

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: May 8, 2019

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

This memorandum does not require Board action.

STATE AFFAIRS

Legislative update

Legislature:

The Legislature reconvened from Spring Recess on April 22. May 31 marks the last day to pass bills out of their house of origin.

Legislation:

SB 708 (Hueso): Requires the California 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 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; 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: Passed Senate, Energy, Utilities and Communications Committee and Senate Judiciary Committee. Location: Senate Appropriations Committee.

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.

Status: Passed Senate, Energy, Utilities and Communications Committee. Location: Senate Appropriations Committee - Suspense File.

AB 56 (E. Garcia): Designates the California Alternative Energy and Advanced Transportation Financing Authority (CAEATFA) to undertake procurement of electricity to meet California's climate, clean energy, and reliability goals that are not satisfied by LSEs.

Status: Passed Assembly Utilities and Energy Committee and Assembly Natural Resources Committee. Location: Assembly Appropriations Committee.

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.

Status: Passed Senate Energy, Utilities and Communications Committee. Location: Assembly - Held at Desk.

SB 520 (Hertzberg): Designates an incumbent electrical corporation as the provider of last resort (POLR), unless provided otherwise in a service territory boundary agreement approved by the CPUC. The bill authorizes the CPUC to designate an LSE to serve as the POLR if it meets certain requirements.

Status: Passed Senate Energy, Utilities and Communications Committee. Location: Senate Appropriations Committee.

Regulatory update

Integrated resource plan proceeding:

On April 25, the CPUC voted unanimously to adopt a preferred system portfolio and plan for the 2017-2018 integrated resource plan (IRP) cycle. The portfolio selected contains approximately 12,000 MW incremental generation including 6,000 MW solar, 2,200 MW wind, 2,100 MW battery storage, and 1,700 MW geothermal resources by 2030 at a planning target of 42 million metric tons (MMT) of carbon dioxide equivalent. This concludes the first two-year cycle of the IRP. The CPUC did not approve any

explicit procurement in this cycle but will open a “procurement track” within the proceeding to discuss further. The preferred system portfolio is based on a modified and updated version of the portfolio used in the Reference System Plan, including the retirement of thermal generation 40 years and older without a contract. The ISO will support the decision by studying the preferred system portfolio as the reliability and the policy-driven base cases for the 2019-2020 transmission planning process. The ISO will also study two additional policy-driven sensitivities recommended in the CPUC decision. This analysis will provide valuable feedback for the IRP and will identify any reliability concerns and necessary improvements that should be prioritized in the 2019-2020 IRP cycle.

STRATEGIC ALLIANCES AND REGIONAL AFFAIRS

BANC/SMUD

SMUD began full operation in the energy imbalance market (EIM) on April 3, 2019. SMUD represents Phase 1 of the BANC implementation in EIM.

Public Service of New Mexico (PNM)

Following a positive outcome on a filing with the New Mexico Public Regulation Commission (NMPRC), PNM has decided to move forward with participation in EIM, beginning in April 2021.

Avista Energy

Spokane-based Avista Energy announced their intent on April 25 to join EIM, beginning April, 2022.

Extended Day-Ahead Market (EDAM) Feasibility Assessment:

The ISO is collaborating with EIM entities on an assessment of potential opportunities to extending the day-ahead market to a regional model similar to energy imbalance market. The assessment will be used to evaluate the level of interest in pursuing policy changes necessary for extending participation model to the day-ahead market. The feasibility assessment is expected to be complete in the 3rd quarter.

EIM Governance:

The EIM Governing Body held a noticed teleconference meeting on April 24. In general session, they received updates from the chairs of the Regional Issues Forum (RIF) and the Body of State Regulators (BOSR). The EIM Governing Body moved to approve a slate that consists of Valerie Fong and John Prescott for re-appointment to the Governing Body, each seat with a term ending June 30, 2022. The Governing Body moved to elect John Prescott to serve as its representative to the EIM Nominating Committee, effective immediately and solely for the duration of the candidate search

now underway to fill the current EIM Governing Body vacancy created by Kristine Schmidt's resignation. In addition, the Governing Body submitted a resolution of appreciation for Kristine Schmidt's service to the Western EIM and Governing Body. The next in-person general session meeting will be held on June 28 in Salt Lake City, Utah.

The BOSR held their second quarter meeting on April 17 in Salt Lake City, Utah. The meeting consisted of several speakers that provided informational presentations on governance. Among the presentations was an update from the ISO on EIM initiatives, including the 2019 EIM Governance Review, a perspective from Bonneville Power Administration on the evaluation of EIM Governance, an informational presentation from Commissioner Ann Rendahl outlining the nominating process for EIM Governing Body members, and an overview of various market governance frameworks across the nation from the Western Resource Advocates.

The RIF will hold a carbon workshop on June 18 at the ISO headquarters. The liaisons and invited speakers plan to discuss state carbon policies and considerations for alignment with the Western EIM. An agenda will be available on the Western EIM website prior to the meeting.

FEDERAL AFFAIRS

Administration:

On April 10, President Trump issued an Executive Order aimed at speeding development of oil and gas pipelines, hydroelectric dams and other energy infrastructure projects by limiting states' options to interpret the Clean Water Act during the permit process. The President also issued an Executive Order stating that only the President can issue or deny a permit for a cross-border project. The State Department, which currently has approval authorization for such projects, will serve in an advisory role. The Western Governors Association has opposed both Executive Orders and Washington Governor Jay Inslee has announced that the state will take legal action against them.

Congress:

The Senate on April 3 adopted a streamlined process for approving executive branch and judicial nominations, reducing debate time from 30 hours to 2 hours after approval of cloture. Nominees to independent agencies such as the Federal Energy Regulatory Commission (FERC) and the Nuclear Regulatory Commission will be included in the new 2-hour rule. Cabinet members and nominees for the appellate courts and the Supreme Court will still be subject to up to 30 hours of floor debate.

Legislation:

H.R. 9, “Climate Action Now Act,” introduced on March 27, 2019. Sponsor: Kathy Castor (D-FL); 184 cosponsors. Commits the U.S. to the Paris Climate Agreement and requires the Administration to report on U.S. progress toward meeting the agreement.

Status: Referred to the House Energy and Commerce Committee and the House Foreign Relations Committee. Approved by the Energy and Commerce Committee on April 4. The bill is expected to pass the House in the near term.

H.R. 359, “Enhancing Grid Security through Public-Private Partnerships Act,” introduced on January 9, 2019. Sponsor: Jerry McNerney (D-9th District – Pleasanton); 1 cosponsor. Directs the Department of Energy (DOE) to facilitate and encourage public-private partnerships to promote and advance the physical security and cybersecurity of the electric grid; report to Congress on priorities, policies, procedures and actions to enhance grid security; and consult with FERC to compute the costs of electric service interruptions.

Status: Referred to the House Energy and Commerce Committee.

H.R. 360, “Cyber Sense Act of 2019,” introduced on January 9, 2019. Sponsor: Robert Latta (D-OH); 3 cosponsors. Creates a voluntary program within DOE to identify and promote the use of cyber-secure products in the bulk power system.

Status: Referred to the House Energy and Commerce Committee.

H.R. 658, “National Infrastructure Development Bank of 2019,” introduced on January 17, 2019. Sponsor: Rosa DeLauro (D-CT); 61 cosponsors. Leverages private sector funding from institutional investors to supplement current federal infrastructure funding for loans and loan guarantees to projects and to issue Public Benefit Bonds to finance infrastructure projects, including energy and environmental projects.

Status: Referred to the House committees on Energy and Commerce, Transportation and Infrastructure, Financial Services and Ways and Means.

H.R. 763, “Energy Innovation and Carbon Dividend Act of 2019,” introduced on January 24, 2019. Sponsor: Theodore Deutch (D-FL); 16 cosponsors. Establishes a gradually-increasing fee on the production or import of carbon-based fuels, beginning at \$15 per ton of carbon emissions in 2019 and increasing by \$10 per year thereafter. Net revenues would be distributed as dividends to U.S. households.

Status: Referred to House committees on Ways and Means, Energy and Commerce and Foreign Affairs.

H.R. 1166, “USE IT Act,” introduced on February 13, 2019. Sponsor: Scott Peters (D-52nd District – Coastal San Diego); 12 cosponsors. Authorizes \$35 million in competitive funding for direct carbon capture technologies and \$50 million for research and development of technologies that transform captured carbon dioxide into commercial products.

Status: Referred to House committees on Energy and Commerce; Science, Space and Technology; Natural Resources; and Transportation and Infrastructure.

H.R. 1960, “Healthy Climate and Family Security Act of 2019,” introduced on March 28, 2019. Sponsor: Don Beyer, D-VA); 0 cosponsors. Caps emissions of carbon dioxide from crude oil, coal and natural gas and establishes a declining cap on the number of permits issued for carbon capture and sequestration. Permit auction proceeds and penalties will be used to establish a Healthy Climate Trust Fund and will be returned to U.S. citizens.

Status: Referred to House committees on Energy and Commerce and Ways and Means. Senate companion bill, S. 940, introduced on March 28, 2019. Sponsor: Chris Van Hollen, (D-MD). Status: Referred to Committee on Finance.

H.R. 2042, “Electric CARS Act of 2019,” introduced on April 2, 2019. Sponsor: Peter Welch (D-VT); 9 cosponsors. Extends the electric vehicle tax credit for 10 years and eliminates the eligibility cap of 200,000 vehicles per manufacturer. Also extends the tax credits for alternative vehicle refueling properties for 10 years.

Status: Referred to House Ways and Means Committee.

H.R. 2096, “The Energy Storage Tax Incentive and Deployment Act of 2019,” introduced on April 4, 2019. Sponsor: Mike Doyle (D-PA); 4 cosponsors. Makes stand-alone commercial, residential and utility-scale energy storage technologies eligible for the federal Investment Tax Credit.

Status: Referred to House Ways and Means Committee.

S. 869, “Independent Agency Regulatory Analysis Act,” introduced on March 26, 2019. Sponsor: Rob Portman (R-OH); 4 cosponsors. Enables the President, by Executive Order, to require independent federal agencies such as FERC to perform the same analyses of proposed and final rules applicable to other agencies, including evaluations of costs and benefits, potential non-regulatory alternatives, and consistency with existing regulations.

Status: Referred to the Senate Committee on Homeland Security and Government Affairs.

S. 1128, “American Opportunity Carbon Fee Act,” introduced on April 10, 2019.
Sponsor: Sheldon Whitehouse (D-RI); 3 cosponsors. Establishes a price on carbon emissions at the point of mining, processing, or importing. The initial price would be \$52/ton of carbon, increasing annually by 6% over inflation. Proceeds would be directed to climate adaptation, assistance to low-income communities and retraining of the fossil energy workforce.

Status: Referred to Senate Committee on Finance.