3684, the "Infrastructure Investment and Jobs Act," by a vote of 69-30. The bill authorizes programs and funding for a variety of energy sources and technologies. Transmission-related provisions would authorize:

- \$5 billion in grants to states and tribal governments, grid operators, fuel suppliers and other eligible entities to harden the grid against extreme weather events.

- \$5 billion for a new “Program Upgrading Electric Grid Reliability and Resiliency,” establishing cost-shared public-private partnerships to develop and demonstrate innovative projects to advance grid resilience.
- \$2.5 billion in a revolving loan fund for construction of new or replacement transmission lines. DOE could enter into contracts for up to 50% of planned line capacity as an “anchor tenant” and could sell their share after determining that the line had reached sufficient financial viability.
- \$3 billion for Smart Grid Investment Matching Grants. Eligible projects include technologies that provide increased flexibility in responding to natural disasters, fluctuations in demand and other events requiring quick system rebalancing.
- \$500 million for state energy programs, including activities that support transmission and distribution planning and reducing carbon emissions in the transportation sector, among others.

The bill as passed also includes significant energy cybersecurity and supply chain provisions. The bill awaits consideration in the House, where Speaker Pelosi has committed to bringing it to the floor for a vote by September 27.

On August 11, the Senate adopted, on a party-line vote of 50-49, a budget instruction framework that would support the Democrats’ proposed \$3.5 trillion package of social and climate programs. This paves the way for action during the process known as reconciliation, which would enable the legislation to be approved with a simple majority of 51 votes in the Senate. The framework includes significant details yet to be filled in, but would reportedly establish a clean energy standard; extend and expand tax credits to purchasers of electric vehicles; provide tax incentives for wind turbines, batteries and other advanced energy manufacturing; and develop a new Civilian Climate Corps to build clean energy infrastructure. House committee staff are now working with their Senate counterparts to draft legislative provisions to be included in the package in the hopes that both houses can pass identical versions of the bill prior to the end of the Fiscal Year on September 31.

Legislation introduced:

S. 2651, introduced on 8/5/2021. Sponsor: Sheldon Whitehouse (D-RI); 2 co-sponsors. Amends the Federal Power Act to establish a new federal transmission siting authority at FERC for lines of 1000 MW or more that cross 2 or more states, facilitate renewables, reduce congestion or improve grid reliability. Status: Referred to Senate Committee on Energy and Natural Resources.