

Memorandum

To: ISO Board of Governors
From: Stacey Crowley, Vice President, External Affairs
Anna McKenna, Vice President, Market Design & Analysis
Date: May 15, 2024
Re: **State, Regional, and Federal Affairs Update**

This memorandum does not require ISO Board of Governors action.

STATE AFFAIRS

Regulatory Update

California Public Utilities Commission (CPUC) Resource Adequacy Proceeding:

On March 22, 2024, the ISO filed comments on proposals submitted in the CPUC's Resource Adequacy (RA) proceeding. The ISO recommends the CPUC adopt no less than the 17% Planning Reserve Margin (PRM) and retain and "effective" PRM of 1,700-3,200 MW for 2025. The CPUC adopted these provisions last year, however, discussion regarding the PRM for 2025 has since reopened as the CPUC evaluates implementing its new Slice of Day RA framework in 2025. The ISO also recommends that the CPUC test the PRM in the RA program to ensure the PRM adopted results in RA requirements that meet a 0.1 loss of load expectation, and pushes back on proposals that suggest reducing PRM levels or adopting a system RA waiver process, if RA requirements do not meet a 1-in-10 loss of load expectation to begin with. The ISO also cautions against moving forward with 2025 Slice of Day implementation if paired with various provisions that could soften RA requirements. Finally, the ISO supports the further development of an unforced capacity resource counting framework coordinated between the CPUC and the ISO.

California Energy Commission (CEC):

On April 22, 2024, the CEC announced proposed awards under its Distributed Electricity Backup Assets (DEBA) Program. The DEBA program is a subset of the state Strategic Reliability Reserve that incentivizes the construction of cleaner and more efficient distributed energy assets to support grid reliability during extreme events. In December 2023, the CEC released a competitive solicitation to grant funds for the purchase and installation of efficiency upgrades and capacity additions to existing bulk grid generators in California. In April, the CEC announced proposed awards for nine bulk grid projects to come online no later than June 30, 2027. The ISO continues to support the development of new, clean generation to support grid reliability during extreme events.

Legislative Update

Budget

On May 10, 2024, Governor Gavin Newsom released his annual [May Revision](#) budget, which covers the 2024-25 and 2025-26 fiscal years. The May Revision estimates the state budget shortfall at \$27.6 billion through 2024-25. It cuts one-time spending by \$19.1 billion and ongoing spending by \$13.7 billion through 2025-26. To avoid increasing taxes on individuals or implementing furloughs for state workers, these cuts, these cuts includes a nearly 8% cut to state operations and an elimination of 10,000 unfilled state positions. With concerns about future budget shortfalls, the May Revision also sets aside \$38 billion in reserves. Some notable funding shifts include:

- Cap and Trade Fund Shifts – Shifting \$1.7 billion in 2024-25 from the General Fund to the Greenhouse Gas Reduction Fund for various climate programs. Over the next five years, the May Revision includes shifting \$3.6 billion from the General Fund to the Greenhouse Gas Reduction Fund, including transit programs, clean energy programs, zero-emission vehicle programs, and nature-based solutions programs.
- Clean Energy Reliable Investment Plan (CERIP) – Shifting the remaining \$900 million for this program to Greenhouse Gas Reduction Fund over multiple years, beginning in 2025-26.

Prior to this, on April 4, 2024, Governor Newsom, Senate President Pro Tem Mike McGuire, and Assembly Speaker Robert Rivas also released an overview of their agreement on an [Early Action Budget Package](#) that they estimate would reduce the budget shortfall by approximately \$17.3 billion.

California State Legislature:

April 26, 2024, was the deadline for policy committees to hear fiscal bills introduced in their house and report those bills to fiscal committees. May 17, 2024, is the deadline for fiscal committees to hear and report to the floor bills introduced in their house, and May 24, 2024, is the deadline for each house to pass bills introduced in that house. State Affairs will continue to track bills that may have an impact on ISO operations as they move through fiscal committees.

On May 8, 2024, the Assembly Utilities and Energy Committee held their annual oversight hearing of California's energy entities. The topic of the hearing was "Reliability in the Near- and Mid-Term". ISO CEO and President Elliot Mainzer participated on behalf of the ISO, along with CPUC President Alice Reynolds, CEC Vice Chair Siva Gunda, and Department of Water Resources Deputy Director Delphine Hou.

ISO Board of Governor Appointments:

On February 15, 2024, Governor Newsom reappointed Mary Leslie to the ISO Board of Governors, where she has served since 2019. Her reappointment will require Senate confirmation, and her confirmation hearing in the Senate Rules Committee is expected to take place in the summer or fall.

On March 18, 2024, Joseph Eto's appointment to the ISO Board of Governors was heard on the Senate floor, and the Senate voted 40-0 to confirm his appointment. His term will expire on December 31, 2025.

REGIONAL AFFAIRS

Western Energy Imbalance Market (WEIM) Governing Body:

The WEIM Governing Body met in general session on March 19, 2024. In addition to standing items, Susan Pope (WEIM Governing Body Market Expert) provided a briefing on fast-start pricing. Becky Robinson (Director, Market Policy Development) then provided updates on several day-ahead and real-time market initiatives as well as on-going working group efforts.

The WEIM Governing Body will hold its next virtual general session meeting on May 21, 2024, and will meet in general session in-person on June 20, 2024, in Boise, ID.

WEIM Body of State Regulators (BOSR):

The WEIM Body of State Regulators (BOSR) met in Denver, CO, on April 24, 2024, in conjunction with the Spring 2024 Joint CREPC-WIRAB meeting. WIEB staff provided an update on the ISO's price formation enhancements working group effort, and ISO leadership provided an update on the Extended Day-Ahead Market (EDAM) and related efforts.

The BOSR will hold its next virtual monthly meeting on June 14, 2024.

WEIM Regional Issues Forum (RIF):

On March 18, 2024, the WEIM Regional Issues Forum (RIF) held its first annual RIF roundtable at the ISO in Folsom, CA. The RIF roundtable provided an opportunity for stakeholders to discuss the prioritization of discretionary ISO policy initiatives. The RIF delivered a summary of RIF perspectives to the WEIM Governing Body and subsequently posted the summary to the [RIF webpage](#).

The RIF will hold its next hybrid virtual/in-person meeting on June 20, 2024, in Boise, ID, in conjunction with the WEIM Governing Body regional meeting.

Participation in WEIM and EDAM

On March 21, 2024, the ISO received news that both Idaho Power and Portland General Electric (PGE) intend to pursue participation in EDAM. PGE made an announcement of its intent to join EDAM via a [news release](#) and a statement from President and CEO Maria Pope. Separately, in a [letter](#) to the ISO, Idaho Power informed the ISO it is currently leaning towards the ISO's EDAM as its preferred day-ahead market option. This brings the number to five entities indicating a preference to participate in the expanded western market. PacifiCorp, Balancing Authority of Northern California (BANC), and the Los Angeles Department of Water & Power (LADWP) previously announced intent to join the market.

In November 2023, Berkshire Hathaway Energy Montana (BHE Montana) publicly announced its intention to join WEIM in Spring 2026. On March 27, 2024, the ISO filed an executed WEIM Implementation Agreement for BHE Montana with FERC.

In December 2022, PacifiCorp publicly announced its intention to join EDAM at its launch. On April 26, 2024, PacifiCorp formalized this commitment by executing a pro forma EDAM Implementation Agreement targeting a go live date in EDAM of May 2026.

West-Wide Governance Pathways Initiative

Following a [letter](#) from commissioners from five western states urging the establishment of the West-Wide Governance Pathways Initiative (Pathways Initiative), stakeholders stood up a Launch Committee, to explore options for independent governance of western markets. After more than six months of robust engagement among a diverse group of Western stakeholders, the Launch Committee of the Pathways Initiative released its phase 1 straw proposal on April 10, 2024. The proposal recommends a stepwise approach to continued evolution of the governance of the western energy markets. See all public information related to this initiative on the Western Interstate Energy Board webpage – [here](#).

Step 1 of their proposal, informed by independent legal counsel, is intended to demonstrate near-term commitment through substantive changes that are within the scope of existing California statute. This step would envision giving “Primary Authority” over WEIM and EDAM to the WEIM Governing Body, while modifying the process for resolving disputes between the Governing Body and the ISO Board of Governors. Significantly, this step proposes to enable “dual filing” of proposals from each body at FERC in the event that a consensus decision cannot be reached.

Step 1 of the proposal could be implemented through exercise of the existing authorities of the ISO Board of Governors. The Pathways Initiative anticipates presenting a finalized proposal for step 1 to the ISO Board of Governors and the WEIM Governing Body by the end of Q2 2024.

Step 2 of their proposal is intended to implement the vision of a regional market with a large and inclusive market footprint that maximizes independence while leveraging the existing

market infrastructure to minimize overall costs. Step 2 currently has more unresolved issues than the step 1 proposal. That said, it has several core elements, including:

- (i) Creation of a new Regional Organization wholly separate from the ISO organization,
- (ii) Passage of enabling legislation in California to narrow the scope of the ISO's existing authorities and responsibilities over management of the markets, while preserving its balancing authority role,
- (iii) Transitioning decision-making over WEIM and EDAM from "Primary Authority" for the WEIM Governing Body to "Sole Authority" for the RO, and
- (iv) Creation of new pathways for extending additional regional market services with the Regional Organization as a host for these services.

Creation of the new Regional Organization or the development of a potential legislative concept are not expected until the end of 2024, at the earliest.

FEDERAL AFFAIRS

Congress:

On March 21, 2024, the Senate Energy and Natural Resources Committee held a hearing to consider President Joe Biden's nominees to the FERC, Judy W. Chang, David Rosner, and Lindsay S. See. A committee vote has not yet been scheduled.

On April 19, 2024, three bills of interest to the ISO were introduced. Senators Martin Heinrich (D-New Mexico) and Ron Wyden (D-Oregon) introduced the Grid Reliability and Integrated Data Act and the Grid Modeling of Dynamic Energy Loads and Resources Act. Senator Catherine Cortez Masto (D-Nevada) and Representative Kathy Castor (D-Florida) introduced the Expediting Generator Interconnection Procedures Act of 2024.

Administration:

In the last week of April 2024, the Biden Administration made a series of announcements addressing transmission or transmission related issues:

- The United States Environmental Protection Agency (EPA) announced a suite of regulations to cut greenhouse gas emissions as well as toxic air pollution, water pollution, and land contamination from fossil fuel power plants.
- The United States Department of Energy (DOE) announced up to \$331 million of BIL funding for the Southwest Intertie Project-North transmission line via the Transmission Facilitation Program.
- The DOE also released a final rule to make permitting a new transmission line more efficient. The rule established the Coordinated Interagency Transmission Authorization and Permits (CITAP) program, which aims to improve coordination

across agencies, create efficiencies, and establish a standard two-year timeline for federal transmission authorizations and permits.

- The DOE also issued a final rule to create a fast track for completing environmental reviews of upgrades to existing transmission lines by creating a categorical exclusion under the National Environmental Policy Act (NEPA) for projects that use existing transmission rights of way.
- The DOE also emphasized that Grid Resilience and Innovation Partnerships (GRIP) funding is available for grid-enhancing technologies.

This follows the release by DOE of the 2024 Future of Resource Adequacy Report and the Innovative Grid Deployment Liftoff Report.

On May 6, 2024, the EPA issued a final rule to strengthen, expand, and update methane emissions reporting requirements for petroleum and natural gas systems under EPA's Greenhouse Gas Reporting Program, as required by the Inflation Reduction Act.