

Memorandum

To: ISO Board of Governors

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

Mark Rothleder, Vice President, Market Policy and Performance

Date: September 23, 2020

Re: State, Regional and Federal Affairs update

This memorandum does not require Board action.

STATE AFFAIRS

Regulatory update

Once-through cooling – Deferral of compliance dates pursuant to system capacity shortfall:

On September 1, the State Water Resources Control Board (SWRCB) voted in favor of adopting a proposal to defer the once-through cooling (OTC) compliance dates of Alamitos, Huntington Beach, Ormond Beach, and Redondo Beach Generating Stations. The proposal also aligned the OTC compliance dates of the Diablo Canyon Nuclear Power Plant with its planned retirement. The adopted proposal is in line with the recommendation of the Statewide Advisory Committee on Cooling Water Intake Structures (SACCWIS), of which the ISO is a member. This action extends the compliance deadline of: Alamitos Units 3, 4, and 5 for three years until December 31, 2023; Huntington Beach Unit 2 for three years until December 31, 2023; Ormond Beach Units 1 and 2 for three years until December 31, 2023; and Redondo Beach Units 5, 6, and 8 for one year until December 31, 2021. The staff of the ISO, California Energy Commission (CEC) and California Public Utilities Commission (CPUC) also submitted a letter noting that potential impacts of COVID-19 shelter-in-place and social distancing requirements could create new delay risks. The ISO, CEC, and CPUC will continue to monitor supply and demand conditions and if there is an indication of significant risk, the organizations will return to the SWRCB by early 2021 to request an additional extension of OTC permits for units that may retire at the end of 2021.

Senate Bill 100:

On September 2, the CEC, CPUC, and California Air Resources Board (CARB) held a joint workshop on Senate Bill 100 (SB 100) draft results for the 2021 report. SB 100 requires the three agencies to provide a joint report to the Legislature every four years, the first of which is due January 2021, to evaluate the 100 percent renewable energy

and zero-carbon electricity policy. At the workshop the ISO presented its views and suggestions as a Balancing Authority, Planning Authority, and Transmission Operator. The ISO proposed that the SB 100 report should ultimately lead to or inform other processes that produce actionable resource portfolios to be used in transmission planning to successfully accommodate long lead-time transmission projects and plan for grid reliability. This also includes providing actionable policy guidance that meets state goals, maintains reliability, and leads to desired procurement. These comments are in line with comments previously submitted to the CPUC in the integrated resource plan proceeding. Though the draft results are at this point only directional, the ISO strongly encourages the joint agencies to conduct reliability-based modeling to ensure portfolios meet minimum reliability requirements. The ISO also encourages the joint agencies to collaborate with the Balancing Authorities as envisioned under SB 100.

Integrated resource plan proceeding:

On September 1, the applicable CPUC jurisdictional load serving entities (LSEs) filed individual integrated resource plans (IRPs). The individual IRPs must include, at a minimum, two portfolios that comply with the LSE's proportional share of a 46 million metric ton (MMT) and 38 MMT greenhouse gas (GHG) target. ISO staff is reviewing the filings to better understand the resource mix contracted and proposed by LSEs and may conduct independent reliability analyses and checks as appropriate.

Resource Adequacy proceeding:

On August 7, the ISO provided into Track 3.B of Rulemaking (R.) 19-11-009 four proposals and an informational update for the CPUC's consideration. The four proposals are: (1) an effective load carrying capability methodology to appropriately account for the variable nature of demand response; (2) analysis and procurement consideration of availability-limited resources in the local capacity areas; (3) how to incorporate generation-specific forced outages and reflect them through resource procurement; and (4) resource adequacy imports to counter speculative supply. In addition, the ISO provided an update on its revised flexible capacity product and its continued support for multi-year system and flexible capacity requirements.

On August 31, the ISO proposed a Business Practice Manual change to stop the practice of allowing local regulatory authorities (LRAs) to make adjustments to the compliance obligations of their jurisdictional LSEs that create a net reduction of the RA capacity provided and shown to the ISO or a net reduction in the LSEs' compliance obligations. This adjustment or credit effectively lowers the amount of RA capacity shown to the ISO and would thus exempt the resources from the ISO's market rules for RA capacity. A similar, though more narrowly scoped, concern had been raised at the CPUC in comments in Track 2 of R.19-11-009 about the CPUC's practice of "crediting" investor owned utility (IOU) demand response resources against RA obligations. In Decision 20-06-031, the CPUC noted that this issue would be discussed further in Track 4, scheduled to be initiated later in 2020.

Legislative update

Legislature:

The Legislature adjourned on Monday, August 31, marking the end of the 2019-2020 Regular Session. Governor Newsom has until September 30 to sign or veto bills passed by the Legislature. Many lawmakers have expressed that the truncated session left them feeling unsatisfied with the clock running out on a number of key measures. However, while the Governor has indicated that he is open to a special session, which would provide additional time for the Legislature to pass bills, he has not announced his intentions on the matter.

During fall recess, ISO staff is collaborating with the CPUC and CEC to host a briefing for legislative staff on resource adequacy. The purpose of the briefing will be to provide information on the background and importance of the RA program, as well as emphasize the need to keep reliability the primary objective of the program.

Finally, due to the heat-driven power outages that occurred in August, Assemblymember Holden, the Chair of the Assembly Utilities and Energy Committee, has advised the ISO that an oversight hearing on the power outages will be forthcoming.

Legislation:

Due to constraints imposed by COVID-19 shelter-in-place orders, many of the legislative proposals related to the ISO, or the energy sector in general, were shelved this year. However, several authors have stated their intent to reintroduce their proposals, specifically regarding long duration storage, the RA program and microgrids.

While the following list of bills did not pass this year, we expect the topics therein to return in similar form for consideration during the 2021-2022 Regular Session:

- Assembly Bill 1720 by Wendy Carillo facilitated the procurement of long-duration energy storage by the Department of Water Resources.
- Assembly Bill 2547 by Lorena Gonzalez made changes to the portfolio content requirements (buckets).
- Assembly Bill 2582 by Wendy Carrillo sought to address cost shifts associated with net energy metering.
- Assembly Bill 2969 by Chad Mayes expanded the base interruptible program (BIP).
- Assembly Bill 3251 by Rebecca Bauer-Kahan attempted to go around the CPUC's 2016 ruling on bifurcation relating to demand response.
- Senate Bill 1215 by Henry Stern promoted microgrid projects in high-threat fire districts and would have allowed them to fulfill RA requirements.

- Senate Bill 1240 by Nancy Skinner explored options for transforming IOU distribution grids into more open access platforms.

REGIONAL AFFAIRS

Western Energy Imbalance Market (EIM):

The second quarter 2020 EIM benefits report was published in July, and reported on EIM benefits surpassing \$1 billion since start-up in 2014.

Preparations continue with the 5 entities that will go live in EIM in 2021, including Turlock Irrigation District, BANC Phase 2, PNM Resources, Inc., Northwestern Energy, and LADWP. Market simulations with these entities will begin in September 2020.

The ISO continues to engage with entities in the west that are still considering EIM for their business.

EIM Governing Body:

The EIM Governing Body held a general session teleconference meeting on September 16. During the meeting, the Members received updates from the chairs of the Governance Review Committee, the Body of State Regulators (BOSR) and the Regional Issues Forum. The ISO briefed the Governing Body on three advisory initiatives: energy storage and distributed energy resources phase 4, FERC order 831, and flexible ramping product enhancements. The EIM Governing Body voted to support and submit verbal comments to the ISO Board in their advisory capacity on all three initiatives. In addition, they were briefed on the Western EIM benefits surpassing \$1 billion in July 2020, the progress of the EIM implementations, and the 2021 ISO fees and charges.

Body of State Regulators:

The BOSR held their most recent teleconference meeting on September 11. The BOSR heard a summary of the key issues from the Governance Review Committee's Straw Proposal and stakeholder positions on those issues. Representatives from the State Regulated Market Participants (SRMP), a subset of the EIM Entities, also presented their proposal for the BOSR funding mechanism to the Body.

In addition to their regular monthly meeting, on August 21 the ISO held a special webinar for Commissioners to update them on the ISO's grid conditions following the August heat wave. The one-hour webinar explained the RC West Energy Emergency Alerts and the ISO's warnings and alerts, then gave a summary of the events of August 14-18.

Regional Issues Forum:

The Regional Issues Forum also held a special meeting on September 22 featuring a roundtable discussion between the ISO's President and CEO, Steve Berberich, who is retiring on September 29, and incoming President and CEO, Elliot Mainzer, moderated by the Chair of the EIM Governing Body, John Prescott. The discussion highlighted lessons learned during the past decade in the western grid with a focus on the integration of renewable resources; the expansion of regional markets; and future opportunities and challenges. Their next meeting is planned for December 1.

EIM Governance Review Committee:

The EIM Governance Review Committee (GRC) published their Straw Proposal on the EIM Governance Review on July 31. They held a general session teleconference meeting to present and review their proposal on August 7, and subsequently received 19 sets of stakeholder comments. The GRC followed up on these responses with another general session teleconference meeting on September 15, this time utilizing a workshop format, to enable stakeholders to provide oral comments elaborating or providing context to written comments that could be beneficial to the GRC in their deliberative process. Ten stakeholders volunteered to participate, providing comments and answering clarifying questions from the GRC. The committee held executive sessions on September 17 and 24 to determine next steps, and their next public meeting is scheduled for October 28.

FEDERAL AFFAIRS**Administration:**

On July 27, President Trump announced the nominations of Mark Christie and Allison Clements to be Commissioners at FERC. Mr. Christie, a Republican, is currently the chair of the Virginia State Corporation Commission. Ms. Clements, a Democrat, is the founder and president of Goodgrid, LLC, an energy policy and strategy consulting firm. On September 16, 2020, the Senate Energy and Natural Resources (ENR) Committee held an initial hearing to consider the nominations and will need approval by the committee before it can be sent to the full Senate for a vote on confirmation.

Congress:

On August 4, the U.S. Senate approved the nomination of Mark Menezes to be the Deputy Secretary of Energy, the second highest position in the agency, by a bipartisan vote of 79-16. Mr. Menezes has served as the Undersecretary of Energy since November, 2017. He was previously an executive in Berkshire Hathaway Energy's Washington, D.C. office.

Both House and Senate were in recess for most of the month of August, returning to Washington on September 8.

Legislation:

H.R. 4447, the “Expanding Access to Sustainable Energy Act of 2019,” introduced on September 20, 2019. Sponsor: Representative Tom O’Halloran (D-NM); 9 cosponsors. Requires the Department of Energy to provide grants and technical assistance to rural electric cooperatives or nonprofit organizations working with at least six rural electric cooperatives to implement energy storage and microgrid projects. Authorizes \$5 million per year from Fiscal Years 2021-2025. Status: Referred to the House Committee on Energy and Commerce. An amendment in the nature of a substitute passed the Energy and Commerce Committee on September 9, 2020. Senators Amy Klobuchar (D-MN) and Jerry Moran (R-KS) have introduced a Senate companion bill, S. 1183.