

Memorandum

To: ISO Board of Governors

From: Stacey Crowley, Vice President, External Affairs

Anna McKenna, Vice President, Market Policy and Performance

Date: October 19, 2022

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

This memorandum does not require ISO Board of Governors action.

STATE AFFAIRS

Regulatory update

Demand flexibility rulemaking:

On July 22, the California Public Utilities Commission (CPUC) issued an *Order Instituting Rulemaking to Advance Demand Flexibility Through Electric Rates* (OIR). The OIR seeks to enable widespread demand flexibility through electric rates, including dynamic rates that reflect the locational marginal prices in the ISO markets. The CPUC will establish demand flexibility policies and modify electric rates to advance the following objectives: 1) enhance the reliability of California's electric system, 2) make electric bills more affordable and equitable, 3) reduce the curtailment of renewable energy and greenhouse gas emissions associated with meeting the state's future system load, 4) enable widespread electrification of buildings and transportation to meet the state's climate goals, 5) reduce long-term system costs through more efficient pricing of electricity, and 6) enable participation in demand flexibility by both bundled and unbundled customers. This OIR dovetails well with and reinforces efforts at the California Energy Commission (CEC) on furthering load management through dynamic rates aligned with grid operations. The ISO has supported past load flexibility efforts at the CPUC and CEC and sees clear reliability benefits from better aligning retail rates with grid conditions under a greater need for flexible, fast-ramping and responsive resources. The ISO has also provided comments emphasizing the importance of including data requirements to measure the underlying drivers of load response in order to evaluate the effectiveness of dynamic retail rates. The same data should be coordinated with the CEC to be used in long-term forecasting and with the ISO for operational purposes. The ISO encouraged the CPUC to identify or develop a robust communication framework in the operational timeframes (day ahead, day of, real time)

between the ISO and distribution operators to coordinate at the transmission-distribution interface.

Legislative update

Legislature:

The last day for the Governor to sign or veto bills passed on September 30, with most of the legislation the ISO has been monitoring being signed into law. Of note, while the Governor's legislation, Senate Bill 846, related to extending operations at Diablo Canyon Nuclear Power Plant, went into effect immediately as an urgency measure, some portions are expected to be "chapters out" when other enacted bills go into effect on January 1, 2023. Chaptering out occurs when two bills amend the same section and become law, and the bill enacted last supersedes the first. Currently, a section of Senate Bill 846 grants the ISO a rebuttable presumption with regard to the need for a transmission project during the Certificate of Public Convenience and Necessity (CPCN) process if certain conditions are met, but the section will be chaptered out when Senate Bill 1020 goes into effect. Also, Senate Bill 1432, requiring the ISO to ensure that the cost of backstop procurement and associated greenhouse gas attributes are equitably allocated, was vetoed by the Governor.

Even with billions of dollars apportioned for climate and clean energy projects in the recent federal and state budgets, these issues will likely continue to be important topics at the Legislature in the coming years, especially with over a dozen new legislators expected to be sworn-in to office after the November General Election.

REGIONAL AFFAIRS

WEIM Governing Body:

On August 30, the Western Energy Imbalance Market (WEIM) Governing Body (GB) met in general session. During this meeting, the GB received a CEO report and committee updates from the Body of State Regulators, Regional Issues Forum, and Governance Review Committee. Guillermo Bautista Alderete provided the GB with a Q2 2022 WEIM benefits and market update. Anna McKenna then provided the GB with a briefing on the Extended Day-Ahead Market, Resource Sufficiency Evaluation, and Transmission Service and Market Scheduling Priorities (a.k.a. Wheel-Throughs) policy initiatives and brief updates on the ISO's Energy Storage Enhancements, Price Formation Enhancements, and Washington WEIM Greenhouse Gas Enhancements initiatives.

WEIM Body of State Regulators:

On September 28, the WEIM Body of State Regulators (BOSR) held an in-person meeting in Phoenix, Arizona. Agenda items included discussions about: 1) the ISO's Transmission Service and Market Scheduling Priorities proposal; and 2) Extended Day-

Ahead Market (EDAM) governance, with a focus on the scope of WEIM Governing Body authority and how the joint authority model has worked with respect to the WEIM. The BOSR will hold its next public monthly meetings (virtually) on October 14 and November 11.

With El Paso Electric planning to join the WEIM in 2023, the Public Utilities Commission of Texas has designated Commissioner Jimmy Glotfelty to serve as BOSR member for Texas. Section 6 of the Charter for Energy Imbalance Market Governance provides that the BOSR “will consist of one commissioner from each of the state public utilities commissions in which a load-serving utility participates in the ISO real-time market[.]”

WEIM Regional Issues Forum:

The WEIM Regional Issues Forum (RIF) will conduct an in-person/virtual hybrid meeting on November 8, 2022, 1:00-5:00 p.m. (PT), at the SAFE Credit Union Convention Center in downtown Sacramento, California. Draft agenda items include: 1) a leadership panel, 2) WEIM performance under stressed system conditions, 3) Western Resource Adequacy Program (WRAP) and California Resource Adequacy Program alignment, 4) transitioning from existing transmission contracts to the wholesale market, and 5) exploring an enhanced role for the RIF.

WEIM Governance Review Committee:

On September 23, the WEIM Governance Review Committee (GRC) held a public meeting to discuss EDAM governance, recommendations on the scope of WEIM Governing Body authority under a joint authority model, and potential enhancements to advisory authority. The GRC is working to develop a revised EDAM governance proposal, to be published in late October.

An important note: On September 30, 2022, the Chair of the GRC, Therese Hampton, died after a bicycling accident. We are all deeply saddened by the loss of such a strong leader in the energy world. The GRC members all support Rebecca Wagner as the new Chair to finish their work to deliver a final proposal for consideration by the WEIM Governing Body and ISO Board of Governors.

FEDERAL AFFAIRS

Administration:

On September 14, the Department of Transportation’s Federal Highway Administration announced the availability of approximately \$900 million for 35 states that have submitted plans for the development of electric vehicle (EV) charging networks. The funds, to be provided through the Bipartisan Infrastructure Investment and Jobs Act passed in 2021, are a portion of \$5 billion that will ultimately be awarded through the program. California’s share of the available \$900 million will amount to \$57 million.

Other western states receiving funds are Arizona, Colorado, Montana, Nevada and New Mexico.

On September 15, the White House announced initiatives within the departments of Energy, Interior, Commerce and Transportation to develop floating offshore wind platforms, with a goal of deploying 30 GW of offshore wind by 2030. The initiative will target development of facilities on the West Coast and other deep water areas that require floating platforms. Specific initiatives include: A floating offshore wind “Earthshot” aimed at reducing the cost of floating platforms to \$45 per MWh by 2035; a program advancing offshore wind lease areas in deep waters, beginning with a lease auction off the California coast this year; and approximately \$50 million in funding for research, development and demonstration of floating platforms and related systems, including analyses of West Coast transmission and ports infrastructure.

On October 3, the Treasury Department and the Internal Revenue Service issued a number of joint notices requesting public comments on the clean energy tax incentives included in the Inflation Reduction Act (Public Law 17-169, 136 Stat. 1818). The inquiry includes specific requests for comment on consumer vehicle tax credits and energy generation incentives, among other statutory provisions. Comments are due as soon as possible, ideally by November 4, 2022.

Also on October 3, the Department of Energy (DOE) issued a Request for Information seeking input on ways in which the Defense Production Act could best be used to strengthen the reliability of the power grid. The inquiry specifically focuses on supply chain challenges and opportunities, domestic manufacturing needs, and workforce investment and energy equity issues.

Congress:

Both the Senate and House have recessed through the November 8 mid-term election.

On September 29, the Senate passed a Continuing Resolution maintaining funding for federal agency programs at current levels through December 16, 2022. Prior to passage, the Senate stripped out language proposed by Senator Joe Manchin (D-WV) that would streamline permits for gas pipelines and electric transmission projects and give DOE and the Federal Energy Regulatory Commission significantly increased authority over transmission siting, including the ability to override state siting decisions and to impose eminent domain authority for siting transmission lines determined to be in the national interest. The House passed the bill on September 30 and the President has signed it into law. The Manchin language was endorsed by the White House and Secretary Granholm, but was opposed by significant stakeholder groups, including the National Governors Association and the National Association of Regulatory Utility Commissioners. Democrat leadership may attempt to add it in revised form to another bill, possibly in the post-election lame duck session.