

Memorandum

To: ISO Board of Governors

From: Stacey Crowley, Vice President, External Affairs

Anna McKenna, Vice President, Market Design & Analysis

Date: November 1, 2023

Re: State, Regional, and Federal Affairs update

This memorandum does not require ISO Board of Governors action.

STATE AFFAIRS

Regulatory update

Long-term gas system planning rulemaking:

On October 17, the ISO filed comments in the California Public Utilities Commission (CPUC) long-term gas planning proceeding. A key focus of this proceeding is developing processes to safely and reliably decarbonize the natural gas system and reduce greenhouse gas emissions, consistent with state policy goals. The ISO submitted supportive comments in this proceeding on a set of criteria developed by the CPUC, that gas utilities must consider when making decisions to derate or decommission natural gas transmission pipelines. The ISO agreed with the CPUC's recognition that gas and electric systems are interdependent, and the CPUC's inclusion of electric reliability as a key criteria that gas utilities must consider when determining whether to derate or decommission natural gas pipelines. The ISO also recommended that as this proceeding progresses, the CPUC should develop a structured process for balancing authority areas to provide input on gas utility assessments of impacts to electric reliability and look to coordinate this proceeding with electric planning in the CPUC's Integrated Resource Planning (IRP) proceeding.

Resource adequacy rulemaking:

On October 19, the CPUC issued an Order Instituting Rulemaking to consider issues related to the CPUC's resource adequacy program. Issues identified in the CPUC proceeding scope include evaluation of the Slice of Day resource adequacy framework and 2024 test year, coordination with the IRP proceeding, development of an unforced capacity (UCAP) counting methodology, review of CPUC compliance and penalties, and additional refinements to the resource adequacy program. The ISO will support the general scope of issues considered in this new rulemaking, with particular emphasis on coordination between resource adequacy and IRP proceedings, including coordination

between capacity procurement frameworks under each proceeding. Furthermore, the ISO supports an evaluation of the Slice of Day framework and asks that the CPUC also consider modifications to Slice of Day necessary to comport with a multi-year procurement framework the CPUC will consider in the IRP proceeding. The ISO also encourages the CPUC to work with the ISO on overlapping issues to be discussed in the ISO's resource adequacy working groups, including loss of load expectation modeling inputs and assumptions and development of a UCAP methodology.

Legislative update

Legislature:

The first half of the 2023-2024 California legislative session ended last month and the Governor had until October 14 to sign or veto any legislation that passed both the Assembly and Senate before the deadline.

Senate Bill 420 (Becker) and **SB 619 (Padilla)** were both attempts to streamline the Certificate of Public Convenience and Necessity (CPCN) process for new and existing projects, but were both vetoed because of concerns that the new avenues for approval could complicate the process for applicants. Below are some of the bills the ISO was closely tracking that were signed by the Governor.

AB 1373 (Garcia) – Energy: Requires the Department of Water Resources (DWR) to exercise its central procurement function until 2035, with the intent of streamlining resource acquisition for specified renewable projects. The DWR is authorized to use central procurement only after the California Public Utilities Commission (PUC) has made a formal request. The bill also requires the PUC and California Energy Commission (CEC) to evaluate and potentially impose capacity payments on load serving entities (LSEs) and publicly owned utilities (POU) that don't meet reliability standards through mid-2027. The bill also grants the PUC increased oversight and penalty power concerning LSEs' integrated resource plans (IRP).

AB 1373 also includes a rebuttable presumption for the ISO which aims to expedite the approval process for new transmission projects by leaning on the evaluations of an ISO governing board when seeking a CPCN – an essential permit for project initiation. Favoring the ISO Board of Governors' endorsement becomes the default stance during the CPCN evaluation, should the project align with specified conditions.

Senate Bill 253 (Weiner) Corporate Data Accountability Act: Seeks to increase accountability, transparency, and disclosure from large companies regarding their Greenhouse Gas (GHG) output by imposing reporting requirements, both directly and indirectly. SB 253 requires full-scope GHG emissions data reporting all companies with total annual revenues in excess of \$1 billion that do business in California to a non-profit selected and contracted through the California Air Resources Board (ARB). The Governor in his signing message was concerned the timeline for implementing and enforcing SB 253 could be infeasible for the ARB.

Senate Bill 261 (Stern) – Climate Related Financial Risk: Seeks to enhance transparency on the financial risks related to climate change faced by entities with revenues exceeding \$500 million and doing business in California through a climate-related financial risk report. By January 1, 2026, and biennially thereafter, applicable entities must prepare a climate-related financial risk report which includes the entity's climate-related financial risk and the measures adopted by the entity to reduce and adapt to these risks. "Climate-related financial risk" is defined as material risk of harm to immediate and long-term financial outcomes due to physical and transition risks. The Governor attached a signing message to the bill which requested the author and Legislature provide the ARB more time to implement the requirements before it becomes applicable and to monitor the cost impacts on applicable businesses.

Senate Bill 319 (McGuire) – Permitting and Transmission Planning:—Requires the PUC, CEC, and ISO to review the Memorandum of Understanding every five years to determine if it needs to be updated to continue to help with meeting the state's energy goals. On or before December 1, 2024, and biennially thereafter, the PUC, in consultation with California balancing authorities, shall submit a report to the Legislature that includes a description of the electrical transmission project applications submitted to the commission for CPCNs in the preceding two-year period, the number of electrical transmission projects that were issued CPCNs in the preceding two-year period, the number of electrical transmission projects that, in the preceding two-year period, went into operation, were approved by the ISO, and did not require the issuance of a CPCN, and the estimated transmission capital cost added to the rate base for each electrical transmission project that was, in the preceding two-year period, either approved by the ISO or issued a CPCN.

The Legislature is currently on interim recess and will reconvene for the second half of the 2023-2024 session in January 2024.

REGIONAL AFFAIRS

Western Energy Imbalance Market (WEIM) Governing Body:

The WEIM Governing Body met in general session on September 19, 2023. In addition to standing items, Guillermo Bautista Alderete provided a Q2 2023 WEIM benefits and market update. Anna McKenna then provided a briefing on the extended day-ahead market, day-ahead market enhancements, transmission service and market scheduling priorities, and WEIM resource sufficiency evaluation enhancements policy initiatives as well as the price formation enhancements, greenhouse gas coordination, and gas management working group efforts. The WEIM Governing Body will hold its next general session meeting in-person, at the ISO, on December 12, 2023.

WEIM Body of State Regulators (BOSR):

The WEIM Body of State Regulators (BOSR) met virtually on September 8, 2023, to review its draft 2024 Business Plan and Budget (BP&B). On October 4, 2023, the BOSR

met in-person, in Seattle. At that meeting, the BOSR approved the 2024 BP&B, thanked Chair Thad LeVar (Chair, Utah Public Service Commission) for his leadership as BOSR Chair, and announced the selection of a new BOSR Chair and Vice Chair. Hayley Williamson (Chair, Nevada Public Utilities Commission) will serve as the new BOSR Chair and Gabriel Aguilera (Commissioner, New Mexico Public Regulation Commission) will serve as the new BOSR Vice-Chair. Anna McKenna then provided BOSR members with an update on WEIM benefits.

On October 27, 2023, the BOSR met with a non-quorum of WEIM Governing Body members to introduce new members of both bodies and discuss items of common interest.

The BOSR will hold a virtual monthly meeting on November 3, 2023. Agenda items will include an ISO update on its price formation enhancements working group effort.

WEIM Regional Issues Forum (RIF):

The WEIM Regional Issues Forum (RIF) will hold its next in-person meeting on December 11, 2023, at the ISO in Folsom. The RIF sector liaisons are presently working to develop the December 11 meeting agenda and planning for a Q1 2024 RIF roundtable discussion to kick off the ISO's 2024 annual policy roadmap process.

FEDERAL AFFAIRS

Congress:

On September 28, 2023, Neil Millar, Vice President, Infrastructure & Operations Planning, testified on behalf of the ISO at a hearing before the House Energy and Commerce Committee Subcommittee on Energy, Climate and Grid Security. The scope of the hearing was general oversight and grid reliability. All of the ISOs/RTOs appeared.

On September 30, 2023, Congress passed a continuing resolution (CR) to fund the federal government for 45 days. Under the CR federal appropriations will continue at FY23 levels until November 17, 2023.

On, September 29, 2023, Senator Dianne Feinstein (D-Ca) passed. On October 1, 2023, California Governor Gavin Newsom appointed Laphonza Butler to complete Senator Feinstein's term. On October 19, 2023, Senator Butler announced she would not run for the office next year.

On October 5, 2023, Speaker Kevin McCarthy was removed as Speaker of the House. On October 25, 2023, Rep. Mike Johnson (R-LA) was elected Speaker of the House.

On October 18, 2023, Senator Padilla (D-CA) was appointed to the Senate Energy and Natural Resources Committee. It has been many years since California had a member on this committee.

Administration:

On October 13, 2023, a California proposal was selected for funding under the hydrogen hub program at the U.S. Department of Energy (DOE). This funding is from the Bipartisan Infrastructure Law and is intended to create a hydrogen economy/industry in the United States. The California proposal, Alliance for Renewable Clean Hydrogen Energy Systems (ARCHES), will help facilitate the production of hydrogen exclusively from renewable energy and biomass.

On October 18, 2023, DOE announced awards for the Grid Resilience and Innovation Partnership (GRIP) program, part of the Bipartisan Infrastructure Law. DOE announced awards of up to \$3.5 billion in investments across 58 projects in 44 states, including several ISO market participants, to strengthen electric grid resilience and reliability across America.