

Memorandum

To: ISO Board of Governors

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

Anna McKenna, Vice President, Market Policy and Performance

Date: May 12, 2021

Re: State, Regional, and Federal Affairs update

This memorandum does not require Board action.

STATE AFFAIRS

Regulatory update

Once-Through Cooling:

On March 26, the Statewide Advisory Committee on Cooling Water Intake Structures (SACCWIS) convened and voted (6-0, 1 abstention) to adopt the draft 2021 report of the SACCWIS. The draft report includes the recommendation to request that the State Water Resources Control Board (SWRCB) defer the once-through cooling compliance date for Redondo Beach pursuant to a system capacity shortfall identified by the California Public Utilities Commission, the California Independent System Operator, and the California Energy Commission. The SACCWIS voted for “Alternative 1,” which recommends an extension of Redondo Beach Units 5, 6, and 8 for two additional years until December 31, 2023 to help offset projected capacity shortfalls and minimize regulatory risk. The SWRCB had previously voted to extend Redondo Beach’s compliance deadline to December 31, 2021. The SACCWIS recommendation will now move to the SWRCB for a vote on this matter later this year, likely in the fourth quarter.

Resource Adequacy Proceeding:

On April 19, the Energy Division staff of the CPUC filed three interrelated demand response proposals in the resource adequacy proceeding. The proposals were put forth largely in response to concerns about demand response valuation expressed by the ISO and other stakeholders, as well as the ISO’s proposed business process manual change reflected in Proposed Revision Request (PRR) 1280. PRR 1280 sought to end the ISO’s accommodation of a practice whereby local regulatory authorities provide their jurisdictional load serving entities with credits toward meeting their resource obligations but do not show these resources to the ISO. The CPUC currently credits all demand response resources from the investor-owned utilities. This was also an issue identified in the Final Root Cause Analysis. PRR 1280 was put into abeyance

while the ISO, CPUC, and other market participants worked towards addressing the ISO's concerns.

In response to Energy Division staff's proposals, the ISO commits to collaborate with the IOUs to conduct additional analyses to accurately reflect the reliability contribution of the IOU demand response programs so that these resources can be shown to the ISO, rather than credited. In doing so, the ISO also commits to bringing to the Board a proposal to file a tariff amendment at the Federal Energy Regulatory Commission (FERC) to waive application of certain resource adequacy-related penalties. This treatment would be applicable for the 2022 resource adequacy year. For the 2023 resource adequacy year, the ISO supports the CPUC's proposal to work through a CEC-led process to develop permanent counting methodologies for demand response reflecting their reliability contributions. The ISO commits to bringing to the Board any additional proposals for tariff amendments to support the CEC's findings after they are provided into the record at the CPUC. The ISO continues to work collaboratively with CPUC, CEC, and IOU staff and stakeholders to find a resolution to PRR 1280 and support a reliability-based counting methodology for demand response. The ISO looks forward to the CPUC issuing a proposed decision on the Energy Division staff's proposal and party comments.

Joint Agency Workshop on Summer 2021 Reliability:

On May 4, the CEC, CPUC, and ISO hosted a joint agency workshop on summer 2021 reliability, under the CEC's annual Integrated Energy Policy Report (IERP) process. The workshop provided an opportunity to inform stakeholders of the combined CEC, CPUC, and ISO planning, analysis, and regulatory and market activities to ensure reliability for summer 2021. The ISO specifically provided a preliminary overview of its annual summer assessment, which is an operational-based analysis focused on preparing for normal and a range of potential extreme conditions. The ISO also provided an overview of the package of market policy improvements that the Board has approved and the ISO has filed with the FERC. The CEC, CPUC, and ISO continue to collaborate on addressing the findings from the Final Root Cause Analysis.

Legislative update

Legislature:

The 2021-2022 Regular Legislative Session continues as the May 14 deadline for all policy committees to hear bills approaches. The Legislature will have until June 4 to pass bills out of their house of origin to be considered for this year.

Of note, on May 18, the Assembly Utilities and Energy Committee will hold an oversight hearing focusing on *Summer readiness: ensuring reliability since the August 2020 outages*. The hearing is an opportunity for the ISO, CPUC and CEC to provide updates on the collective actions taken by the three entities to help prepare for reliable operations this summer and beyond. Speakers will participate virtually and consist of

ISO President and CEO Elliot Mainzer, CEC Chair David Hochschild, and CPUC President Marybel Batjer.

Legislation:

AB 427 (Bauer-Kahan): Requires the CPUC, in consultation with the ISO and CEC, by July 1, 2022, to establish a capacity valuation methodology for customer-sited energy storage resources and customer-sited hybrid resources. Recent amendments remove the provision that would allow demand response resources to qualify for resource adequacy regardless of whether the program is integrated into the wholesale market. The CPUC is required to adopt the capacity valuation methodology for the 2023 resource adequacy year, but there is no requirement for a minimum value. Status: Assembly Appropriations

AB 525 (Chiu): Requires the CEC, before March 1, 2022, to evaluate and quantify the maximum feasible capacity of offshore wind to achieve reliability, ratepayer, employment, and decarbonization benefits, and to establish offshore wind planning goals for 2030 and 2045. The bill also requires the CEC, in consultation with the CPUC and the ISO, to assess the transmission investments and upgrades necessary to support the offshore wind planning goals for 2030 and 2045. Status: Assembly Appropriations

SB 18 (Skinner): Requires CARB, as part of their scoping plan, by December 31, 2022, to prepare a strategic plan for accelerating the production and use of green hydrogen. The bill requires CARB to consult with the ISO to prepare an analysis of how curtailed electrical generation could be better utilized to help meet the goals of the scoping plan (e.g., production of green hydrogen). The bill also requires the CPUC to modify the resource adequacy requirements and accounting rules to provide equal consideration for dispatchable local and system resource adequacy resources made from green electrolytic hydrogen and, in a rulemaking proceeding related to energy storage, to consider green electrolytic hydrogen as part of encouraging portfolio diversity. Status: Senate Appropriations

SB 204 (Dodd): Requires that the base interruptible program be available to qualifying commercial and industrial customers regardless of the load serving entity (LSE) that is that customer's supplier of electricity. The base interruptible program incentive levels would remain at their 2018 rate until 2023, and then the CPUC is authorized to increase or decrease incentive levels for program participation if they determine "...that it is reasonably warranted to ensure continued participation by eligible customers and continued delivery of resource adequacy and ratepayer benefits." The bill also directs the CPUC to consider revising the categorization of the base interruptible program from a supply modifying demand response resource to a load modifying demand response resource by December 31, 2022. Lastly, the bill requires the CPUC to develop a pilot economic demand response program, to be administered by the IOUs, in which base

interruptible program participants may choose to participate for a 3-year period. Status: Senate Appropriations Suspense File

SB 423 (Stern): Integrates emerging renewable energy and firm zero-carbon resources into a number of recommendations, planning documents, and proceedings. The bill also requires the CEC, in consultation with the ISO, CPUC and CARB, before December 31, 2022, to submit an assessment to the Legislature considering emerging renewable energy and firm zero-carbon resources that support a clean, reliable and resilient electrical grid in California. The CPUC, through the resource adequacy program, would ensure load serving entities have sufficient resources during multi-day extreme or atypical weather events and to account for how the reliability value of stand-alone energy storage systems or hybrid resources may vary. Status: Senate Appropriations

SB 529 (Hertzberg): Authorizes the CPUC to consider a multiyear centralized resource adequacy mechanism, among other options, to most efficiently and equitably meet specified resource adequacy objectives. Status: Senate Floor

REGIONAL AFFAIRS

EIM Governing Body:

The EIM Governing Body held a general session teleconference meeting on April 19, 2021. The members were briefed by the ISO on the load, export, and wheeling priorities element of the market enhancements for the summer 2021 readiness initiative, which falls within the EIM Governing Body's advisory role. During the meeting, there was robust stakeholder discussion of the load, export, and wheeling priorities element. Three public comment letters were submitted to the members on the initiative, in addition to the verbal comments from stakeholders during the meeting. In a 4:1 decision with Member Decker opposing, the EIM Governing Body moved to withhold their advisory opinion on the substance of the load, export, and wheeling priorities element of the proposal. However, the members chose to advise the Board of Governors to take the necessary steps to start a regional stakeholder process and engage the FERC as necessary to proactively create a durable, long-term regional solution to this issue.

In addition, the EIM Governing Body held a general session teleconference meeting on May 6, which included a joint general session with the Board of Governors. During the joint general session, the two bodies were briefed by the EIM Governance Review Committee on their Part One Draft Final Proposal on EIM Governance. The EIM Governing Body and Board of Governors have joint authority over, and separately each voted unanimously to approve, the proposal. During the EIM Governing Body's general session, the members heard an update from the chair the Body of State Regulators and were briefed by the ISO on the status of current EIM implementations and the Western EIM 2021 first quarter benefits.

Regional Issues Forum:

The Regional Issues Forum cancelled their May 4 public meeting and rescheduled it for June 29.

EIM Governance Review Committee:

The EIM Governance Review Committee held a general session meeting on April 26 to discuss their Part One Draft Final Proposal on EIM Governance. During this meeting, the committee heard final stakeholder comments on the proposal and then voted to approve and submit the Part One Draft Final Proposal to the Board of Governors and EIM Governing Body for their consideration during the joint general session meeting on May 6. They are continuing to work on Part Two of the governance proposal, which deals with various elements of a joint authority approach, and plan to hold a public workshop on May 20 to discuss their progress with stakeholders.

EIM Quarterly Benefits:

On April 29, the ISO posted the EIM benefits, which reached a record-setting \$101 million for the first-quarter of 2021 and raised the cumulative benefits of the market to \$1.28 billion. The high quarterly benefits were driven in part by the extreme winter weather event in February that drove up energy prices across the West. The first quarter benefits do not reflect the participation of the Turlock Irrigation District or the Balancing Authority of Northern California Phase 2. These entities joined one week before the end of the quarter, and the resulting benefits of their 7 days of participation will be reflected in the second-quarter report that will be published at the end of July.

FEDERAL AFFAIRS**Administration:**

On April 20, the Department of Energy (DOE) announced the Biden Administration's 100-day plan to address cybersecurity risks to the nation's electric grid, which is envisioned as a coordinated effort of DOE, the electricity industry, and the Cybersecurity and Infrastructure Security Agency within the Department of Homeland Security. The initiative includes implementation of measures to enhance detection and mitigation of threats, deploy technologies that enable situational awareness and response and enhance IT network security, and introduce technologies that increase visibility of system cyber threats.

On April 21, DOE issued a Request for Information (RFI) seeking input on "Ensuring the Continued Security of United States Critical Electric Infrastructure," focused on supply chain vulnerabilities. DOE also revoked the Trump Administration's Executive Order on supply chain vulnerabilities, which blocked the purchase of bulk power system equipment from "foreign adversaries" and was judged to be problematic for many utilities. Responses to the RFI are due by June 7, 2021 and will inform DOE in the

development of a replacement Executive Order that will “appropriately balance national security, economic, and administrability considerations.”

Also on April 21, the White House announced the formation of a Drought Relief Working Group, an interagency initiative formed to address the Western water crisis. Interior Secretary Deb Haaland and Agriculture Secretary Tom Vilsack will be co-chairs of the group.

As widely reported, President Biden hosted a virtual International Climate Summit on April 22 and 23, pledging to cut U.S. emissions by 50 to 52 percent by 2030 as part of the nation’s commitment to the Paris Climate Agreement. The summit convened 40 world leaders along with U.S. Cabinet officials and White House advisors to discuss climate issues, innovative technology solutions, and economic opportunities of climate action. China, Japan, South Korea, Canada, and the European Union also made commitments to take actions that will cut emissions. At the summit, Energy Secretary Jennifer Granholm announced that the U.S. will host the International Clean Energy Ministerial and Mission conferences in 2022. The meetings serve to help coordinate clean energy development and deployment worldwide.

On April 26, the Environmental Protection Agency (EPA) announced that it will reassess whether California can continue with its vehicle emission waiver under the Clean Air Act, which the Trump Administration revoked in 2019. The National Highway Traffic Safety Administration has also proposed that the waiver authority be reinstated. EPA will hold a virtual public meeting on the waiver on June 6, with comments due on July 7. Fourteen states and the District of Columbia have adopted the California standards.

On April 27, the White House announced that the Administration will provide up to \$8.25 billion in financing for permitting and construction of new high-voltage power lines. The initiative will use \$5 billion in existing DOE loan authority and \$3.25 billion for construction of transmission lines in the Western Area Power Administration that will “unlock renewable energy in the West.”

Congress:

California’s congressional delegation will be reduced from 53 to 52 members as a result of the census-based reapportionment that takes place every 10 years. The California Citizens Redistricting Commission will determine the new congressional boundaries over the next year. New York, Illinois, Pennsylvania, Ohio, Michigan and West Virginia will also each lose one seat, while Texas will gain two and Montana, Oregon, Colorado, Florida and North Carolina will each gain one.

Legislation:

On April 26, a bipartisan group of California House Members introduced the “Utility Resilience and Reliability Act,” directing NERC to establish a grid resilience standard for the bulk power system. The bill, which is not yet numbered, would also create a

program within DOE to develop recommendations on grid protections for states and utilities. The bill's principle sponsor is Mike Thompson (D-5th District – Napa), with cosponsors Doug LaMalfa (R-1st District – Chico), Jaren Huffman (D-2nd District – Eureka), John Garamendi (D-3rd District – Fairfield), Doris Matsui (D-6th District – Sacramento), Mark DeSaulnier (D-11th District – Richmond), Ro Khanna (D-17th District – Santa Clara), Anna Eshoo (D-18th District – Palo Alto), and Jimmy Panetta (D-20th District – Salinas).

H.R. 2852, “New Opportunities to Expand Healthy Air Using Sustainable Transportation Act” (“NO EXHAUST Act”), introduced on April 26. Sponsor: Bobby Rush (D-IL). Authorizes more than \$7 billion in annual funding for electric vehicle networks, including charging stations, transportation electrification projects, domestic EV manufacturing, equipment rebates, and deployment of EVs in disadvantaged or underserved communities. Status: Referred to the House Energy and Commerce Committee; hearing scheduled for May 5, 2021. NOTE: This bill is included in H.R. 1516, the omnibus “CLEAN Future Act,” which will also be part of the May 5 hearing.

S. 1016, the “Electric Power Infrastructure Improvement Act,” introduced on April 6. Sponsor: Senator Martin Heinrich (D-NM). Creates an investment tax credit for “regionally significant” transmission projects of at least 500 MW, 225 KV capacity delivering power from rural or offshore areas. Projects may be AC or DC, overhead, underground, or offshore. NOTE: The House companion bill is sponsored by Susie Lee (D-NV) and Steven Horsford (D-NV).

S. 1324, “Civilian Cybersecurity Reserve,” introduced on April 22. Sponsors: Senators Jacky Rosen (D-NV) and Marsha Blackburn (R-TN). Establishes a voluntary program to recruit civilian cyber experts for short-term deployment in federal agencies to bolster their cyber protections. NOTE: The House companion bill is sponsored by Jimmy Panetta and Ken Calvert (R-42nd District – Corona).

S. (Not yet numbered), the “Energy Sector Innovation Credit Act,” introduced on April 26 as a discussion draft. Sponsors: Senators Mike Crapo (R-ID) and Sheldon Whitehouse (D-RI). Creates investment and production tax credits for innovative energy technologies, based on advisory input from government agencies. Eligible technologies can be generation, storage, carbon capture retrofits, and clean hydrogen production meeting certain market penetration and emissions goals.

S. 1400, “Protecting Resources on the Electric Grid with Cybersecurity Technology Act” (“PROTECT Act”), introduced on April 29. Sponsors: Senators Lisa Murkowski (R-AK) and Joe Manchin (D-WV). Requires FERC to issue a rulemaking providing incentives for electric utilities to invest in cyber protections. Establishes a grant program within DOE to fund cyber defenses in non-FERC-jurisdictional utilities.