

Memorandum

To: ISO Board of Governors

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

Mark Rothleder, Vice President, Market Quality and California Regulatory Affairs

Date: November 6, 2019

Re: State, Regional and Federal Affairs update

This memorandum does not require Board action.

STATE AFFAIRS

Regulatory update

Integrated resource plan proceeding:

On September 12, California Public Utilities Commission (CPUC) Administrative Law Judge to the Integrated Resource Plan (IRP) proceeding released a Proposed Decision to address the near-term capacity shortfall by (1) requiring 2,500 MW of incremental procurement allocated to all load serving entities in the Southern California Edison transmission access charge footprint, and (2) enabling up to three years compliance extension of 2,500 MW to 3,570 MW of once-through cooling (OTC) resources. Though the ISO generally agreed with the direction of the Proposed Decision, the ISO advocated in written comments and through verbal *ex parte* communications to modify the points above to address the operational need for 4,700 MW of system-wide incremental procurement by 2022, to develop an annual assessment based on the ISO's baseline calculations to ensure incremental resources can address operational needs, and to allow for earlier release of OTC resources with extended compliance dates. The ISO also seeks to include imports, which count toward the existing maximum import capability, to fulfill the incremental procurement requirement.

On October 21, the CPUC released a revised Proposed Decision substantially aligning with the ISO's recommendations. The revised Proposed Decision (1) requires 4,000 MW of incremental procurement by 2023 allocated system-wide, and (2) establishes a specific schedule for OTC compliance date extensions ranging from one to three years by taking into consideration impacts on disadvantaged communities and natural resource use. However, the revised Proposed Decision would only qualify an import as incremental procurement if it is above the maximum import capability. The earliest the revised Proposed Decision can appear before the CPUC is November 7.

Update on Senate Bill 100 implementation:

Senate Bill 100 (SB 100) requires the CPUC, California Energy Commission (CEC), and California Air Resources Board (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 and presented on a panel during the Northern California Scoping Workshop in Redding on October 25. The ISO noted that, in addition to being a balancing authority, it also is uniquely positioned as an independent market operator for most of California and the Western Energy Imbalance Market, a regional transmission planner, and the Reliability Coordinator for the majority of California and soon for 87 percent of the load in the western United States. The ISO emphasized that least regrets planning should incorporate reliability checks, a diversified fleet, and strategic planning around existing resources to transition to the SB 100 goals. Thus far, there have been four workshops: kick off (September 5); Central Valley scoping (September 30); Northern California scoping (October 25); and Southern California scoping (October 29). There is also a technical workshop planned for November 18.

Legislative update

Legislature:

The Legislature adjourned on September 13 for Interim Study Recess. Meanwhile, the ISO continues to engage with the Governor's office, Assembly and Senate on the post 2020 capacity shortfall recognized in the CPUC IRP proceeding. The Legislature reconvenes for the second half of the two-year Regular Session on January 6, 2020.

Legislation:

The Governor had until October 13 to sign bills passed by the Legislature.

AB 923 (Wicks): Authorizes the Bay Area Rapid Transit District (BART) to procure energy from any electrical corporation or marketer, and electricity purchased through the ISO market. The bill also requires BART to annually disclose the sources of their energy and associated greenhouse gas (GHG) emissions to the CEC. Status: Signed by the Governor on September 20.

AB 1584 (Quirk): Requires the CPUC to develop and use methodologies for allocating electrical system integration resource procurement needs to each load-serving entity (LSE) based on the contribution of that entity's load and resource portfolio to the electrical system conditions that created the need for the procurement. Status: Signed by the Governor on October 2.

SB 520 (Hertzberg): Designates the electrical corporation as the provider of last resort (POLR) in its service territory, unless provided otherwise in a service territory boundary agreement. The POLR will be considered a public utility subject to CPUC jurisdiction,

control and regulation. The bill also authorizes the CPUC to designate a load serving entity to serve as the POLR instead, if it meets certain requirements. Status: Signed by the Governor on October 2.

SB 676 (Bradford): Requires the CPUC to establish electric vehicle grid integration strategies by December 31, 2020. The bill also requires investor-owned utilities and community choice aggregators to provide the CPUC information on, and publicly owned utilities to consider, electric vehicle grid integration strategies. Status: Signed by the Governor on October 2.

REGIONAL AFFAIRS

Western Energy Imbalance Market (EIM)

New EIM entities:

In September, two new entities committed to join EIM, the Bonneville Power Administration (BPA) and the Balancing Area of Northern California (BANC) Phase 2 including the Western Area Power Administration-Sierra Nevada region. The BANC implementation will occur in 2021 and BPA in 2022. This adds to earlier commitments this year from Tacoma Power (2022), Avista Energy (2022), Tucson Electric Power (2022), and Turlock Irrigation District (2021). Committed and operating EIM entities now represent 77% of the load in the Western Interconnection.

Extended Day-Ahead Market (EDAM) stakeholder process:

The market design stakeholder process for EDAM was initiated in October with an issue paper and public webinar to outline the suggested topics, workshops, and timeline. Initial stakeholder comments are requested by November 22. Several workshops will be held during the first half of 2020 to explore key topics such as resource sufficiency, transmission availability and pricing, and GHG emissions.

Western Energy Imbalance Market Governance

EIM Governing Body:

The EIM Governing Body held an in-person meeting on October 30 in Folsom, CA. The members received updates from the Regional Issues Forum (RIF) and Body of State Regulators (BOSR). The Governing Body voted to support the market settlement timeline transformation policy initiative, which falls within their advisory authority. The Governing Body also received a briefing from the ISO on the EIM benefits, which reached \$64.80M for the third quarter of 2019. The next EIM Governing Body meeting is December 4 in Las Vegas, NV.

Body of State Regulators:

The Body of State Regulators held their fall meeting on October 7 in conjunction with the joint meeting of the Committee on Regional Electric Power Coordination (CREPC) and the Western Interconnection Regional Advisory Body (WIRAB). During the meeting, the BOSR received an update on the EIM governance review process and the ISO's day ahead market enhancements initiative. The regulators also received briefings from Avista and BPA on their decisions to join the EIM.

Regional Issues Forum:

The Regional Issues Forum will have a meeting December 3 in Las Vegas, NV in conjunction with the EIM Governing Body's meeting.

FEDERAL AFFAIRS**Administration:**

On October 15, the White House officially nominated Federal Energy Regulatory Commission (FERC) General Counsel James Danly, a Republican, to serve as FERC Commissioner for a term lasting until June 30, 2023. The nomination requires Senate confirmation. Senate Energy and Natural Resources Committee chair Lisa Murkowski (R-AK) has stated that she will bring the nomination to a vote in her committee as early as possible, and that she does not intend to wait for a Democrat nominee to be paired with Danly's nomination. FERC currently has two Republican Commissioners, Chair Neil Chatterjee and Commissioner Bernard McNamee, and one Democrat, Commissioner Rich Glick.

On October 17, President Trump announced that Secretary of Energy Rick Perry will leave the agency by the end of the year. On October 18, the President announced that he will nominate Deputy Secretary Dan Brouillette to replace Perry. The nomination requires Senate confirmation.

On October 23, the Department of Justice brought suit in the U.S. District Court for Eastern California against the State of California's participation in the Western Climate Initiative, a cap-and-trade emission reduction program with the Province of Quebec, on the grounds that it is illegal for a state to conduct independent foreign policy. The initiative has been in place since 2014 and the lawfulness of the program was upheld in court in 2017. California Attorney General Xavier Becerra has said that the State does not intend to back down from program participation.

Congress:

On October 23, senators Chris Coons (D-DE) and Mike Braun (R-IN) announced the formation of a bipartisan Senate Climate Caucus as a forum to consider legislation and discuss innovative technologies for carbon capture, energy efficiency and other

concepts to address climate change. The group will consist of an equal number of Democrats and Republicans and will serve as a companion organization to the bipartisan House Climate Solutions Caucus, which held its first meeting of the 116th Congress on October 23 under the leadership of representatives Francis Rooney (R-FL) and Ted Deutch (D-FL).

Legislation:

S. J. Res. 53, introduced on September 9. Sponsor: Senator Benjamin Cardin (D-MD); 0 cosponsors. Blocks EPA's Affordable Clean Energy rule, which replaced the Obama Administration's Clean Power Plan. Status: Referred to the Senate Committee on Energy and Natural Resources. Brought to a floor vote on October 17 under the Congressional Review Act, which enables Congress to repeal a federal agency rulemaking by a simple majority if certain conditions are met, and failed by a vote of 41-53.

S. 2657, "Advanced Geothermal Innovation Leadership Act of 2019" ("AGILE Act"), introduced on October 22. Sponsor: Senator Lisa Murkowski (R-AK); 1 cosponsor. Amends the Energy Policy Act of 1992 to provide for an updated assessment of geothermal resources and support development and demonstration of advanced geothermal technologies. Eligible projects include a variety of commercial applications, including the use of geothermal energy as a grid management resource or for seasonal energy storage. Modifies the definition of renewable energy to include thermal energy. Authorizes \$150M annually from 2020 through 2024. Status: Referred to the Senate Committee on Energy and Natural Resources.

S. 2660, introduced on October 22. Sponsor: Senator Tina Smith (D-MN); 0 cosponsors. Establishes a grant program for wind energy research, development and demonstration. Text is not yet available. Status: Referred to the Senate Committee on Energy and Natural Resources.

S. 2662, "Growing American Innovation Now Act" ("GAIN Act"), introduced on October 22. Sponsor: Senator John Barrasso (R-WY); 1 cosponsor. Reforms the New Source Review (NSR) program under the Clean Air Act by amending the definitions of "modification" and "construction" to clarify when NSR permits are required and enable facilities to more easily carry out carbon capture, energy efficiency and equipment improvement projects. Status: Referred to the Senate Environment and Public Works Committee. NOTE: House Companion bill, H.R. 172, introduced on January 17. Sponsor: Representative Morgan Griffith (R-VA); 1 cosponsor. Status: Referred to the House Energy and Commerce Committee.

S. 2666, "Public Land Renewable Energy Development Act of 2019," introduced on October 20. Sponsor: Senator Martha McSally (R-AZ); 7 cosponsors. Requires the Secretary of Interior, in consultation with the Secretary of Energy, to establish priority areas on eligible federal lands for geothermal, solar and wind energy projects based on

economic viability (including access to existing or planned transmission capacity); avoidance of conflict with plant and animal habitats, recreational sites, and cultural resources; and consistency with existing federal land management laws. Includes a program to improve federal permit coordination for renewable energy projects on federal lands. Establishes revenue sharing formulas for local communities, states, counties and conservation initiatives. Status: Referred to the Senate Energy and Natural Resources Committee.

S. 2668, “Solar Energy Research and Development Act of 2019,” introduced on October 22. Sponsor: Senator Kyrsten Sinema (D-AZ); 0 cosponsors. Establishes a program for research, development and demonstration of solar energy technologies within the Department of Energy aimed at improving efficiency, reliability, resilience, security and capacity of solar generation, optimizing technology design, reducing costs, and improving conversion of solar energy to useful forms. Eligible projects include a wide variety of technologies, including solar technologies that enable safe grid operating conditions; integration of solar technologies into smart grid, transmission and distribution systems; and regional and national electric system balancing and grid security. Status: Referred to the Senate Committee on Energy and Natural Resources.