

Memorandum

To: ISO Board of Governors

From: Stacey Crowley, Vice President, Regional and Federal Affairs
Tom Doughty, Vice President, Customer and State Affairs

Date: March 20, 2019

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

This memorandum does not require Board action.

STATE AFFAIRS

Legislative update

Legislature:

The California ISO (ISO) has participated in two legislative hearings since the beginning of 2019. Assemblymember Bill Quirk hosted a briefing on decarbonizing the energy grid and the role of storage on February 12. Neil Millar, the Executive Director of Infrastructure Development, provided an overview of the ISO Transmission Planning Process and identified potential solutions for addressing transmission needs. The Assembly Utilities and Energy Committee hosted an informational hearing on “The Metamorphosis of the Energy Sector: Maintaining Reliability and Affordability on the Road to Decarbonization” on March 6. Mark Rothleder, the Vice President of Market Quality and Renewable Integration, discussed the challenges and opportunities of renewable integration and the changing energy landscape.

February 22 marked the last day for bills to be introduced in each house and Spring Recess begins on April 11.

Legislation:

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; 2) provide public access to corporate records consistent with the requirements, rather than the general policies, of the California Public Records Act; 3) work with California Air Resources Board (CARB), the California Energy Commission (CEC), and the California Public Utilities Commission (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; 4) 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; 5) 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; 6) 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 7) open ISO books, records, and financial documents to inspection by the Joint Legislative Audit Committee and the State Auditor.

SB 772 (Bradford) Requires the ISO, on or before June 30, 2022, to complete a competitive solicitation process for the procurement of one or more long duration energy storage projects that have at least 2,000 megawatts capacity, in aggregate, but not more than 4,000 megawatts. The bill also requires that the competitive solicitation process provide for cost recovery from load-serving entities (LSEs) within the ISO grid, as determined by the ISO to be just and reasonable and taking into account the distribution of benefits from the long duration bulk energy storage.

AB 56 (E. Garcia) Requires the CPUC and CEC to provide to the Legislature, by March 31, 2020, a joint assessment for establishing a central statewide entity to procure electricity for all end-use retail customers in the state, including a public process that provides opportunities for interested stakeholders to provide comments.

AB 915 (Mayes) Revises the definition of a Renewable Portfolio Standard (RPS) eligible renewable resource to include electrical generation facilities that have a specified point source emission level of carbon dioxide equivalent at, or below, a specified level, if the marginal increase in the cost of procurement from other eligible renewable energy resources exceeds a specified level, on or after January 1, 2026, as well as hydroelectric generation facilities of any generation capacity, on or after January 1, 2030. The bill establishes the following revised RPS eligible renewable resource targets: 68 percent by December 31, 2033; 76 percent by December 31, 2036; and 80 percent by December 31, 2038. It also requires CARB to develop a methodology to determine whether an electric generation facility is a zero-carbon resource and requires the CPUC to submit a report identifying requirements, challenges, and solutions to meeting the state's clean energy goals.

AB 1371 (Cunningham) Requires the CPUC to determine appropriate targets for the procurement of offshore wind generation to meet the 60 percent RPS by December 31, 2030, and 100% zero-carbon resources by December 31, 2045. The bill also requests the ISO to utilize its transmission planning process to plan for new transmission additions that will accommodate offshore wind generation, as well as utilize, or repurpose, existing transmission infrastructure that was built to serve fossil fuel or nuclear generation that has been, or will be, retired.

AB 1584 (Quirk) Requires the CPUC to develop and use methodologies for allocating costs imposed on the electrical system by each LSE based on their portfolio's contribution to the electric system conditions that created those costs.

SB 288 (Wiener) Requires the CPUC and the governing board of each local publicly owned utility (POU), by January 1, 2021, to create one or more tariffs that offer fair compensation for customer-sited energy storage systems that export electricity to the electrical grid and to consider one or more tariffs for customer-sited energy storage and renewable energy systems to support grid reliability and community resiliency in the event of emergencies or grid outages. The bill also requires the CPUC to collaborate with the ISO to modify existing tariffs to remove barriers to the participation of customer-sited energy resources in programs intended to provide energy, capacity, and ancillary services for the bulk power system.

SB 350 (Hertzberg) Authorizes the 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.

SB 520 (Hertzberg) Authorizes the CPUC to develop certain threshold attributes for a LSE to serve as a provider of last resort. The bill also authorizes the CPUC to establish a structure, such as an auction, to determine which LSE should serve as the provider of last resort and what benefits they would receive, if selected.

SB 548 (Hill) Requires the CPUC to adopt a new, or amend an existing, general order to establish a schedule of inspection by electrical corporations of their transmission facilities.

Regulatory update

Resource adequacy proceeding:

On February 21, the CPUC voted unanimously to adopt multi-year local resource adequacy requirements with procurement by individual load serving entities. Starting in 2020, LSEs will have a minimum three-year forward requirement to procure 100 percent of requirements for Years 1 and 2 and 50 percent of requirements for Year 3. The ISO will support the decision by developing three-year forward local resource adequacy requirements. The CPUC declined to adopt a central procurement structure but committed to undertake a minimum of three workshops over the next six months to identify a workable central buyer and central procurement structure proposal. ISO staff will actively participate in the workshops.

STRATEGIC ALLIANCES AND REGIONAL AFFAIRS

Energy Imbalance Market:

The New Mexico Public Regulation Commission (NMPRC) issued a procedural order on February 28 assigning a hearing examiner to review the Public Service Company of New Mexico's request for energy imbalance market (EIM) cost accounting treatment as

a regulatory asset. The hearing examiner issued a report on March 8 stating that it appears the overall record will be sufficient, and subsequently, issued a Recommended Decision on March 18 for consideration by the Commission at their March 27 meeting.

The ISO conducted an EIM kickoff meeting with the Northwestern Energy team in Butte, Montana on March 4. Northwestern plans to begin EIM operation in April 2021.

Energy Imbalance Market Governance:

The EIM Governing Body held a meeting March 12 in Albuquerque, New Mexico. In general session, they heard updates from the Chairs of the Regional Issues Forum (RIF) and the Body of State Regulators (BOSR). ISO staff briefed the Governing Body on the EIM Nominating Committee Process, the Policy Outlook, the Q4 2018 EIM Benefits and next steps for the EIM Governance Review. The EIM Governing Body voted to submit written comments to the ISO Board of Governors in support of the local market power mitigation enhancements proposal, which falls partially within both their primary and advisory authority. The EIM Governing Body also voted to support the proposed revisions to the decisional classification rules, which falls within their advisory authority. The next in-person general session meeting will be held April 24 in Salt Lake City, Utah.

The ISO, along with the BOSR and Western Interstate Energy Board, will host an ISO and market training course for state regulators and policymakers on March 21 and 22. This workshop will provide basic market education at a level appropriate for regulators and policy makers, enabling a better understanding of proposed changes to market design and policy. The next in-person meeting of the BOSR will be held on April 17 in Salt Lake City, Utah.

The RIF held a meeting on March 11 in Albuquerque, New Mexico, in conjunction with the EIM Governing Body meeting. In the meeting, the Public Service Company of New Mexico gave a presentation that outlined their decision to join the Western EIM. The RIF also organized panels which discussed ISO/RTO Governance and best practices regarding energy transfer system resources. EIM Governing Body Chair Valerie Fong gave an update on the EIM Governance Review, and RIF Chair Therese Hampton facilitated a discussion regarding the operation and value of the RIF. Their next meeting is tentatively scheduled for June 18 in Folsom, California and expects to focus on recent developments of greenhouse gas regulations in western states.

FEDERAL AFFAIRS

Administration:

On February 8, the U.S. Environmental Protection Agency (EPA) announced that it will delay its Affordable Clean Energy rule, intended to replace the Obama Administration's Clean Power Plan, until the second quarter of 2019 due to the recent 35-day government shutdown.

On February 15, Daniel Simmons, Department of Energy Assistant Secretary for Energy Efficiency and Renewable Energy, announced the opening of a Battery Recycling Center, a public-private partnership aimed at developing cost-effective techniques for recycling at least 90% of the critical materials from lithium-based batteries. The current recycling rate for these materials is 5%. The center will be located at Argonne National Laboratory.

On February 28, the Senate approved the nomination of Andrew Wheeler as Administrator of the EPA, where he has served on an Acting basis since the resignation of Scott Pruitt in July, 2018. Mr. Wheeler was previously an attorney in private practice and was chief counsel to the Senate Committee on Environment and Public Works chair James Inhofe (R-OK).

Congress:

On February 7, Senator Ed Markey (D-MA) and Representative Alexandra Ocasio-Cortez (D-NY) issued a draft non-binding resolution termed the “Green New Deal.” The plan is aimed at achieving net zero greenhouse gas emission in the U.S. over the next ten years. Core goals include the creation of high-wage jobs; investment in sustainable infrastructure; clean air, water and other environmental quality initiatives; and social justice objectives. The resolution calls for upgrading the energy and water efficiency of U.S. buildings and promoting distributed energy and “smart” power grids.

On February 7, House Speaker Nancy Pelosi (D-12th District – San Francisco) named nine Democratic members to the recently-announced House Select Committee on the Climate Crisis, which will be chaired by Representative Kathy Castor (D-FL). The newly-announced members include three from California: Representatives Julia Brownley (26th District – Ventura County), Jared Huffman (2nd District – San Rafael), and Mike Levin (49th District – Northern San Diego). Other Representatives named to the panel are Ben Ray Lujan (NM), Suzanne Bonamici (OR), Sean Casten (IL), Donald McEachin (VA) and Joe Neguse (CO). On February 28, House Minority Leader Kevin McCarthy (R-23rd District – Bakersfield) named six Republican Representatives to the Select Committee: Garret Graves (LA), Morgan Griffith (VA), Buddy Carter (GA), Gary Palmer (AL), Carol Miller (WV) and Kelly Armstrong (ND). Representative Graves will serve as ranking member. The Select Committee will hold hearings and recommend legislative initiatives to the permanent House committees of jurisdiction. On March 6, Senate Minority Leader Chuck Schumer (D-NY) introduced a resolution proposing that a similar Select Committee be formed in the Senate.

As widely reported, on February 14 the House and Senate approved legislation funding a group of government agencies through the balance of Fiscal Year 2019, which ends on September 30. The President signed the legislation, averting a second partial government shutdown. The legislation provides funding for EPA and the departments of Interior and Homeland Security, among other federal agencies.