

Memorandum

To: ISO Board of Governors

From: Stacey Crowley, Vice President, External Affairs

Anna McKenna, Vice President, Market Policy and Performance

Date: July 13, 2022

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

This memorandum does not require ISO Board of Governors action.

STATE AFFAIRS

Regulatory update

Demand forecast update:

On May 24, the California Energy Commission (CEC) adopted 5-0 a new Additional Transportation Electrification (ATE) demand forecast as a modification to the main forecast set typically used by the California Public Utilities Commission (CPUC) and the ISO. In collaboration with the CPUC and ISO, the new ATE is meant to inform planning for the state's goals towards increased electrification, reduce greenhouse gases (GHG), and maintain grid reliability. The ISO will be able to use the new ATE in both its base case and sensitivity studies to better understand infrastructure needs to support the demand for increased transportation electrification. The ISO is working closely with the CPUC to ensure a revised generation portfolio based on the ATE is available for the sensitivity studies of the ISO's 2022-2023 Transmission Planning Process, which has already begun.

Resource Adequacy:

On June 23, the CPUC adopted 5-0 a reform in the current resource adequacy program that requires load-serving entities (LSEs) to show resource portfolios that can serve load across all hours of a day. This 24-hour "slice" framework requires each LSE to demonstrate it has enough capacity and energy to satisfy its load, plus a planning reserve margin in all 24 hours on a "worst day" in that month. Decision (D.22-06-050) targets the new framework for 2025 implementation with a test year in 2024. This type of framework has not been employed elsewhere and requires significant effort in the upcoming months to complete the design and related procedures prior to deployment. A critical element of a well-functioning, efficient, and reliable resource adequacy construct is the careful evaluation of the planning questions through a logical sequencing of analytical steps, employing state-of-the-art modeling techniques. For

example, the resource adequacy fleet should meet a planning reserve margin established on a reliability-based assessment (*i.e.*, a loss of load expectation of 0.1 days/year). The assessment should also consider overall portfolio effects of resource additions and contracting decisions, development of rational capacity counting rules, ensure buyers and sellers can efficiently and economically contract for resource adequacy supply with commercially viable options, and seamless interaction with resource adequacy programs across the Western region. Workshops to address details of the framework will begin in July. In the meantime, the decision increases the planning reserve margin in 2023 from 15% to 16% and to a minimum of 17% in 2024, subject to a refreshed loss of load expectation study.

Legislative update

2022 Budget – Assembly Bill 205:

On June 29, the Legislature approved Assembly Bill 205, a budget energy package built from negotiations with the Governor, and on June 30 the bill was officially signed into law. The energy package is a trailer bill to the recently passed budget, and focuses on promoting long duration storage, addressing permitting issues, and creating a procurement-oriented insurance policy for emergencies to the grid, and many more. Of interest to the ISO, the Strategic Reliability Reserve (SRR) is intended to provide insurance against extreme events including wide spread extreme heat, fire impacting a large amount of supply, continued extreme drought conditions, and also risk of delay in needed new resources due to supply chain and other supply and interconnection risks.

The SRR requires the Department of Water Resources (DWR) to prepare a plan for its actions to invest in electric reliability for the CEC to consider and approve; including consultation with the ISO and CARB. The SRR provides DWR with a fund source to use as an insurance policy on top of existing procurement, in the event of emergencies that are not contemplated by existing backstop protocols.

The SRR is different from the ISO's traditional backstop mechanisms for a few reasons. Unlike the SRR, the ISO's backstop resources are required to offer into the market for the entire term of their designation, even if emergency conditions cease to persist. Adversely, the SRR is intended to be used only to mitigate the need for load shed during extreme conditions so as to prevent crowding out or impede the progress toward transforming resources to meet the state's clean energy goals.

The SRR was devised by the Governor and will only be used if all other options have been exhausted and there is a real potential for energy shortage.

Legislation:

On July 1, the Legislature adjourned for Summer Recess for one month, giving policymakers approximately four weeks after they return on August 1 to focus on

Appropriations and Floor Session, before the August 31 deadline to pass bills. Of the dozens of energy-related bills introduced earlier this year, considerably fewer have continued to move through the legislative process, including those that are of interest to the ISO or the energy industry, generally. Excluding ACR 188, which is located on the Senate Floor, the following bills of interest to the ISO have passed out of their house of origin and respective policy committees, and are expected to be heard by fiscal committees in August.

ACR 188 (Holden) requests the ISO, in consultation with the California balancing authorities, to produce a report by February 28, 2023, that summarizes recent relevant studies on the impacts of expanded regional cooperation on California and identifies key issues that will most effectively advance the state's energy and environmental goals, including any available studies that reflect the impact of regionalization on transmission costs and reliability for California ratepayers. It will also include relevant updates to specified transmission development and resource diversity estimates. Finally, the report will discuss regional transmission organizations (RTOs) being considered in other regional states, collaboration between states on energy policies to maximize consumer savings while respecting state policy autonomy, and engagement between neighboring states on the future of RTOs in the West.

AB 2667 (Friedman) establishes the Integrated Distributed Energy Resources Fund as a special fund in the State Treasury. The CEC will administer the fund, in consultation with the CPUC and the California Air Resources Board (CARB), to provide incentives to support statewide customer adoption of distributed energy resources (DERs).

AB 2696 (E. Garcia) requires the CEC, in consultation with the California Infrastructure and Economic Development Bank, the Governor's Office of Business and Economic Development, the ISO, and the CPUC, to conduct a study to review potential lower cost ownership and alternative financing mechanisms for new transmission facilities needed to meet the state's clean energy and climate targets, and to submit a report to the Governor and the Legislature on or before September 30, 2023.

SB 529 (Hertzberg) requires the CPUC to revise General Order 131-D to authorize the permit-to-construct process for an extension, expansion, upgrade, or other modification to an existing electrical transmission facilities, including electric transmission lines and substations within existing transmission corridors and rights of way, regardless of voltage.

SB 887 (Becker) directs the CPUC, by January 15, 2023, to request the ISO to identify the highest priority transmission facilities that are needed to allow for increased transmission capacity into local capacity areas to deliver renewable energy resources or zero-carbon resources that are expected to be developed by 2035 into those areas, and to consider whether to approve those transmission projects as part of the 2022–23 Transmission Planning Process.

SB 1020 (Laird) seeks greater specificity to the SB 100 targets, creates a climate and equity trust fund, establishes an Authority to administer the fund, and increases coordination to support transmission planning. Specifically, the bill (1) adds interim zero-carbon electric sector targets of 90% by 2035 and 95% by 2040 to the SB 100 framework, (2) requires all state agencies to purchase 100% zero-carbon electricity to serve their own needs by 2030, (3) creates a climate and equity trust fund, (4) establishes the California Affordable De-carbonization Authority (CADA) to administer the trust fund, and (5) authorizes the CPUC and CEC to disclose confidential information to the ISO relating to power purchase agreements to assist with transmission planning.

SB 1032 (Becker) requires the CPUC, in consultation with the Treasurer's Office, the Governor's Office of Business and Economic Development, the ISO, and the CEC, to conduct a study to identify proposals that accelerate the development of, and reduce the cost to ratepayers of expanding, the state's electrical transmission grid to achieve the state's clean energy and climate targets, and to submit the study to the Governor and the Legislature by January 1, 2024.

SB 1174 (Hertzberg) requires investor-owned utilities to annually report on the in-service dates of eligible renewable energy resources or energy storage resources that have executed interconnection agreements and that are active, and to identify the reason for any changes to the status of in-service dates. And, requires the CPUC to include a system-wide assessment of delays to interconnection or transmission approvals for eligible renewable energy resources or energy storage resources, based on those annual reports. The bill also requires the CPUC to also consider the role of transmission in helping to ensure LSEs meet energy needs and reliability needs during peak demand, as part of the IRP process.

SB 1432 (Hueso) requires the ISO to ensure that the cost of backstop procurement and associated GHG attributes are equitably allocated. The bill also requires the CPUC, in coordination with the ISO, in a new or existing proceeding, to develop a pilot program for aggregated customer-sited zero-emission DERs to assess the value of potential energy exports from those resources for purposes of fulfilling the requirements of the resource adequacy program.

REGIONAL AFFAIRS

WEIM Governing Body:

On June 29, the WEIM Governing Body met in general session. During this meeting, the Governing Body elected Rob Kondziolka to serve as chair and Jennifer Gardner to serve as vice chair to the WEIM Governing Body for the coming year. Based upon recommendation of the WEIM Nominating Committee, the Governing Body reappointed member John Prescott and appointed new member Andrew Campbell to each serve three-year terms beginning on July 1, 2022, and ending June 30, 2025. The Governing Body received

committee reports from chairs of the WEIM Body of State Regulators, the Regional Issues Forum, and the Governance Review Committee. The Governing Body also received WEIM implementation updates from representatives of the Bonneville Power Administration and Tucson Electric Power Company. ISO management briefed the Governing Body on policy initiatives including the Extended Day-Ahead Market, Resource Sufficiency Evaluation, and Wheel-Throughs.

WEIM Body of State Regulators:

On June 1-2, the Body of State Regulators (BOSR) and ISO hosted a Western Electricity Markets Training in Salt Lake City for western public utilities commissioners, staff, and invited guests. This training included an overview of the WEIM and current day-ahead market, as well as presentations from the EDAM policy team and ISO Department of Market Monitoring. The BOSR has requested a follow-up intermediate training in 2022 and expressed interest in providing commissioners and commission staff with an introductory and intermediate training session each year.

The BOSR provided comments on the EDAM straw proposal and is engaging with the Governance Review Committee as it continues to develop an EDAM governance straw proposal.

WEIM Regional Issues Forum:

On May 4, the Regional Issues Forum (RIF) met in San Diego. One of the panel discussions was on future RIF topics prioritization. Since then, the RIF liaisons have been meeting with their sectors to narrow down the list to a top five. The RIF liaisons have also been exploring ways RIF can best use their expanded scope. The next RIF meeting is tentatively set for August 29.

WEIM Governance Review Committee:

Over the past several months, Governance Review Committee (GRC) members have been actively working with their respective sectors to collect stakeholder feedback on key elements of an EDAM governance model. Informed by this outreach, the GRC is working to develop an initial EDAM governance straw proposal to be published on July 15. The GRC will hold a general session meeting the morning of July 20, to provide an overview and answer stakeholder questions regarding the straw proposal. Comments on the straw proposal will be due August 15, followed by a late-August general session meeting to discuss comments received.

FEDERAL AFFAIRS

Administration:

On June 6, the White House announced that it will not impose new tariffs on imported solar panels for 2 years, enabling the Department of Commerce to complete

investigation of solar technologies imported from four Southeast Asian nations. The Solar Energy Industry Association has estimated that the Administration's action could result in the recovery of 2 to 3 GW of solar capacity additions this year.

Also on June 6, President Biden invoked the Defense Production Act to accelerate the domestic production of clean energy. The President issued a determination giving the Department of Energy (DOE) the authority to accelerate production of solar, transformers, electric grid components, heat pumps, insulation, electrolyzers, fuel cells and platinum group metals, which DOE's Office of Energy Efficiency and Renewable Energy has deemed "critical to national security." In announcing the determination, the President noted that supply chain issues are resulting in delays of up to 2 years for crucial grid components.

On June 8, DOE announced the closure of a \$504.4 million loan guarantee to the Advanced Clean Energy Storage Project in Delta, UT. The project, estimated to cost approximately \$1 billion in total, will be associated with the Intermountain Power Agency's 1800 MW Intermountain Power Station, which is currently coal-fired but is slated to convert to a natural gas/hydrogen mix in 2025 and to 100% hydrogen by 2045.

On June 9, the Federal Highway Administration issued new draft standards for electric vehicle charging stations, part of the Administration's initiative to set up 500,000 EV chargers. The Infrastructure Investment and Jobs Act included \$7.5 billion for EV charging infrastructure.

On June 13, DOE's 16-member Secretary of Energy Advisory Board met and forwarded the following recommendations for agency priorities to Secretary Granholm:

- Support interregional and interstate transmission projects through the Infrastructure Investment and Jobs Act,
- Optimize use of existing transmission,
- Support smart grid projects that would otherwise not move forward, and
- Reduce congestion in interconnection queues.

On June 14, the Bureau of Land Management announced approval to initiate construction of two commercial-scale solar projects on federal lands in California that would produce up to 465 MW of electricity when completed. The Arica and Victory Pass photovoltaic projects are on land designated in 2016 as within the Obama Administration's Desert Renewal Energy Conservation Plan and are eligible for streamlined permitting.

On June 16, the White House withdrew the nomination of Maria Robinson to be the Assistant Secretary of DOE's Office of Electricity. The nomination was made in September, 2021, but deadlocked in its confirmation vote in the Senate Energy and Natural Resources Committee in May. Dr. Robinson, who is currently a state representative in Massachusetts, has decided to pursue another opportunity, according

to press reports. The Office of Electricity oversees the Department's Advanced Grid Research and Development program, the Electricity Delivery Division, grid cybersecurity research and development, and the Power Marketing Administrations.

Congress:

Senator Alex Padilla won the June 7 special election for the Senate seat vacated by Kamala Harris when she assumed the Vice-Presidency in January, 2021, with approximately 55% of the votes. Senator Padilla will be on the ballot again in November for the full 6-year Senate term extending from January, 2023, to January, 2029.

Republican Connie Conway won the special election to fill the House vacancy in the 22nd District (Visalia – Fresno) left by the December 31, 2021 resignation of Devin Nunes, with approximately 60% of the votes. The district was eliminated in the process of redistricting for 2023, so Representative Conway will only serve until the end of 2022. Representative-elect Conway formerly served as a member of the California State Assembly and served as Assembly Republican Leader from 2010 to 2014.

The June 7 primary election included races to fill the seats of California's retiring members of the House of Representatives: Jerry McNerney (D-9th District – Stockton), Jackie Speier (D-14th District – San Mateo), Karen Bass (D-37th District – Los Angeles), Lucille Roybal-Allard (D-40th District – Commerce), and Alan Lowenthal (D-47th District – Long Beach). Representatives to fill those seats will be determined in the November 8 general election.

On June 14, the Senate Energy and Natural Resources Committee voted on a bipartisan basis to approve the nomination of Evelyn Wang to direct the DOE's Advanced Research Projects Agency – Energy, which supports innovative, high-risk energy projects. The nomination will now move to the full Senate. Dr. Wang is currently the Director of MIT's Mechanical Engineering Department.

On June 28, the House Appropriations Committee voted 32-24 to approve the Manager's Amendment for the Energy and Water spending bill for Fiscal Year 2023, which begins on October 1, 2022. The bill contains funding for the Department of Energy, including the Federal Energy Regulatory Commission, the Power Marketing Administrations, and the Advanced Research Projects Agency – Energy (ARPA-E), among other federal agencies. The measure includes \$48.2 billion for DOE programs, a \$3.3 billion increase over current levels, with significant increases in support for the Office of Energy Efficiency and Renewable Energy and ARPA-E. It also includes a directive to the Nuclear Regulatory Commission to establish a plan for continued operation of the Diablo Canyon power plant. The FY2023 bill, as approved, contains 145 earmark requests, a practice that was revived in FY2022 after being banned in 2011. House leaders aim to bring all of the appropriations bills to the floor during July.

Final funding will depend on a bipartisan, bicameral agreement on top-line spending levels.