

Memorandum

To: ISO Board of Governors
From: Stacey Crowley, Vice President, External and Customer Affairs
Anna McKenna, Interim Vice President, Market Policy and Performance
Date: March 17, 2021
Re: **State, Regional and Federal Affairs update**

This memorandum does not require Board action.

STATE AFFAIRS

Regulatory update

Summer 2021 Emergency Reliability Order Instituting Rulemaking:

In late 2020 the California Public Utilities Commission (CPUC) released an Order Instituting Rulemaking to set the scope for discussing emergency reliability actions for summer 2021. Since then, the CPUC has approved one decision and released a proposed decision. Decision (D.) 21-02-028, approved on February 11, directs Pacific Gas & Electric (PG&E), Southern California Edison (SCE), and San Diego Gas & Electric (SDG&E) to procure additional capacity for summer 2021. Though the amount of procurement was unspecified, the categories included: (1) incremental capacity from existing power plants through efficiency upgrades, revised power purchase agreements, etc.; (2) contracting for generation that is at-risk of retirement; (3) incremental energy storage capacity; and (4) firm forward imported energy. The ISO has strongly supported all of these categories and has advocated for early procurement of imports given the tightening supply conditions in the rest of the west. Thus far, the three investor owned utilities (IOUs) have collectively procured approximately 425 MW pursuant to this decision, of which over 300 MW reflect short-term import contracts.

On March 5, the CPUC released a Proposed Decision focused on demand-side resource procurement and incremental procurement. Importantly, the CPUC is authorizing the three IOUs to procure a minimum of 1,000 MW of resources that are effective during the net demand peak. Furthermore, the Proposed Decision authorizes an additional 500 MW (for a total of 1,500 MW) of optional procurement specifically to address the loss of solar generation during the net demand peak period. Both of these actions seek to address the ISO's request to increase the current planning reserve margin from 15% to 17.5% on an interim basis and apply it to the net demand peak period. While the Proposed Decision does not increase the resource adequacy

program requirements as the ISO had proposed, incremental procurement that is effective during the net demand peak period will be helpful for the system regardless. The Proposed Decision also establishes an innovative pay-for-performance, non-resource adequacy Emergency Load Reduction Program on a pilot basis as well as several improvements to existing demand response programs. Lastly, the Proposed Decision authorizes \$12 million in annual funding for a Statewide Flex Alert Paid Media campaign for 2021 and 2022, which the ISO strongly supports. The earliest the CPUC can vote on the Proposed Decision is at its March 25 business meeting.

Integrated Resource Plan Proceeding:

On February 22, the CPUC released a ruling in the integrated resource plan (IRP) proceeding seeking comment on authorization of 7,500 MW of capacity to address midterm (2024-2026) capacity needs, including the retirement of Diablo Canyon Power Plant. CPUC Energy Division staff found that a 20.7% planning reserve margin was appropriate for the IRP analysis and procurement should start on an accelerated basis starting with 1,800 MW by 2023. Furthermore, the ruling requires at least 1,000 MW of geothermal procurement and at least 1,000 MW of long-duration storage (at least 8 hours) by no later than 2025. The CPUC will host a workshop and consider comments and reply comments in the coming weeks.

Legislative update

Legislature:

State Affairs is currently evaluating and tracking over 75 measures related to the ISO or energy industry, generally. These bills do not represent the complete universe, as legislation is amended throughout the process. Many of this year's new bills are a copy of a similar piece of legislation from last year. Many issues were left unresolved due to the pandemic taking precedence, and legislators are eager to start those discussions. Issues related to resource planning, central procurement, and integrating renewables onto the grid are still major priorities for many legislators. The August outages and issues in Texas are being viewed as a warning, and many of the bills introduced seek to ensure that California has the resources needed to meet its long-term climate goals, as well as short-term needs. Below are a few bills State Affairs has chosen to highlight that we expect will receive considerable attention this year.

AB 427 (Bauer-Kahan): Seeks to change the California Public Utility Commission's (CPUC's) 2016 ruling on bifurcation relating to demand response, creating a new model: trifurcation. Trifurcation would allow demand response participants to receive a resource adequacy capacity payment without having to meet ISO's must offer obligation. The bill is sponsored by California Solar and Storage Association (CSSA), and is a reiteration of AB 3251 by Assemblymember Bauer-Kahan last year.

AB 525 (Chiu): Requires the California Energy Commission (CEC) to develop and submit a strategic plan, by June 1, 2022, to achieve a goal of at least 10,000 megawatts

of offshore wind energy capacity installed off the California coast by 2040, with an interim target of 3,000 megawatts installed by 2030. The bill designates the ISO in a consultative role, with the CPUC, to assess the transmission investments and upgrades necessary to support at least 10,000 megawatts of offshore wind energy development by 2040.

SB 204 (Dodd): Requires the base interruptible program (BIP) be available to qualifying customers regardless of the load serving entity that is that customer's supplier of electricity. The bill authorizes the CPUC to approve increased or decreased incentive levels for program participation if they determine that it is reasonably necessary to ensure continued participation by eligible customers and continued delivery of resource adequacy and ratepayer benefits. The bill also directs the CPUC to create an economic demand response pilot program administered by the investor-owned utilities.

SB 733 (Hueso): Requires the CPUC to determine appropriate targets for each load serving entity to procure viable and cost-effective energy storage systems by December 31, 2030. The bill requires the CPUC to evaluate the role of energy storage systems that require a long lead-time for successful deployment, including pumped storage hydroelectric generation facilities, within the state's electrical system, and include those resources in any adopted procurement targets.

REGIONAL AFFAIRS

EIM Governing Body:

The EIM Governing Body held a general session teleconference meeting on March 10. In addition to regular updates from the chairs of the EIM Governance Review Committee, the Body of State Regulators and the Regional Issues Forum, the members were briefed by the ISO on three of the market enhancements for the summer 2021 readiness initiative. These items include: 1) enhancements to the EIM's resource sufficiency evaluation to better ensure each BAA participates in the EIM with sufficient resources; 2) enhancements to the energy interchange modeling with the ISO BAA to improve operational performance; and 3) enhancements to market pricing during tight supply conditions by pricing reserve energy at the energy bid cap when arming ISO BAA load to meet contingency reserve requirements. The EIM Governing Body had primary authority over, and unanimously voted to approve, the first two elements and an advisory role, where they voted to support the proposal, for the third.

Body of State Regulators:

The Body of State Regulators held a public teleconference meeting on March 12. During the meeting, the regulators received an update on the EIM Governance Review Committee and discussed the EIM Governing Body nomination process. The Spring 2021 Body of State Regulators meeting will be held via webinar on April 9.

Regional Issues Forum:

The Regional Issues Forum held their first meeting of 2021 on March 9, featuring a panel on the resource sufficiency test. The panel, which was moderated by Oregon PUC Commissioner and BOSR Chair Letha Tawney, was a roundtable discussion on the resource sufficiency test featuring Clay Macarthur of Deseret Power, Robert Olsen of SRP, Partha Malvadkar of PG&E, and Mark Symonds of BPA. They also received a briefing on the ISO forecasting methodology by Michael Stewart and Amber Motley of the ISO. The next Regional Issues Forum meeting is planned for May 4.

EIM Governance Review Committee:

On February 3, the EIM Governance Review Committee received seventeen sets of comments on the revised straw proposal. Following three executive session committee meetings in February, the Committee held a general session meeting on March 16 to discuss their next steps for the EIM governance review. They are proposing to continue with the proposal in a phased approach, taking up of many issues that have seen widespread support now while continuing to work, through public workshops, on the more complex issues of delegated authority.

FEDERAL AFFAIRS

Administration:

On January 27, President Biden signed a broad Executive Order focused on government-wide climate considerations. Among other provisions, the Order establishes a White House Office of Domestic Climate Policy and a National Climate Task Force that includes Cabinet-level agency officials and senior White House staff. It commits the federal government to incentivize actions that reduce greenhouse gas emissions through procurement, funding for research and development of clean technologies, inclusion of climate considerations in federal permitting decisions, and support for energy efficiency in government buildings and operations. The Order also announces the Justice 40 initiative, a program to ensure that 40% of benefits achieved by federal climate initiatives would be targeted to disadvantaged communities.

President Biden will hold an international Climate Summit on April 22 and 23.

Congress:

The Senate continues action on presidential Cabinet appointments. On February 9, the Senate Environment and Public Works Committee approved the nomination of Michael Regan to be Administrator of the Environmental Protection Agency. On March 4, the Senate Energy and Natural Resources Committee approved the nomination of Rep. Deb Haaland (D-NM) to be Secretary of the Interior. Both nominations have now been approved by the full Senate.

Several congressional committees plan to hold oversight hearings in response to the Texas energy crisis of the week of February 14. The Senate Committee on Energy and Natural Resources has written to the Electric Reliability Council of Texas (ERCOT) to request information on its response to the winter storm and plans a hearing on March 11 on the reliability, affordability and resilience of the nation's electricity service. The House Committee on Energy and Commerce has also requested information from ERCOT by March 19 in preparation for a future hearing. The House Committee on Science, Space and Technology has scheduled a hearing entitled "Lessons Learned from the Texas Blackouts" for March 18. The House Oversight and Reform Committee's Environment Subcommittee, which is chaired by Representative Ro Khanna (D-17th District – Santa Clara) has asked for numerous documents related to preparation, communications, and contacts with state, local and federal officials during the crisis, as well as ERCOT's responses to a 2011 report by FERC and NERC recommending weatherization of the Texas generator fleet.

On March 4, ERCOT's Market Monitor, Potomac Economics, issued a determination that ERCOT kept prices artificially high for an additional day, resulting in \$16 billion in overcharges. Potomac has recommended to the Texas Public Utility Commission that the charges be retroactively reversed, but the Texas Commission has determined not to take action on the recommendation. This will likely be an additional item for congressional investigation.

Legislation:

H.R. 1514 (Scott Peters --D-52nd District – San Diego): Amends the Federal Power Act to increase transmission capacity for clean energy, reduce congestion, and increase grid resiliency. Requires the Department of Energy to study and coordinate power line capacity constraints and congestion to support fast-tracked transmission approvals in identified National Interest Transmission Corridors. Status: Referred to the House Committee on Energy and Commerce.

S. 532, the "Rural Wind Energy Modernization and Extension Act," (Amy Klobuchar-- D-MN and Michael Bennet --D-CO): Amends the Internal Revenue Code of 1986 to provide a tax credit of 30% of project costs for qualified distributed wind energy properties of up to 10 MW, through 2028. Status: Referred to the Senate Finance Committee.

H.R. (not yet numbered), "CLEAN Future Act," introduced in draft form on 3/3/21 by Rep. Frank Pallone (D-NJ): Establishes a federal clean energy standard to achieve 80% clean electricity by 2030 and 100% by 2035 and allows utilities to access a credit trading system to meet those goals. Authorizes a National Green Bank with \$100 billion to support new technology investments. Contains provisions that would give FERC the ability to grant construction permits for interstate transmission lines if states withhold approval. Also addresses climate issues economy-wide, including in the industrial, transportation, and manufacturing sectors, as well as action to promote environmental justice. The sponsors have stated that the House Energy and Commerce Committee will hold hearings on the bill.