

# Memorandum

**To:** ISO Board of Governors

**From:** Stacey Crowley, Vice President, External and Customer Affairs

Mark Rothleder, Vice President, Market Quality and California Regulatory Affairs

**Date:** July 17, 2019

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

---

*This memorandum does not require Board action.*

## STATE AFFAIRS

### Legislative update

#### **Legislature:**

The Legislature adjourned for Summer Recess on July 12, which was the last day for policy committees to meet and report bills. They will reconvene on August 12 and have until September 13 to pass bills.

#### **Legislation:**

AB 56 (E. Garcia): Designates the California Alternative Energy and Advanced Transportation Financing Authority (CAEATFA) to undertake backstop procurement of electricity to meet California's climate, clean energy, and reliability goals that are not satisfied by load serving entities (LSEs). Status: Failed deadline. 2-year bill.

SB 350 (Hertzberg): Authorizes the California Public Utilities Commission (CPUC) to consider a multiyear centralized resource adequacy mechanism to most efficiently and equitably meet specified resource adequacy objectives. If the CPUC approves a multiyear resource adequacy mechanism, and if the mechanism does not include a central procurement entity, then certain requirements would be suspended. Status: Failed deadline. 2-year bill.

SB 520 (Hertzberg): Designates the electrical corporation as the provider of last resort (POLR) in its service territory, unless provided otherwise in a service territory boundary agreement. The POLR will be considered a public utility subject to CPUC jurisdiction, control and regulation. The bill also authorizes the CPUC to designate an LSE to serve as the POLR, instead, if it meets certain requirements. Status: Passed Assembly Utilities and Energy Committee on July 10.

**SB 548 (Hill)**: Requires the CPUC to adopt or amend an existing, general order to establish a schedule for investor-owned utilities to inspect their transmission infrastructure. Status: Passed Assembly Utilities and Energy Committee on July 10.

**SB 708 (Hueso)**: Requires the ISO to: 1) maintain open meeting standards and meeting notice requirements consistent with the requirements, rather than the general policies, of the Bagley-Keene Open Meeting Act and the California Public Records Act; 2) work with California Air Resources Board (CARB), the California Energy Commission (CEC), and the CPUC to support state policy goals, make data available to state agencies in any format requested, and assist with the development and implementation of policies designed to achieve long-term resource planning objectives; 3) publicly disclose information relating to tariff or rule of conduct violations by market participants or scheduling coordinators and post specified information to the ISO website; 4) provide an annual presentation by the ISO CEO and chair of the ISO Board of Governors before the fiscal committees to present the organizational budget; 5) provide an annual presentation by the ISO CEO before the appropriate policy committees on the state of the grid and the operations of the ISO; and 6) open ISO books, records, and financial documents to inspection by the Joint Legislative Audit Committee and the State Auditor. Status: Failed deadline. 2-year bill.

**SB 772 (Bradford)**: Requires the ISO to complete a competitive solicitation process for the procurement of one or more long duration energy storage projects that have at least 2,000 MW of capacity, but not more than 2,400 MW, on or before June 30, 2022, and another competitive solicitation process for up to 2,000 MW after December 31, 2030. Status: Failed deadline. 2-year bill.

## **Regulatory update**

### **Integrated resource plan proceeding:**

On June 20, CPUC Commissioner Randolph and the Administrative Law Judge to the Integrated Resource Plan (IRP) proceeding released a joint ruling initiating a procurement track and asking parties to comment on potential system reliability shortfalls in the resource adequacy program in the near- to medium-term (2021 through 2024) and whether the CPUC should initiate procurement for resources to be online by 2021. The IRP ruling provides an analysis by the CPUC's Energy Division staff documenting a shortfall in capacity in 2021 due to major once-through cooling (OTC) retirements along with decreasing contributions from solar capacity to peak load that is occurring later hours of the day by the end of 2020. The analysis shows that the available capacity may be insufficient to meet the system peak plus a 15 percent planning reserve margin in 2021 and beyond. The IRP ruling suggests several immediate actions, such as directing CPUC staff to begin discussions, through the appropriate channels, to request of the State Water Resources Control Board (Water Board) a potential delay in OTC retirements beyond 2020, requiring immediate procurement of 2,000 MW of new resources to be online by August 1, 2021, and

directing Southern California Edison to solicit 500 MW of capacity from existing resources that are without a contract past 2021 as part of a medium-term (two to five year) contract. The IRP ruling also asks parties to opine on the identified need and potential solutions. The schedule for this procurement discussion calls for comments and workshops through the summer and fall, culminating in a proposed decision in late fall 2019. The IRP ruling also lays out a schedule for longer term procurement decisions consideration including long-duration storage.

### **Resource adequacy proceeding:**

On July 3, CPUC Commissioner Randolph released a ruling in the resource adequacy (RA) proceeding seeking to clarify the CPUC's RA import rules. Specifically, the ruling asks parties to comment on whether imported energy should be based on only a bidding obligation or should require both firm energy and firm transmission. Depending on the response, the ruling further asks if existing CPUC rules are clear and whether additional actions are needed for enforcement. Comments and reply comments are due the end of July.

### **Operational flow order settlement and draft Aliso Canyon withdrawal protocol:**

On May 30, the CPUC approved a settlement to reduce the operational flow order (OFO) penalties that Southern California Gas Company (SoCalGas) and San Diego Gas & Electric Company (SDG&E) may assess. OFO rules are a financially based balancing incentive mechanism meant to provide price incentives to customers to manage gas imbalances. However, speculation of when the OFO penalties would be assessed led to the unintended consequence of gas marketers and generators to unnecessarily drive up the price of gas to reflect the penalties ahead of any OFO calls. Southern California Edison (SCE) noted that the higher gas prices led to \$972.5 million under-collection in 2018. The price increase was also compounded by withdrawal constraints at Aliso Canyon and regional pipelines. The CPUC approved an OFO penalty reduction from \$25.00/dekatherm (dth) to \$5.00/dth in Stage 4 and \$5.00/dth plus the daily balancing standby rate in Stage 5 during the peak summer months of June 1 through September 30.

Related to Aliso Canyon, on July 1 the CPUC posted proposed revisions to the Aliso Canyon Withdrawal Protocol, allowing for greater access to Aliso Canyon. Comments were due July 11.

## **REGIONAL AFFAIRS**

### **Western Energy Imbalance Market**

During May, both Tucson Electric and Turlock Irrigation District signed implementation agreements to join the western energy imbalance market (EIM). Turlock will begin operation in EIM in 2021, and Tucson in 2022. Project kickoff activities are underway for both. Bonneville Power Administration (BPA) and Tacoma Power are engaged in

public processes to explore their potential participation in EIM. BPA issued a letter to the region on June 20 outlining their year-long stakeholder process and cost/benefit analysis supporting EIM. Tacoma Power received approval from the Tacoma Public Utilities Board, on June 26, to enter into an EIM implementation agreement.

### **Western Energy Imbalance Market Governance**

#### **Joint General Session with the ISO Board of Governors:**

The EIM Governing Body and the ISO Board of Governors held a joint in-person general session meeting also in Salt Lake City, Utah on June 28. The EIM Governing Body and the ISO Board of Governors approved Management's proposed EIM Governance Review Committee Charter. Both bodies will jointly decide the membership of the Governance Review Committee from the sector ranked list of candidates at the next joint session, tentatively scheduled as part of the September 18 – 19, 2019 Board of Governor's meeting.

#### **EIM Governing Body:**

The EIM Governing Body held an in-person meeting in Salt Lake City, Utah on June 28. In general session, they received updates from the Chairs of the Regional Issues Forum (RIF) and the Body of State Regulators (BOSR) as well as updates from the ISO on EIM performance, Q2 2019 benefits and policy outlook. The EIM Governing Body approved the real-time market neutrality settlements policy initiative that falls within its primary authority and elected Carl Linvill as Chair and John Prescott as Vice-Chair, effective July 1, each for a one year term. The next in-person general session meeting will be held on August 28 in Portland, Oregon.

#### **Regional Issues Forum:**

The Regional Issues Forum hosted a one day workshop on emerging carbon policies in the West, and potential impacts to the western EIM and market participants. The workshop focused on state approaches and new policies in the morning, and stakeholder discussion in the afternoon. There were presentations from representatives from California, Oregon, Washington and New Mexico. In addition, Commissioners from states without carbon policies spoke to the importance of considering the secondary impacts of these policies on their constituencies. Representatives of the ISO, the Market Surveillance Committee, utilities, energy imbalance market participants, consumer advocates and other stakeholders spoke to the potential impacts of these policies. Over 270 people participated in the workshop, both in-person and over the phone, and the RIF is considering next steps for the workshop. The next RIF meeting is planned for August 27 in Portland, Oregon.

## **Body of State Regulators:**

The Body of State Regulators is holding their next in-person general session meeting on October 7 in San Diego, California in conjunction with the fall Committee on Regional Electric Power Cooperation (CREPC) meeting. A detailed agenda will be made available prior to the meeting date.

## **FEDERAL AFFAIRS**

### **Administration:**

On June 19, the U.S. Environmental Protection Agency (EPA) released its final rule on greenhouse gas emissions, the Affordable Clean Energy (ACE) plan. The ACE plan is the Administration's replacement for the Obama Administration's Clean Power Plan, which was stayed by the Supreme Court in 2016 and never implemented, and is now mooted by the issuance of a replacement rule. The ACE plan sets no specific limits on power plant emissions but requires EPA to establish a "best system of emission reduction" standard for existing power plants and allows states choose from a list of technologies designed to improve the efficiency of individual plants. The ACE rule is expected to be tested in court.

### **Congress:**

On June 20, the Senate Energy and Natural Resources Committee held a hearing on geothermal energy. Witness Paul Thompson of Ormat Technologies highlighted California's procurement policies that promote geothermal installations as a "backbone" to support solar and wind resources. Dan Simmons, Assistant Secretary of Energy Efficiency and Renewable Energy at the Department of Energy (DOE), cited a recent agency report concluding that geothermal resources could potentially experience a 26-fold increase in installed generating capacity nationwide.

### **Legislation:**

H.R. 2665, "Smart Energy and Water Efficiency Act of 2019," introduced on May 10. Sponsor: Representative Jerry McNerney (D-9<sup>th</sup> District – Pleasanton/San Joaquin Delta); 3 cosponsors. Establishes a grant program within DOE to advance smart technologies that increase the efficiency of energy and water programs in municipalities, water districts, joint water and power authorities, and other entities. Status: Referred to House committees on Energy and Commerce, Natural Resources, and Transportation and Infrastructure.

H.R. 2960, "Energy and Water Development and Related Agencies Appropriations Act, 2020." Introduced on May 23, 2019, and included in a five-bill "minibus" that also includes funding for Labor, Health and Human Services, Legislative Branch, State Department, and Foreign Operations programs. Sponsor: Representative Marcy Kaptur (D-OH), 0 cosponsors. Includes \$46.4 billion for energy innovation "that will

increase economic prosperity while working to mitigate and adapt to climate change,” among other purposes. The bill must pass by September 30 to avoid a partial government shutdown. It includes language allowing Bonneville Power Administration to sell excess power to states with clean energy programs. Status: The Appropriations Committee issued House Report 116-83, including Minority views, on May 23. The full House began consideration of the minibus during the week of June 12.

H.R. 3301, “Taxpayer Certainty and Disaster Relief Act of 2019,” introduced on June 18. Sponsor: Representative Mike Thompson (D-5<sup>th</sup> District – North Bay/Napa); 0 cosponsors. Provides incentives for biofuels, wind energy generators, energy efficient buildings, and “utilities’ sales or dispositions made to implement FERC or state electric restructuring.” Status: Referred to the House Ways and Means Committee, which voted to approve the bill on June 20. Committee Chair Richard Neal (D-MA) also agreed to move a more extensive energy tax package, including energy storage, renewables and electric vehicles, later this year. Floor action on H.R. 3301 has not been scheduled.

H.R. 3361, “Reliable Investment in Vital Energy Reauthorization Act,” introduced on June 19. Sponsor: David McKinley (R-WV); 5 cosponsors. Extends existing incentives for hydroelectric energy production through 2036. Status: Referred to the House Committee on Energy and Commerce.

S. 1477, “Public Engagement at FERC Act,” introduced on May 15. Sponsor: Senator Jeanne Shaheen (D-NH); 8 cosponsors. Establishes an Office of Public Participation at the Federal Energy Regulatory Commission under the Federal Power Act to assist residential and small commercial energy consumers in intervening in proceedings on rates, services and infrastructure siting issues. Creates a Public and Consumer Advocacy Advisory Committee composed of national and state consumer advocates and provides funding for interveners. Status: Referred to the Senate Committee on Energy and Natural Resources. A companion bill, H.R. 3240, was introduced in the House on June 12 by Representative Jan Schakowsky (D-IL) and has 4 cosponsors. The House bill has been referred to the Energy and Commerce Committee.

S. 1974, “Renewable Electricity Standard Act of 2019,” introduced on June 26. Sponsor: Senator Tom Udall (D-NM); 4 cosponsors. Requires utilities generating over 1 million MWh of electricity a year to increase renewable power sales incrementally through 2035 to achieve at least 50% renewable resource penetration. The bill defines renewable energy as that produced by solar, wind, ocean, tidal, geothermal, biomass, landfill gas, incremental hydropower and hydrokinetic energy. The bill also requires the Secretary of Energy to develop a plan that would enable the U.S. to achieve net-zero carbon emissions from electric power production by 2050. Status: Referred to the Senate Energy and Natural Resources Committee.