

Memorandum

To: ISO Board of Governors

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

Mark Rothleder, Vice President, Market Policy and Performance

Date: July 15, 2020

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

This memorandum does not require Board action.

STATE AFFAIRS

Regulatory update

Resource adequacy proceeding:

There are four main developments in the California Public Utilities Commission (CPUC) resource adequacy proceeding.

On June 11, the CPUC adopted Decision 20-06-002 to establish a central procurement entity to procure local, multi-year resource adequacy in the Pacific Gas and Electric (PG&E) and Southern California Edison (SCE) service areas starting with the 2023 resource adequacy year. The CPUC did not adopt a central buyer for the San Diego Gas and Electric (SDG&E) service area. The CPUC decision adopts a hybrid procurement model that allows load serving entities (LSEs) to procure resources, but ultimately those resources will be used to reduce the amount of local resource adequacy the central procurement entities will need to procure. D.20-06-002 tasks the central procurement entities with the responsibility to procure the entire amount of required local resource adequacy on behalf of all LSEs. While the ISO supported a residual procurement model, the ISO remains supportive of the central procurement framework and ISO staff will coordinate with CPUC staff to ensure implementation and harmonization with ISO processes. Lastly, D.20-06-002 noted that “Track 3” of the current resource adequacy proceeding will discuss multi-year system and flexible capacity.

On June 25, the CPUC adopted two decisions of consequence for the ISO. The first, Decision 20-06-028, requires non-resource-specific resources to self-schedule or bid between negative \$150/MWh and \$0/MWh during the availability assessment hours (4 p.m. to 9 p.m.). Outside of the availability assessment hours, LSEs are expected to bid in accordance with the governing contract. D.20-06-028 completes the limited rehearing and lifts the stay of a prior CPUC decision which had required non-resource-

specific resources to self-schedule into the ISO market consistent with the timeframe reflected in the governing contract. While the ISO had expressed concerns with self-scheduling requirements, D.20-06-028 does limit such a requirement to selected hours of high grid need, applies the provision only to the 2021 resource adequacy year, and notes that a subsequent resource adequacy proceeding can consider alternative proposals from the ISO.

Also on June 25, the CPUC adopted Decision 20-06-031, which spanned a wide variety of topics including establishing counting conventions for hybrid resources, adopting an optional counting convention for hydro resources jointly proposed by the ISO, revising maximum cumulative capacity buckets to account for demand response, and adopting 2021 flexible capacity and 2021-2023 local capacity requirements based on ISO analyses. Leading up to the development of the ISO's *Final 2021 Local Capacity Technical Study*, the ISO conformed its local capacity technical study criteria with current mandatory reliability standards developed by the North American Electric Reliability Corporation (NERC) and these changes were approved by the Federal Energy Regulatory Commission (FERC). No parties filed comments or protested at the FERC but the subsequent ISO analysis based on the conformed criteria increased requirements in the Greater Bay Area while reducing requirements in other areas. D.20-06-031 adopts 2021 Greater Bay Area local capacity requirements based on the ISO's analysis but adopts substantially lower requirements for 2022 and 2023 based on the prior year's local capacity study while a working group has been formed to address this and other local area issues in greater detail. In this proceeding the ISO also notified the CPUC that pursuant to a commitment made to the ISO Executive Appeals Committee, the ISO developed a technical solution to operationalize slow demand response as a local resource through pre-contingency dispatch during stressed grid conditions. In return, the ISO had hoped the CPUC would require the investor owned utility (IOU) demand response programs to be shown on resource adequacy supply plans rather than receive a "credit" against their resource adequacy requirement. The supply plan information is necessary for the ISO to carry out its technical solution and would then no longer defer its annual backstop process on the basis of differing counting rules. The CPUC acknowledged the ISO's comments and expects to continue the discussion in "Track 4" of the resource adequacy proceeding, to start later this year. The CPUC noted that there is interest in the possibility of increasing the value of behind-the-meter hybrid resources and will request the ISO and the California Energy Commission to participate in a joint public workshop on this issue.

In July the CPUC will accept proposals into Track 3 of the current resource adequacy proceeding. The ISO will continue to support multi-year system and local resource capacity requirements, an effective load carrying capability counting methodology for demand response, a technical analysis to support counting of availability-limited resources in the local areas, and the latest ISO staff proposal from the resource adequacy enhancements stakeholder initiative. The stakeholder initiative contains a proposal for addressing speculative supply in resource adequacy imports, establishing an unforced capacity (UCAP) value that accounts for units' forced outage rates, and a

monthly portfolio assessment to ensure that reliability needs can be met by the shown resource adequacy portfolio during all hours.

Integrated resource plan proceeding:

On March 26 the CPUC adopted Decision 20-03-028 (D.20-03-028), which selected two plans for the 2019-2020 Reference System Portfolio (RSP) — one with a 46 million metric tons (MMT) and the other with a 38 MMT greenhouse gas (GHG) emission target by 2030. Selecting two different plans for the Reference System Portfolio is a departure from prior practice and requires LSEs to file two individual integrated resource plans (IRPs) for each GHG target by September 1. Of note, the 46 MMT target portfolio contains over 11,000 MW of utility-scale solar, 9,000 MW of short-duration batteries, 1,000 MW of pumped storage and 600 MW of out-of-state wind. On the other hand, the 38 MMT target portfolio contains 12,000 MW of utility-scale solar, almost 10,000 MW of short-duration batteries, 1,600 MW of pumped storage, 3,000 MW of out-of-state wind and 2,000 MW of natural gas capacity not retained. However, as with prior decisions on the adopted portfolios, the CPUC did not authorize any procurement, including procurement to replace the Diablo Canyon Power Plant. For the ISO's transmission planning process, D.20-03-028 transmitted the use of the 2018 Preferred System Portfolio, with certain updates, for the reliability- and policy-driven base case to assess the need for transmission investments as well as two sensitivity analyses. The ISO strongly supports this action.

On May 7 the CPUC issued a new order instituting rulemaking to establish the scope for the planning and procurement tracks of the new IRP proceeding. The ISO prioritizes procurement to replace the Diablo Canyon Power Plant and urges the CPUC to provide actionable IRP plans to authorize long lead-time transmission projects and plan for grid reliability needs. On June 15, the administrative law judge issued a ruling that would expand the current IRP cycle from two to three years. The ISO is highly engaged in the new rulemaking and has expressed concerns as to whether a three-year cycle will provide timely feedback to the ISO to enable long lead-time resource and reliability planning.

Legislative update

Legislature:

On June 25, the Senate voted on a “junior budget” agreement, a \$202.1 billion spending plan that addresses the state’s projected \$54.3 billion deficit for the 2020 fiscal year. The Assembly reconvened the following day, suspending their Summer Recess, to approve the Senate version and the Governor signed it into law on June 29. Prior to the vote, the Governor declared a “budget emergency,” providing the authority for the Legislature to take nearly \$8 billion from the state’s primary savings account to avoid additional spending cuts. Even with the additional spending authority, analysts project

an additional deficit ranging in the billions of dollars next year. Of interest, the budget provides \$716 million for the Governor to utilize for emergency pandemic spending.

Both the Senate and the Assembly postponed their return to the legislative session after two Assemblymembers and several staffers tested positive for COVID-19. The new return date from Summer Recess is July 27, but could change depending on additional positive confirmations. August 31 marks the California constitutional deadline for the Legislature to pass bills on to the Governor.

Legislation:

On June 29, Assembly Bill 1720, by Assemblymember Wendy Carrillo, was amended to focus on long-duration energy storage and has been re-referred to the Senate Energy, Utilities and Communications Committee. At this time, it has not been set for a hearing. The bill requires the CPUC to first report on the specific types and amount of long-duration energy storage and in-service dates of that storage included in the LSEs' integrated resource plans by January 4, 2021. Within that report, the CPUC must state whether a forthcoming order will mandate long-duration procurement. If the CPUC declines to mandate procurement, the Department of Water Resources (DWR) is required to procure that amount and then the CPUC will be required to order the IOUs to collect the costs for appropriation into a separate Long-Duration Energy Storage Account in the DWR Electric Power Fund.

REGIONAL AFFAIRS

Western Energy Imbalance Market (EIM):

The first quarter 2020 EIM benefits report was published in April, showing \$57.90 million in benefits and raising the total benefits since initial operation to \$919.69 million. The Q2 2020 report will include for the first time Seattle City Light and Salt River Project, which went live on April 1.

The ISO filed an intervention in the SPP energy imbalance service tariff proceeding at FERC, to correct mis-representations that were made by SPP regarding EIM.

Preparations continue with the 5 entities that will go live in EIM in 2021, including Turlock Irrigation District, BANC Phase 2, PNM, Northwestern Energy, and LADWP. Market simulations with these entities will begin in September, 2020.

We have filed at FERC the EIM implementation agreement for Xcel/PSCo, together with Black Hills Colorado Electric, Colorado Springs Utilities, and Platte River Power Authority. They will go live in EIM in 2022.

The ISO continues to engage with entities in the west that are still considering EIM for their business. WAPA-Desert Southwest is one of those that has made its study public. WAPA-DSW and its major customers are evaluating the benefits and costs of joining

the EIM or the Southwest Power Pool Energy Imbalance Service. The study is expected to conclude this fall.

EIM Governing Body:

The EIM Governing Body held a public meeting on June 30, 2020 via a webinar-only format. During the meeting, the Members received a presentation on the Hybrid resources phase one proposal, and voted to support and submit verbal comments to the ISO Board in their advisory capacity. They received a briefing on the policy outlook as well. In addition, the Governing Body voted to nominate Member Prescott as Chair and Member Decker as Vice-Chair, effective July 1, 2020 for a term of one year.

Body of State Regulators:

The Body of State Regulators held their most recent teleconference meeting on June 12. The agenda included a panel discussion of the flexible ramping product and its proposed enhancements. In addition to the regular meeting, the ISO held an EIM training for Commissioners and Commission Staff. The two-hour webinar was held on June 18 and covered the operation of the existing real-time market and its role for participating balancing authorities outside California. Trainings such as these are provided regularly to western Commissioners and staff as needed.

Regional Issues Forum:

The Regional Issues Forum held a public teleconference meeting on June 29, 2020, the third webinar-only meeting of the year. The agenda included a panel discussion of virtual (or convergence) bidding, and updates on carbon policy proceedings in the West by Therese Hampton of Public Generating Pool and Mary Wiencke of Pacificorp.

EIM Governance Review Committee:

The EIM Governance Review Committee (GRC) canceled its scheduled June 29, 2020 public teleconference, but Chair Therese Hampton provided a comprehensive update on its progress at the EIM Governing Body meeting on June 30, 2020. The overview included discussion of their work product under development as well as its planned completion of an initial straw proposal at the end of July. A public call is tentatively scheduled for August 7 to review the straw proposal and stakeholder comments will be requested by August 28.

FEDERAL AFFAIRS

Administration:

On May 1, President Trump signed an Executive Order banning utilities from installing devices manufactured by to-be-determined foreign entities on the bulk power system. The Order also requires the Department of Energy (DOE) to establish a worldwide list of

approved manufacturers and to work with utilities through the Electric Sector Coordinating Council and other organizations to identify and mitigate any prohibited devices that are already in use. Energy Secretary Daniel Brouillette has stated that the Order only targets equipment used in large-scale power generation and transmission lines, and has committed that DOE will work with developers as the initiative is implemented. ISO management is reviewing the Order.

Congress:

On May 12, Mike Garcia (R) was declared the winner of the special election to fill the House seat vacated by the October 27, 2019 resignation of Representative Katie Hill (D) in the 25th Congressional District (north Los Angeles County). Mr. Garcia will serve through the end of 2020 and will compete with Christie Smith (D) in the November 3 general election for the 2-year term beginning in January, 2021.

On June 9, the Senate Committee on Energy and Natural Resources voted to approve the nomination of Mark Menezes to be Deputy Secretary of Energy, replacing Daniel Brouillette, who was confirmed as Secretary of Energy on December 19, 2019. Mr. Menezes is a former executive of Berkshire Hathaway and has been serving as Undersecretary of Energy since November, 2017.

On June 30, House Democrats issued a report from the House Select Committee on the Climate Crisis entitled “Climate Crisis Action Plan: A Framework for Congressional Action.” The 547-page document incorporates a number of green energy and environment proposals already introduced in the House and will presumably be presented as an omnibus House bill aimed at achieving net-zero GHG emissions by 2050. It includes a number of provisions directed at RTOs and ISOs, including language on interregional planning, governance transparency, consumer and media access, and development of transmission to move renewables to wholesale markets.

Legislation:

H.R. 2, “The Moving Forward Act,” revised text released on June 11. Sponsor: Representative Pete DeFazio (D-OR); 0 cosponsors. This is the House version of an infrastructure bill reauthorizing federal highway and transit programs, which expire on September 30. The 2309-page bill contains provisions on energy and environment infrastructure, including grants for grid modernization projects, rebates for decommissioned energy-efficient transformers, support for grid storage and microgrid research and development within DOE, and a requirement that DOE develop a rule on increasing effectiveness of the transmission planning process. Status: Reported out of the House Committee on Transportation and Infrastructure with modifications on June 18 and passed the full House with modifications on July 1. This bill does not include funding provisions and there is no comparable in the Senate at this writing.

H.R. 7186, “Utility Resilience and Reliability Act,” introduced on June 11. Sponsor: Representative Mike Thompson (D-5th District – Napa); 9 cosponsors, all Bay-area

House Members. Establishes a reliability standard in the Federal Power Act for extreme weather events. Authorizes a program within DOE to advise states, localities and utilities on resilience improvements and to make recommendations on how to minimize electric power outages that respond to extreme weather conditions. Status: Referred to the House Energy and Commerce Committee.

H.R. 7237, “The Regional Clean Energy Innovation Act,” introduced on June 24. Sponsor: Representative Suzanne Bonamici (D-OR); 0 cosponsors. Establishes an Office of Advanced Clean Energy Technologies within DOE to oversee Regional Energy Innovation and Development Institutes. The Institutes would focus on accelerating clean energy technology deployment via partnerships of government, universities and the private sector. Status: Referred to the House committees on Energy and Commerce and Science, Space and Technology.

H.R. 7330, “The Growing Renewable Energy and Energy Efficiency Now Act” (“GREEN Act”), introduced on June 24. Sponsor: Representative Mike Thompson (D-5th District – Napa); 48 cosponsors. Extends federal production tax credits for wind, solar, offshore wind and geothermal projects and zero-emission vehicles. Authorizes direct payments in lieu of tax credits for renewable energy and carbon capture projects. Creates a new energy storage tax credit and authorizes support for vehicle charging infrastructure. Status: Added to H.R. 2, which passed the House on July 1.

S. 3688, “The Energy Infrastructure Protection Act,” introduced on May 12. Sponsor: Senator Lisa Murkowski (R-AK); 1 cosponsor. Amends the Federal Power Act to authorize the FERC and the Secretary of Energy to offer cyber- and physical-threat-protection assistance to owners and operators of existing or proposed energy infrastructure. Status: Referred to the Senate Committee on Energy and Natural Resources.