

Memorandum

To: ISO Board of Governors

From: Stacey Crowley, Vice President, External Affairs

Anna McKenna, Vice President, Market Policy and Performance

Date: August 24, 2022

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

This memorandum does not require ISO Board of Governors action.

STATE AFFAIRS

Regulatory update

Demand flexibility rulemaking:

On July 22, the California Public Utilities Commission (CPUC) issued the *Order Instituting Rulemaking to Advance Demand Flexibility Through Electric Rates* (OIR). Through the OIR the CPUC is seeking to establish demand flexibility policies and modify electric rates to: (a) enhance the reliability of California's electric system; (b) make electric bills more affordable and equitable; (c) reduce the curtailment of renewable energy and greenhouse gas emissions associated with meeting the state's future system load; (d) enable widespread electrification of buildings and transportation to meet the state's climate goals; (e) reduce long-term system costs through more efficient pricing of electricity; and (f) enable participation in demand flexibility by both bundled and unbundled customers. Importantly for the ISO, the OIR seeks to incorporate ISO wholesale market locational marginal prices into dynamic retail rates. The aim is to align retail response with grid needs through dynamic rates, leveraging technology and open platforms. The OIR dovetails with complementary efforts at the California Energy Commission (CEC) that established the Market Informed Demand Automation Server (MIDAS), an online, universally-accessible customer rate database. In 2016, the ISO had been supportive of CPUC efforts to align time-of-use rate periods with periods of grid needs. Similarly, the ISO is supportive of more dynamic rates for retail customers willing and able to respond, recognizing that wholesale market-informed retail rates can better align customer behavior. The ISO is also seeking to include in the scope of the OIR provisions to ensure that load modifying resource performance and response are captured and analyzed. Such data is necessary to measure the effectiveness of dynamic rates, as well as to provide valuable short-term forecasting that informs grid operations and longer-term forecasting for planning. These

activities will also require tighter coordination between wholesale and distribution operations.

Legislative update

Legislature:

On August 17, the full Senate voted 36-1 to officially confirm the reappointments of Jan Schori and Severin Borenstein to the ISO Board of Governors. Ms. Schori and Mr. Borenstein were both reappointed in January 2022 by California Governor Gavin Newsom to serve three-year terms.

On August 31, the Legislature will adjourn for recess, marking the last day for the Legislature to pass bills. As the second year of the two-year legislative session comes to a close, Governor Newsom will have until October 1 to sign or veto bills that were passed by the Legislature before September 1. Given the large number of Legislators who are termed out or retiring in both the Assembly and Senate, attention will promptly shift to campaigning for the General Election on November 8 as a new wave of future policy makers vie to fill those vacancies.

Legislation:

As noted in detail in the previous report, State Affairs is closely monitoring numerous energy-related bills that were introduced earlier this year as they make their final way through the legislative process. Of particular interest to the ISO is the recent adoption of Assembly Concurrent Resolution (ACR) 188, authored by Assemblymember Holden. ACR 188 passed the Senate on August 8 and returned to the Assembly for a concurrence vote on August 11. The adopted resolution requests the ISO, in consultation with the California balancing authorities, to produce a report by February 28, 2023, that summarizes recent relevant studies on the impacts of expanded regional cooperation on California and identifies key issues that will most effectively advance the state's energy and environmental goals, including any available studies that reflect the impact of regionalization on transmission costs and reliability for California ratepayers. It will also include relevant updates to specified transmission development and resource diversity estimates. Finally, the report will discuss regional transmission organizations (RTOs) being considered in other regional states, collaboration between states on energy policies to maximize consumer savings while respecting state policy autonomy, and engagement between neighboring states on the future of RTOs in the West.

REGIONAL AFFAIRS

WEIM Governing Body:

On July 19, the WEIM Governing Body met in general session. During this meeting, the Governing Body received committee reports from chairs of the WEIM Body of State Regulators and Regional Issues Forum. The Governing Body also received a briefing from

Anna McKenna on ISO policy initiatives, including the extended day-ahead market (EDAM), resource sufficiency evaluation, and wheel-throughs.

WEIM Body of State Regulators:

On August 12, the WEIM Body of State Regulators (BOSR) held its monthly virtual meeting. During this meeting the BOSR received an EDAM governance update and a preview of proposed BOSR comments on the resource sufficiency evaluation under an EDAM market design. The BOSR is scheduled to conduct its next (virtual) monthly meeting on September 9. The BOSR will meet in-person on September 28 in Tempe, Arizona, prior to and in coordination with the Fall 2022 Joint CREPC-WIRAB Meeting.

WEIM Regional Issues Forum:

WEIM Regional Issues Forum (RIF) sector liaisons have been meeting regularly to plan for the next upcoming RIF meeting, set to take place virtually on September 1. The agenda for this meeting will include an overview of the ISO Policy Initiatives Roadmap Process, as well as a panel discussion on Stressed System Conditions. Planning is also underway for a RIF meeting to take place in-person on November 8 in Sacramento.

WEIM Governance Review Committee:

On August 29, the WEIM Governance Review Committee (GRC) will conduct a (virtual) general session meeting to discuss comments received on its Phase 3 – EDAM governance straw proposal, published July 15. Informed by comments and this discussion, the GRC will work to issue a revised proposal in late October.

FEDERAL AFFAIRS

Administration:

On July 19, President Biden appointed Maria Robinson as director of the Department of Energy's (DOE's) Grid Deployment Office, a position that does not require Senate confirmation. Ms. Robinson has been a member of the Massachusetts General Assembly since 2019 and formerly directed the Advanced Energy Economy's wholesale markets program. Her nomination to be Assistant Secretary of DOE's Office of Electricity stalled in committee and was not taken up by the full Senate. Pat Hoffman, the Principal Deputy Assistant Secretary for the Office of Electricity, has served as the acting Grid Deployment Office director.

On July 22, the White House announced nomination of Jeff Marootian, a current White House energy liaison, as Assistant Secretary of DOE's Office of Energy Efficiency and Renewable Energy. He previously served as Assistant Secretary for Administration at the Department of Transportation in the Obama Administration. The nomination requires Senate confirmation.

On August 3, President Biden announced that he will nominate David Crane, Chief Executive Officer of Climate Real Impact Solutions and former CEO of NRG, to be Undersecretary for Infrastructure at DOE. The position was established pursuant to a restructuring of the agency in order to implement provisions of the \$625 billion Infrastructure Investment and Jobs Act that passed last year. It will oversee DOE's Loan Programs, the Office of Clean Energy Demonstrations, and the Office of Cybersecurity, Energy Security, and Emergency Response, among others. The position requires Senate confirmation.

Congress:

Both House and Senate are in recess through September 5.

On July 20, the House passed H.R. 8294, the appropriations “minibus” that includes six of the twelve funding bills for federal agencies in Fiscal Year 2023, which begins on October 1. The measure includes funding for DOE, the Federal Energy Regulatory Commission (FERC), the Environmental Protection Agency, and the Department of the Interior, among other agencies. The Senate has determined it will not take action on any appropriations bills until after the August recess, leading to speculation that one or more continuing resolutions will be needed to support federal government actions beyond the end of the Fiscal Year.

On August 12, the House passed H.R. 5376, the “Inflation Reduction Act of 2022,” as amended, and sent it to President Biden for signature. The Senate passed the bill on August 7. The measure contains over 300 pages of energy-related tax provisions, many designed to combat climate change and achieve carbon emission reductions of 40% by 2030. The bill passed in the reconciliation process on a party-line vote by Democrats, although it contains several provisions that Republicans have supported, including incentives for both carbon sequestration projects and nuclear power plants, and protections for oil and gas development.

The bill expands and extends key existing investment and production tax credits for wind, solar, qualified hydropower, geothermal and other clean energy projects that begin construction before January 1, 2025, and adds energy storage, qualified biomass, microgrid controllers, clean hydrogen and certain interconnection properties to the list of approved projects. Facilities placed in service after January 1, 2025, become eligible for 10-year technology-neutral investment and production tax credits. In general, tax credits will be phased out after that time or when the Secretary of Energy determines that greenhouse gas emission goals have been met, whichever comes later. The Internal Revenue Service will promulgate rules for the newly-eligible technologies.

In order to qualify for full credit amounts, projects must conform to prevailing wage and apprenticeship requirements; otherwise, credits will be reduced to 1/5 of totals available. The bill also offers bonus credits that can be accessed if projects are sited in “energy communities” such as brownfield properties and areas with significant unemployment.

Bonus credits are also available for projects in which at least 40% of steel, iron or manufactured products are produced in the U.S. (20% for offshore wind projects). Project sponsors associated with tax-exempt entities such as states, municipal governments, and tribal governments can elect to receive direct payments in lieu of credits, and project sponsors can also transfer any or all of a credit as a cash payment to an unrelated taxpayer.

Other key provisions in the bill include:

- Innovative Clean Energy Loan Guarantees, establishing \$40 billion for projects that apply new or improved technologies in early commercial use;
- Energy Infrastructure Reinvestment Financing, which establishes a new \$5 billion loan guarantee program within DOE for projects that retool, repower, repurpose or replace energy infrastructure no longer in operation or projects that enable operating infrastructure to avoid, reduce, utilize or sequester air pollutants;
- Funding to coordinate and facilitate action by regulatory authorities for offshore wind siting and permitting;
- Funding to finance and provide technical support to accelerate construction of new transmission projects, including \$2 billion for direct loans to non-federal entities for construction/modification of facilities that have been designated in the national interest, available through September 30, 2030;
- Extension of the \$7500 tax credit for new electric vehicles and \$4000 for used electric vehicles, subject to price and income caps;
- Economic development grants for emission reduction and environmental justice initiatives;
- A Greenhouse Gas Reduction Fund with \$27 billion for direct and indirect technical assistance for projects and technologies, available through September 30, 2024;
- Port Electrification funding totaling \$3 billion; and
- \$4 billion to address Western drought conditions.

Legislation:

H.R. 8303, “Reinforcing the Grid Against Extreme Weather Act,” introduced on July 7. Sponsors: Representatives Sean Casten (D-IL), Jerry McNerney (D-9th District – Stockton), and Mike Levin (D-49th District – Oceanside). Requires FERC to promulgate a final rule within 18 months of passage establishing minimum transfer capability requirements between regional power markets. *Status*: Referred to the House Energy and Commerce Committee.

H.R. 8311, “The Grid Resilience Act,” introduced on July 21. Sponsors: Representatives Sean Casten (D-IL), Jerry McNerney (D-9th District – Stockton), Mike Levin (D-49th District – Oceanside). Requires FERC, DOE and the North American Electric Reliability Corporation (NERC) to conduct a joint study on a reliability standard

for thermal power plants during droughts. This bill is in response to the NERC 2022 Summer Reliability Assessment, according to House staff. *Status:* Referred to House Energy and Commerce Committee.