

# Memorandum

**To:** ISO Board of Governors

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

Mark Rothleder, Vice President, Market Policy and Performance

**Date:** March 18, 2020

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

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*This memorandum does not require Board action.*

## STATE AFFAIRS

### Regulatory update

#### **Once-Through Cooling – Deferral of compliance dates pursuant to system capacity shortfall:**

On January 23, the Statewide Advisory Committee on Cooling Water Intake Structures (SACCWIS) convened and voted (6-0, 1 abstention) to adopt a deferral report and the recommendation to request that the State Water Resources Control Board (SWRCB) defer the once-through cooling compliance date for several units pursuant to a system capacity shortfall identified by the California Public Utilities Commission (CPUC). The SACCWIS voted for “Alternative 4” which recommends an extension of Alamitos Units 3, 4, and 5 for three years until December 31, 2023; an extension of Huntington Beach Unit 2 for three years until December 31, 2023; an extension of Ormond Beach Units 1 and 2 for three years until December 31, 2023; and an extension of Redondo Beach Units 5, 6, and 8 for one year until December 31, 2021. This alternative is responsive to comments from the Oxnard City Manager, who supported an extension of Ormond Beach Units 1 and 2 based on an agreement between the City Council and generation owner GenOn to perform comprehensive decommissioning, dismantling, and remediation of the site. The SWRCB is expected to vote on the matter later this year.

#### **Integrated Resource Plan proceeding – proposed Reference System plan:**

On February 21, CPUC Administrative Law Judge Fitch released a Proposed Decision in the Integrated Resource Plan (IRP) proceeding recommending a new Reference System Plan (RSP). The new RSP eliminates the 2,000 MW of generic effective capacity included in the November, 2019 version in order to manually increase reliability in the portfolio. Like the previous portfolio, the RSP is a single portfolio of resources that represents a least-cost, least-risk pathway to achieving the recommended 46 million metric tons statewide greenhouse gas emissions target and other Senate Bill

350 requirements. Notably, the new RSP includes approximately 1,000 MW of pumped storage, 600 MW of out-of-state wind on new transmission, a reduction in the amount of short-duration storage from over 11,000 MW to 8,900 MW, and retention of the majority of the natural gas-fired generation fleet. While the Proposed Decision does not authorize any procurement, it encourages its jurisdictional load-serving entities to initiate procurement and planning activities; the CPUC will consider how to support these activities in a parallel procurement track. The Proposed Decision also recommends for purposes of the ISO's Transmission Planning Process 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. The ISO strongly supports the portfolio recommended for transmission planning. The earliest this Proposed Decision can be voted on by the CPUC is at the March 26 business meeting.

### **Update on Senate Bill 100 implementation:**

On February 24, the California Energy Commission (CEC) held a joint agency workshop with the CPUC and the California Air Resources Board (CARB) to discuss modeling inputs and assumptions under Senate Bill 100 (SB 100). The legislation requires the CPUC, CEC, and CARB to complete a joint-agency report to the Legislature evaluating how the state can achieve 100 percent zero-carbon electricity by 2045. The first SB 100 joint-agency report is due by January 1, 2021 and requires consultation with the California balancing authorities. The ISO participated on a balancing authority panel to discuss reliability and resource adequacy under SB 100. The ISO's testimony emphasized the importance of a diversified fleet with flexible and dispatchable resources as the system integrates greater levels of solar penetration and transitions to a cleaner fleet. The ISO also cautioned that new technologies should be tested and proven at scale before transitioning away from current technologies. For example, it is currently unknown whether there is sufficient battery storage recharging capability during multiple days of cloud coverage for significant levels of battery penetration. The ISO encouraged policy makers to act expeditiously and intentionally to procure resources for the future rather than rely on simplified modeling outputs. Specifically, transmission-dependent solutions such as generation retirement optionality, offshore wind, and out-of-state resources require significant development time due to challenges in permitting, siting, and construction.

### **Legislative update**

#### **Legislature:**

Following Governor Gavin Newsom's orders relating to COVID-19, the Legislature has begun legislative recess early and all hearings in both chambers are postponed, until April 13. On March 16, the Legislature passed two budget bills in response to COVID-19, SB 89 and SB 117. Specifically, SB 89 appropriates \$500 million for emergency response from the state's general fund with an additional \$500 million available, if needed. Upon the order of the Director of the Department of Finance and a 72-hour

written notice to the Joint Legislative Budget Committee, the \$500 million general fund expenditure may be utilized for any purpose related to the March 4 Proclamation of Emergency. This amount may be increased in increments of \$50 million. The initial allocation of funds will be used to purchase additional ventilators, masks and protective gear. In addition, the state will use the money to help nursing homes, childcare facilities needing deep cleaning and to aid seniors who have been asked to practice home isolation.

Prior to the enhanced measures taken by the Governor and the Legislature to address COVID-19, February 21 had marked the last day for bills to be introduced. Numerous measures were introduced as “spot bills”, which consist of non-substantive amendments that give a future indication of the author’s intent. Two spot bills we are closely monitoring include AB 2255 (Eggman), which references the ISO, and AB 3014 (Muratsuchi), which declares the Legislature’s intent to establish a residual resource adequacy centralized procurement structure.

### **Legislation:**

AB 2547 (Gonzalez): Makes changes to the portfolio content requirements (buckets), increasing the requirement for the purchase of category 1 products in meeting the retail sellers’ renewable energy procurement obligations to 85% for compliance periods after December 31, 2020. The bill also prohibits the purchase of category 3 products for compliance periods after December 31, 2020, unless certain conditions are met.

AB 3251 (Bauer-Kahan): Requires the CPUC, in consultation with the ISO, to achieve the following objectives in administering the resource adequacy program: 1) establish rules that allow demand response programs and resources procured by a load-serving entity to meet the load-serving entity’s resource adequacy requirements regardless of whether the program is integrated into the wholesale market overseen by the ISO, 2) adopt a baseline methodology that treats the charging of energy storage as load in baseline calculations for demand response programs supporting this objective, 3) allow customer-sited distributed eligible renewable energy resources and energy storage systems participating in a demand response program to deliver electricity to the grid for purposes of providing resource adequacy, and 4) ensure that the capacity valuation applies to demand response resources coupled with customer-sited hybrid or customer-sited storage resources.

AB 2071 (Muratsuchi): Prohibits the State Water Resources Control Board, on or after January 1, 2021, from granting to an operator of a power plant additional time to comply with the once-through cooling policy adopted by the state board if specified conditions are met.

SB 1215 (Stern): Establishes the Local Government Deenergization Event Resiliency Program, to be administered by the Office of Emergency Services, to support state and local government efforts to enhance public safety, protect vulnerable populations and

individuals, and improve resiliency in response to deenergization events. The bill also requires the CPUC and the ISO to develop a methodology to account for the RA value of distributed storage no later than March 31, 2021.

SB 1240 (Skinner): Requires the California Energy Commission, in consultation with the ISO, to identify and evaluate options for transforming electrical corporations' distribution grids into more open access platforms that would allow local governments and other third parties to participate more easily in grid activities.

## **REGIONAL AFFAIRS**

### **Extended day-ahead market (EDAM) stakeholder process:**

The ISO hosted Workshop #1 on Feb 11-12 covering transmission provisions, resource sufficiency evaluation and congestion rents. In addition to the ISO, the EIM entities provided presentations at the workshop. Stakeholder comments on the workshop were submitted in early March. The next step is the ISO publishing of the straw proposal covering the topics in Workshop #1, followed by a stakeholder meeting to discuss the straw proposal in early April.

### **Western Energy Imbalance Market (EIM):**

The EIM quarterly benefits report was published in January, adding benefits of \$60.72 million for Q4 2019, and raising the total benefits since initial operation to \$861.79 million.

Onboarding of Seattle City Light and Salt River Project is proceeding well toward their April 1, 2020, EIM go-live. Extensive work is underway with the five entities that will join EIM in 2021, including systems preparation, modeling, and training. Market simulations with these entities will begin in September, 2020.

As previously announced, Xcel Energy, together with Black Hills Colorado Electric, Colorado Springs Utilities, and Platte River Power Authority announced in December, 2019, their intent to join the EIM. The group is working with the ISO to finalize its implementation agreement and determine a date to join the market, with a target of 2021.

The ISO continues to engage with WAPA-Desert Southwest and its major customers regarding their study to compare the benefits and costs of joining the EIM or the Southwest Power Pool Energy Imbalance Service. The study is expected to conclude this summer.

### **EIM Governing Body:**

The EIM Governing Body held a public teleconference meeting on March 12, 2020. To accommodate the ISO's temporary restrictions on in-person meetings and travel, this meeting that was to occur in Phoenix, Arizona transitioned to a webinar-only format.

During the meeting, the Governing Body Members voted to re-nominate Member Decker for another three-year term.

### **Body of State Regulators:**

The Body of State Regulators will hold their next in-person meeting in Albuquerque, New Mexico on April 29. The agenda for this meeting is under development by its members, and a draft will be posted to their website when available.

### **Regional Issues Forum:**

The Regional Issues Forum held a public teleconference meeting on March 11, 2020. This meeting transitioned to a webinar-only format to accommodate the ISO's temporary restriction on in-person meetings and travel. The liaisons heard from Tucson Electric Power and Xcel Energy on their decisions to join the EIM. In addition, there was a panel discussion on EIM Best Practices for Resource Optimization and an educational panel covering transmission congestion, including how entities manage congestion risk, what role it plays in LMP markets, and how transmission congestion rents are allocated.

### **EIM Governance Review Committee:**

The EIM Governance Review Committee (GRC) held a public teleconference meeting on March 11, 2020. This meeting also transitioned to a webinar-only format to accommodate the ISO's temporary restriction on in-person meetings and travel. The GRC had a panel discussion of stakeholder comments and major topic areas outlined in their scoping paper. The GRC also discussed their next steps for the development of a work product.

## **FEDERAL AFFAIRS**

### **Administration:**

On February 13, President Trump renominated James Danly to be a Commissioner at the Federal Energy Regulatory Commission, for the term previously filled by the late Kevin McIntyre that expires on June 30, 2023. Danly, who is currently FERC's general counsel, was nominated for the position in September, 2019, but the nomination lapsed in early January and was returned to the White House for renomination.

### **Congress:**

On March 4, the Senate Committee on Energy and Natural Resources voted to approve James Danly's nomination to be a Commissioner at FERC and send it to the full Senate for a vote. The Senate confirmed his nomination on March 12, 2020.

**Legislation:**

On January 28, the House Energy and Commerce Committee's Democratic members issued a 622-page draft of a major climate bill, the "Climate Leadership and Environmental Action for our Nation's ("CLEAN") Future Act," aimed at achieving a 100% clean economy. The bill, which is not yet numbered, establishes a target of achieving a 100% energy by 2050 and requires the U.S. Environmental Protection Agency to monitor progress and report to Congress on an annual basis. Title II of the draft bill is entitled "Power" and contains a number of provisions of interest to the utility industry, including an increasing clean energy requirement for retail electricity suppliers beginning in 2022, reform of FERC to increase effectiveness of the interregional planning process, and reform of the Public Utilities Regulatory Policy Act to require states to consider investment in energy storage systems and other non-wires alternatives to transmission. It also requires all public utilities to place transmission facilities under the control of an ISO or RTO within two years of enactment. The draft contains additional titles on Energy Efficiency, Home Energy, Transportation, Industrial Technology, and Environmental Justice, among others. Committee leadership stated that it will hold a series of hearings soliciting comment on the provisions of the bill this year, with the intent to pass all or parts of the bill before this Congress recesses in December, 2020. There is currently no companion bill in the Senate.

On February 27, the Senate Energy and Natural Resources Committee issued its bipartisan, omnibus energy bill, the "American Energy Innovation Act," (S. 2657). The 555-page bill includes approximately 50 energy-related bills that were considered by the Committee throughout 2019, and is cosponsored by Committee Chair Lisa Murkowski (R-AK) and Ranking Member Joe Manchin (D-WV). The measure was approved by the Committee on February 27 and is currently on the Senate floor for debate and consideration of more than 180 amendments that have been offered. The bill proposes an "all of the above" energy strategy that does not contain targets or mandates for reducing carbon emissions, but authorizes hundreds of millions of dollars to support the research and development of solar and wind power, energy storage, electric vehicles, cybersecurity, carbon capture and grid modernization. The bill also includes titles on Energy Efficiency, Nuclear Energy, Mineral Security, and Industrial Technology, among others. There is currently no companion bill in the House.