

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: September 11, 2019

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

This memorandum does not require Board action.

STATE AFFAIRS

Regulatory update

Integrated resource plan proceeding:

On June 20, California Public Utilities Commission (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. In response, the ISO provided two analyses: one based on the CPUC's resource adequacy counting rules and another based on the ISO's operational analysis. Both analyses substantiated the CPUC's findings of significant capacity shortfalls in coming years.

In the resource adequacy-based analysis, the ISO identified a 500 MW system resource adequacy deficiency in 2020, increasing to 2,300 MW in 2021 and 2,200 MW in 2022. However, the resource adequacy-based counting method only considers needs in the peak hour and does not account for the hours right after the peak when the sun is down, solar production is gone, but the load remains high. The ISO supplemented this analysis with its own operational analysis focusing on the hours before and after the peak demand from 4 p.m. to 9 p.m. That analysis predicts a potential resource gap of up to 2,300 MW in summer 2020, growing to more than 4,400 MW in 2021 and to more than 4,700 MW in 2022. The ISO recommends that the CPUC move aggressively and quickly to address the issue in order to maintain a reliable electric grid. Specifically, the CPUC should direct resource adequacy procurement for uncontracted resources that are operational or mothballed, direct increased resource adequacy procurement for uncontracted import resources, ensure resources under construction are on track for their online dates so that they do not exacerbate reliability concerns, and direct

procurement for new resources. The ISO also supports the CPUC's proposal to extend the California State Water Board's once-through cooling (OTC) regulation compliance dates for gas-fired generating units needed to maintain reliability and use any extension as a backstop to additional resource adequacy contracting. The CPUC schedule expects a Proposed Decision by late fall 2019.

Once-through cooling power plant compliance date extensions:

ISO staff is working collaboratively with state agencies to make recommendations for extension of OTC compliance dates as needed to meet local and system reliability needs.

A joint-agency Statewide Advisory Committee on Cooling Water Intake Structures¹ (SACCWIS) was created in 2010 to advise the State Water Resources Control Board (State Water Board) on the implementation of the Water Quality Control Policy on the Use of Coastal and Estuarine Waters for Power Plant Cooling (once-through cooling or OTC Policy), ensuring the compliance schedule takes into account the reliability of California's electricity supply, including local area reliability, statewide grid reliability, and permitting constraints.

On August 23, 2019, SACCWIS met to discuss a report prepared for the State Water Board regarding local and system-wide grid reliability issues that are projected to arise starting in summer 2021 after the planned shutdown of four OTC power plants by December 31, 2020. At that meeting, the committee approved the following:

- Recommend the State Water Board extend the OTC Policy compliance date for Alamitos Units 3, 4, and 5 (1,163 MW) by two years to ensure local grid reliability and help improve system-wide grid reliability.
- Commit to a recommendation in late 2019 to extend the OTC Policy compliance date by two or more years, but no longer than necessary to ensure grid reliability, for Alamitos Units 3, 4, and 5 and some portion of the 2,579 MW of capacity generated by Huntington Beach, Ormond Beach, and Redondo Beach generating stations to ensure system-wide grid reliability.

SACCWIS will make an informal presentation to the State Water Board in the fall of 2019. The inter-agency working group supporting SACCWIS will complete additional analysis that considers air and water permitting requirements and capabilities of the existing OTC resources from now through November, 2019, and will provide further analyses and stakeholder input in the CPUC's Integrated Resource Plan procurement track proceeding. SACCWIS will meet to consider recommendation to the State Water

¹ SACCWIS includes representatives from the California Energy Commission, California Public Utilities Commission, California Coastal Commission, California State Lands Commission, California Air Resources Board, the California Independent System Operator, and the State Water Resources Control Board.

Board for additional OTC compliance date extensions to meet system reliability needs in the November/December timeframe. The State Water Board will hold a hearing to consider adoption of SACCWIS recommendations in summer, 2020.

Update on Senate Bill 100 implementation:

Senate Bill 100 (SB 100) requires the CPUC, California Energy Commission (CEC), and California Air Resources Board (CARB) to complete a joint-agency report to the Legislature evaluating how the state can achieve 100 percent zero-carbon electricity by 2045. The first SB 100 joint-agency report, to be developed in consultation with all California balancing authorities, is due by January 1, 2021, and at least every four years thereafter. The SB 100 kickoff meeting was held on September 5 with additional workshops planned to develop the report process to include the CARB's Climate Change Scoping Plan, the CPUC IRP, and an update on the current state of transitioning to a clean electric grid. The ISO supports the energy agencies in this effort and will collaborate to ensure reliability and grid needs are fully considered in the transition to the SB 100 goals.

Legislative update

Legislature:

September 13 marks the last day for each house to pass bills and Interim Recess begins upon adjournment. The Governor will have until October 13 to sign bills passed by the Legislature. This summary is current as of September 11.

Legislation:

AB 56 (Assemblymember 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. Status: 2-year bill.

AB 923 (Assemblymember Wicks): Authorizes the Bay Area Rapid Transit District (BART) to procure energy from any electrical corporation or marketer, and electricity purchased through the ISO market. The bill also requires BART to annually disclose the sources of their energy and associated greenhouse gas (GHG) emissions to the CEC. Status: Governor's desk.

SB 520 (Senator 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 a load serving entity to serve as the POLR, instead, if it meets certain requirements. Status: Passed Assembly—awaiting final vote on Senate Floor.

REGIONAL AFFAIRS

Western Energy Imbalance Market (EIM)

New EIM entities:

Tacoma Power signed an EIM implementation agreement in August to participate in EIM, beginning in spring, 2022. Tacoma's decision to join EIM adds to earlier commitments this year from Avista Energy (2022), Tucson Electric Power (2022), and Turlock Irrigation District (2021).

Extended Day-Ahead Market (EDAM) Feasibility Assessment:

The ISO is collaborating with EIM entities on an assessment of the potential to extend the day-ahead market to a regional model similar to the EIM. The assessment will be used to evaluate the level of interest in pursuing policy changes necessary for extending the participation model to the day-ahead market. The feasibility assessment will be a topic on the September 18 Board and EIM Governing Body joint general session agenda.

Western Energy Imbalance Market Governance

EIM Governing Body:

The EIM Governing Body held a meeting on August 28 in Portland, Oregon. In general session, they received updates from the Regional Issues Forum (RIF) and the Body of State Regulators (BOSR), as well as a briefing from ISO staff on the System Market Power Assessment. The EIM Governing Body voted to approve Anita Decker to fill the vacancy in the EIM Governing Body created by Kristine Schmidt's resignation. Member Decker will serve a term starting September 1, 2019 and ending June 30, 2020. In addition, Chair Linvill also announced the resignation, effective August 27, of Travis Kavulla from the EIM Governing Body.

Regional Issues Forum:

The RIF held their third public meeting of 2019 on August 27 in Portland, Oregon. The RIF heard updates from the Oregon Carbon Policy Office on their carbon regulation strategies and next steps for regulation in the state, and updates on Avista and the Bonneville Power Administration's individual processes to either join or examine the Western EIM. There was also a panel discussion on the ISO's System Market Power Assessment. During the meeting, the liaisons also announced their intent to solicit comments from stakeholders on a summary they drafted as a follow up to their June 18 Carbon Workshop. The next RIF meeting is scheduled for December 3, 2019 in Las Vegas, Nevada.

Body of State Regulators:

The BOSR will hold their next in-person meeting in San Diego, California on October 7. The agenda for this meeting is currently being developed, and a draft will be posted when available.

FEDERAL AFFAIRS

Congress:

Both the House and Senate were in recess for the month of August and returned to Washington on September 9 with several must-pass bills on its agenda, including funding of federal agency programs for Fiscal Year 2020 to prevent a government shutdown on October 1. The House has passed 10 of its 12 annual funding bills, including funding for energy programs, but the Senate has not yet passed any appropriations bills.

Legislation:

H.R. 4186, “the Renewable Electricity Tax Credit Equalization Act of 2019,” introduced on August 15. Sponsors: Representatives Elise Stefanic (R-NY) and Scott Peters (D-52nd District – La Jolla/Coastal San Diego). Extends the investment and production tax credits for qualified renewable energy projects that were left out of the 2015 tax bill, including biomass, hydropower, geothermal, and municipal solid waste facilities, as long as they commence construction prior to 2025. Status: Referred to House Ways and Means Committee.

S. 2270, “Enhancing Geothermal Production on Federal Lands,” introduced on July 25. Sponsor: Senator Jim Risch (R-ID). Expedites leasing and production of geothermal energy to bring parity with oil and gas development on public lands. Status: Referred to the Senate Committee on Energy and Natural Resources.

S. 2302, “America’s Infrastructure Investment Act of 2019,” introduced on July 29. Sponsor: Senator John Barrasso (R-WY). This bill is a portion of a massive 5-year reauthorization for surface transportation and other federal infrastructure programs. Of note, the bill explicitly addresses global warming concerns associated with transportation, the first time such language has been included in a highway bill. It includes a \$1 billion grant program for electric vehicle charging stations and natural gas/hydrogen fueling stations on designated highways. Status: Referred to the Senate Environment and Public Works Committee and passed by a unanimous vote of the committee on July 29. The bill will also include provisions from the Senate Finance and Banking committees, which have not yet taken it up.

S. 2332, “The Grid Modernization Act of 2019,” introduced on July 30. Sponsor: Senator Maria Cantwell (D-WA). Authorizes a new Department of Energy (DOE) demonstration program for grid modernization, including projects for storage, microgrids

and distribution-level technologies. Requires DOE to provide “off the shelf” tools to local and state grid regulators to accelerate adoption of new technologies and grid controls. Status: Referred to the Senate Committee on Energy and Natural Resources.

S. 2333, “The Energy Cybersecurity Act of 2019,” introduced on July 30. Sponsor: Maria Cantwell (D-WA). Creates programs within DOE to identify, enhance and test supply chain vulnerabilities and response capabilities of federal agencies and the private sector through information sharing, improvement of the cyber workforce, enhancing monitoring tools and increasing DOE’s collaboration with the intelligence community. Status: Referred to the Senate Committee on Energy and Natural Resources.