

The Church of What's Happening Now...

Enough has been said about Covid-19 and what each of us needs to do. This is a tough time, and I don't have any words of wisdom other than to do what's necessary and to keep moving. Consequently, let's focus on "what's happening now." I chose "the church of what's happening now" as the title for this issue – apologies to comedian Flip Wilson – because it evokes a "community" and I like to think of WPTF as a community. I'm originally from the South where "church" (or temple or any communal place) evokes community in my mind. Secondly, "what's happening now" is an attempt to focus us on our daily work which is still in need of attention. I'm told the title is also that of a podcast by a comedian on topical issues. But hey, it sounds good. Let's talk about what WPTF is doing to "carry on." This Quarterly Report is about what's happening in our region in our industry.

As many of you know, we had scheduled a WPTF Roundtable in Houston. It was designed to provide a forum to discuss the new requirements of Resource Adequacy (RA) on a regional basis and to consider the fact that the future bid stack in any energy market is likely to be dominated by near-zero marginal cost units (e.g., renewable). The Roundtable was supposed to have occurred on March 20. Naturally we had to postpone it. Some asked about the possibility of doing this as a webcast. While webcasts are useful in many circumstances, I think it would be hard to capture the give and take we want to achieve in a WPTF Roundtable. So, stay tuned, we'll be rescheduling in a couple of months.

Speaking of unique ways to meet, we do plan to use web meeting technology for an upcoming WPTF gathering. We had scheduled a "face-to-face" meeting on the establishment of a Committee on California Public Utility Commission (CPUC) matters. The transition from separate funding groups to handle discrete CPUC procedures has worked well but did not provide budgetary certainty. But we know we can't meet face to face right now. So, we are going to meet via webcast. It will occur on the same day as scheduled – Friday, March 27. If you have not received a separate notification and are interested, you can contact Greg Klatt at klatt@energyattorney.com or me at smiller@wptf.org.

There is still plenty of stuff going on in all parts of the West that should be of interest to you. So, dive in and see what our Committee Chairs have to tell you. Let's focus on our business and whatever we need to do to accomplish that. For me, that means setting up the webcam and other equipment I ordered to do webcasts. You do what you gotta do. Carry on.

Scott Miller

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Save the Date

Check the WPTF website for all the details

RESOURCE ADEQUACY (RA) COMMITTEE

Greg Klatt

Greg Klatt coordinates the [Resource Adequacy Committee](#). Greg is a practicing attorney with over 20 years of energy industry experience. His practice focuses on state and federal regulation of the electric power and natural gas industries. He has represented clients in numerous ratemaking and rulemaking proceedings before the CPUC. He regularly advises energy companies regarding regulatory requirements applicable to their product and service offerings. He represents marketers and retailers in CPUC licensing, compliance and enforcement matters. He also commonly acts as regulatory counsel in energy-related transactional matters, including procurement contracting, resource development projects, repower projects, major asset acquisitions and related financing arrangements.

Greg received his J.D. from UC Berkeley's School of Law (Boalt Hall). He graduated magna cum laude with a B.A. in History from the University of San Francisco and is a lifetime member of the Alpha Sigma Nu honor society.

“The transition between competing paradigms cannot be made a step at a time, forced by logic and neutral experience. Like the gestalt switch, it must occur all at once (though not necessarily in an instant) or not at all.” – Thomas Kuhn, *The Structure of Scientific Revolutions* (1962)

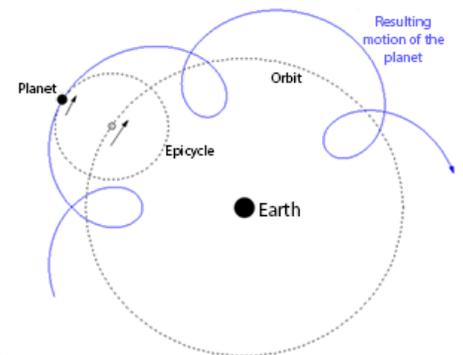
American philosopher Thomas Kuhn introduced the concept of a “paradigm shift” in his landmark 1962 book to describe and explain the profound and (relatively) abrupt changes that can take place in a scientific discipline’s theoretical framework. As summarized in Wikipedia, “Paradigm shifts arise when the dominant paradigm under which normal science operates is rendered incompatible with new phenomena, facilitating the adoption of a new theory or paradigm.” The concept has since been popularized and extended to other disciplines.

Thanks to the Jesuits, I read Kuhn in college. The one example of a paradigm shift that has stuck with me over the years is the transition from a geocentric to a heliocentric model of the cosmos, the former being associated with Ptolemy, the latter Copernicus. I often reflect on this most famous of paradigm shifts while working on RA matters.

The Copernican Revolution

By the late 16th Century, the Ptolemaic model had been put

back on its heels by the one-two punch of Copernicus’ *De revolutionibus orbium coelestium* (1543) and increasingly precise astronomical observations. The old model’s fundamental problem was that it didn’t provide a satisfactory explanation for why, as any backyard astronomer knows, the planets appear at times to move “backwards” in their orbits. To describe and (unsatisfactorily) explain such “retrograde” motion, early astronomers used the artifice of the planets moving relative to their “fixed” orbits in smaller circles called epicycles.



As astronomical observations improved (thanks to advancements in the fields of optics and timekeeping), more epicycles had to be added to the planets’ orbits. This unwieldiness led to the paradigm shift from the geocentric model to widely acceptance of the heliocentric model, it having become clear that (a) the Ptolemaic model produced mathematical absurdities and (b) the Copernican model

more closely matched actual observations.¹ Which brings us back to California's RA program.

Ahoy! Paradigm Shift Ahead!

California's RA program was developed in response to the dearth of capacity additions in the wake of electric industry deregulation. The program's primary objective is to ensure that load serving entities (LSEs) have enough generation capacity lined up to reliably serve their expected customer loads.

The program started out simple: overall capacity needs were calculated based on a forecast of peak system demand plus a reserve margin, with the resulting RA requirements being allocated to LSEs based on their individual load forecasts. That worked (fairly) well, at least while there was an abundance of dispatchable, gas-fired generation available to meet LSEs' RA obligations. But this happy state did not last long.

For, at the same time it was establishing the RA program, the CPUC began to implement statutory mandates aimed at increasing renewables and reducing greenhouse gas emissions. Those mandates and a host of other factors have led to sizable reductions in gas-fired generation capacity over the past 15 years. They have also led to the need to measure resource adequacy at not only the system level but also within "local capacity areas" that are defined

by transmission constraints and other technical considerations.

All of this has led to the need to define and measure the types of capacity that can provide RA benefits with ever increasing precision. That, in turn, has produced a plethora of methodologies that are used to calculate the "qualifying capacity" of different types of resources, with any given methodology being subject to revision or even replacement to (hopefully) produce more accurate and reliable results. It has also created the need for ever more detailed rules that delineate the types of resources, and the amounts thereof, that individual LSEs must procure to satisfy their RA compliance obligations. Put it all together, and the RA program we have today is so complex it makes the workings of the Ptolemaic model, with all its epicycles, seem like child's play.

To further complicate matters, at least from the CPUC's perspective, procurement decisions have become increasingly decentralized as community choice aggregation proliferates in California. Additionally, the advent of clean energy mandates in neighboring states is expected to lead to massive reductions in the amount of out-of-state capacity that is made available to California LSEs. The CPUC faces not just one, but several Herculean tasks in trying to sort things out. This

is evidenced by the thousands of hours (tens of thousands?) expended by staff and stakeholders alike on program reforms such as the creation of a central procurement entity and revisions to the rules governing RA imports.

In short, the conditions are ripe for a paradigm shift in the RA program. As if on cue, the CPUC's scoping order for the current RA rulemaking teed up this whale-sized "issue" for Track 3 of the proceeding (planned to start in July):

Examination of the broader RA capacity structure to address energy attributes and hourly capacity requirements, given the increasing penetration of use-limited resources, greater reliance on preferred resources, rolling off of a significant amount of long-term tolling contracts held by utilities, and material increases in energy and capacity prices experienced in California over the past years.

What that "examination" will produce is anyone's guess. But it should give everyone pause that, unlike a scientific discipline, in which the new paradigm is always better than what it replaces, developing a new resource adequacy framework may involve more art than science.

¹ Copernicus also utilized epicycles in his model, but a more fulsome explanation of how things played out would take too much space.

WIDER WEST COMMITTEE (2WC)

Caitlin Liotiris

Caitlin Liotiris coordinates WPTF's [Wider West Committee \(2WC\)](#), which engages on market, policy, reliability and technical developments in the "wider West," generally outside of California. The 2WC is active in advocating for broader western energy markets, especially the EIM and other regional market expansion opportunities. The 2WC also follows important developments at Peak Reliability and the Western Electricity Coordinating Council. Caitlin has over a decade of experience in energy issues in the West and has spent most of those years actively engaged on market development efforts across the Western Interconnection footprint, including a major role in developing the policies for implementing the EIM. She is skilled in understanding and distilling the interaction of energy policy and energy market dynamics. In addition to her work with WPTF, Caitlin has worked on various energy policy and market related issues throughout the country. Caitlin is currently a member of Peak Reliability's Member Advisory Committee (MAC) and has also co-authored various reports exploring the benefits of proposed transmission facilities in the West.

As the Energy Imbalance Market Grows and an Extended Day-Ahead Market is Considered, is it Time for a Fresh Look at Transmission?

Today, the Energy Imbalance Market (EIM) covers more than 55% of load in the Western Interconnection. The EIM will cover more than 80% of the load in the West in 2022, when all the utilities that have announced an intention to join are operational. In short, the EIM is slated to cover nearly the entire footprint of the Western Interconnection within the next two years. And, at the request of EIM Entities, the California Independent System Operator (CAISO) is exploring ways to build on the EIM framework to create an Extended Day-Ahead Market (EDAM), which could encompass much of the EIM footprint but would feature additional components including optimized day-ahead unit commitment and dispatch.

The rapid expansion of the EIM footprint is an impressive feat and positive news for market development efforts in our region. The growth of the EIM, with more diverse participating utilities (including public power), has begun to illustrate some design features that have the potential to become increasingly problematic as the market grows. Most notably, several developments have highlighted issues related to EIM transmission provision, transmission requirements for EIM participation, and transmission compensation

within the EIM. In short, the structure of the EIM allows different EIM Entities (depending on their tariff and jurisdictional status) to implement EIM transmission provisions differently. And as the EIM grows and becomes more diverse (both in geographic scope and in the type of market participant), it is increasingly possible there could be market efficiency impacts that result from divergent transmission practices of the EIM Entities.

This article touches on two instances where we have seen the potential for divergent transmission practices within the EIM. The first addresses EIM Transfers, which is the transmission capacity used to allow the transfer of EIM energy between different EIM Entity areas. The second addresses transmission-related requirements for generators that want to participate in and be by dispatched by the EIM.

EIM Transfers are the transmission rights that are utilized to allow EIM energy to flow between participating Balancing Authority Areas (BAAs). Generally, EIM Entities "donate" any transmission that is leftover in the hour-ahead timeframe to the EIM and, additionally, transmission customers can choose to donate their transmission rights to the EIM. This transmission is made available for EIM Transfers, free of charge, consistent with the "reciprocity" transmission framework on which the EIM is currently built. The Bonneville Power Administration (BPA) is moving forward with EIM implementation, but is planning to do so using a

more limited method of making transmission available for EIM Transfers, essentially only using the latter (customer donation method) discussed above. For a number of reasons that won't be expanded on here, BPA feels this is necessary to protect its transmission customers and allow it to move forward with EIM implementation. But some EIM Entities have concerns that this approach may limit the amount of transmission available to the EIM, impacting the market's efficiency and fairness. [NV Energy](#) and [PacifiCorp](#) filed comments highlighting their concerns. These entities appear interested in ensuring consistency across the market and in CAISO further exploring transmission compensation mechanisms that might compensate BPA (or other EIM Entities) for making transmission available to the EIM that is ultimately used by others. Throughout the exchanges in this proceeding, it has become clear that market participants are beginning to recognize the need to reconsider transmission compensation and potentially reevaluate the current transmission framework in the EIM. The need for this exploration becomes even more important if EDAM is implemented and the market covers substantially more transactions than what are currently covered by the EIM.

The need to consider and harmonize transmission related EIM issues is not limited to the EIM Transfers. One other area

for exploration may be the transmission requirements for resources that want to participate in the EIM. Currently, in Federal Energy Commission (FERC) - jurisdictional EIM Entity areas, resources that want to participate in (and be dispatched by) the EIM are not required to pay a transmission rate for the dispatch associated with their EIM Participation. This approach was mandated by FERC during the formation of the EIM, when the Commission struck down a proposal from PacifiCorp to charge a transmission price for EIM dispatch, calling the proposal inconsistent with the "reciprocity" transmission framework of the EIM. Since that time, FERC-jurisdictional EIM Entities have not been permitted to charge transmission rates for EIM dispatch instructions for resources that are participating in the EIM. But, as non-FERC jurisdictional entities join the EIM, there are some questions about whether that paradigm will remain consistent across the entire EIM footprint.

For instance, some of BPA's customers have suggested that, in order to protect BPA's transmission revenues/rates, any EIM Dispatch should be required to pay the costs of a transmission reservation. This is contrary to the "reciprocity" transmission agreement and at odds with the way the EIM is implemented across the FERC-jurisdictional EIM footprint. BPA appears to recognize this disparate approach would result in inefficiencies in the EIM dispatch

solution, effective "seams" within the EIM, unequal treatment of resources across EIM Entity footprints, and inequitable cost sharing across the EIM. Thus, at the moment, BPA does not appear to be leaning towards the approach of charging an incremental rate for EIM Dispatch. But, the EIM is currently governed by a mix of tariff provisions in the CAISO tariff and many within individual EIM Entities tariffs, which means that disparate policies, on critical issues like transmission charges, are possible. And the possibility for disparate policies increases as the number of EIM Entities grows and its membership becomes more diverse. The effects of different policies on market efficiency would be magnified if the market moves from just real time transactions (the EIM) to including day-ahead transactions (EDAM).

With the potential implementation of EDAM, the time seems right to explore implementation of consistent transmission provision, compensation, and other requirements for the full EIM (and eventually EDAM) footprint. When these issues are explored, the EIM (or EDAM) should ensure consistent and comparable policies are implemented across the full market footprint. While this type of consistent policy likely requires moving various market provisions out of EIM Entity tariffs and into the CAISO tariff, in the meantime the 2WC is actively working within the BPA EIM implementation process (and others) to advocate for practices and approaches that are consistent with the rest of the EIM footprint.

CALIFORNIA INDEPENDENT SYSTEM OPERATOR (CAISO) COMMITTEE

Carrie Bentley

Carrie Bentley is the co-founder and CEO of Gridwell Consulting and has over a decade experience in the energy industry across the ISO/RTO markets. Ms. Bentley currently provides analysis and strategic support on “all things California ISO,” including transmission, interconnection, capacity, storage assets, and the energy markets. Prior to becoming a consultant, Ms. Bentley most recently had been acting as a lead market design and regulatory policy developer at the CAISO, leading design and stakeholder initiatives in critical areas such as flexible ramping, resource adequacy, and renewable integration. Prior to the CAISO, Ms. Bentley was a consultant for GDS Associates, an engineering and economics consulting firm where she specialized in power supply contracting, natural gas hedging, and energy market design for a large range of clients in ERCOT, PJM, MISO, and SPP.

CAISO Leadership Changes

On the heels of the [January leadership changes](#), the CAISO has [announced](#) that CEO Steve Berberich will retire early this summer. Mr. Berberich has a lot to be proud of from his 9-year tenure as CEO – creation of the Energy Imbalance Market (EIM), deploying reliability coordination services, and his role in driving California’s transition to low-carbon electricity.

CAISO Policies in the Spotlight and Others That Should Be

If one were to identify the top CAISO policies today by looking at those that receive significant stakeholder comments or solicit engaging discussions during meetings, they would likely identify the Day-ahead Market Enhancements and EDAM policy processes. While those are (and should be) on the top of most participants’ lists of policies to follow, there are some others that are lurking in the shadows but are deserving of being in the spotlight. For this Quarterly report, we focus on the EDAM as well as shine a light on some policy efforts with lower profiles.

Extended Day-ahead Market

The CAISO has kicked off its engagement with stakeholders to start developing an EDAM design. The CAISO has grouped the various topics (listed below) that need to be addressed into three bundles and wants to reach a solid proposal for each bundle before moving to the next.

- Bundle #1: Resource Sufficiency Evaluation, Transmission Provision, and Congestion Revenue
- Bundle #2: Greenhouse Gas Costs, Ancillary Services, Full Network Model, and Administrative Fees
- Bundle #3: Price Formation, Convergence Bidding, External Resource Participation, Market Power Mitigation, and other identified issues

The Bundle #1 workshop was February 11-12. While upon initial glance it appears the EIM entities and CAISO are somewhat aligned, there are clearly several contentious issues that will need to be vetted. I don’t think this comes as a big surprise. The CAISO is essentially having to come up with a market design that fits within and alongside the existing day-ahead and real time markets, including the EIM, and the larger bilateral and western markets. Seams issues will likely pop up in every discussion – ensuring that each market design element does not adversely impact or create unintended incentives with the other existing markets.

Now for some details on Bundle #1. Everyone agrees that some type of resource sufficiency test is needed to ensure each EIM entity brings to the table its fair share of resources. However, the vision and complexity of what that test looks like is where a balancing act will be required.

Regarding transmission, the EIM entities have come up with an idea to group transmission into three buckets; the first bucket can be thought of as required transmission capacity, the second is voluntary capacity with the costs already being recovered elsewhere, and the third is additional voluntary capacity for which the EIM entity would need to recover the costs via the market. The concept of using hurdle rates in the market for this third bucket of transmission capacity was introduced. Exactly how those rates will be set and what, if any, type of standardization would be applied has yet to be vetted in detail. We anticipate that will be a lively discussion. And lastly – who owns the rights to the congestion costs collected by the CAISO? Let’s just say this topic was at the end of a two-day workshop (maybe strategically?) and is deserving of much more air-time. Stay tuned and keep an eye out for the first Bundle #1 proposal expected late March.

WPTF believes that this bundle should also include discussions on the Day-Ahead Market Enhancements. The proposal (discussed in the last Quarterly report) is not currently well connected with EDAM needs. There are many options to prevent leaning between BAAs and the CAISO has thus far focused only on one, very limited, market design.

Now to shine the light on two more efforts

For those that may have missed it, WPTF protested the CAISO’s Generation Deliverability proposal as it would restrict the ability for all resources to have access to the same bidding features in the CAISO market – specifically, self-scheduling. This obviously did not go over very well with the CAISO. The Federal Energy Regulatory Commission (FERC) seemed to pick up on the issue, however, as its Deficiency Letter included very detailed questions along the lines of WPTF’s arguments. On March 11th, the CAISO held a call to discuss the deficiency letter. While most of the discussion surrounded the one-time allocation of deliverability, the CAISO plans to clarify to FERC that the self-scheduling piece of the proposal is severable from the rest—essentially giving FERC an easy out to reject the self-scheduling piece while still approving the rest of the policy. Fingers crossed!

Commitment Costs and Default Energy Bids Enhancements (CCDEBE), a policy that was approved by the CAISO Board two years ago, has yet to be implemented. Sometimes I wonder if there is a shelf-life for these policies. The CAISO phased the implementation of this policy and was hoping to implement the first piece this spring. That piece

would allow suppliers to update the fuel costs used by the CAISO to cap commitment cost bids and calculate the default energy bids. However, FERC rejected the CCDEBE-related pieces of the filing and, despite efforts to push back, the CAISO is now having to justify its existing tariff that allows commitment costs to be bid up to 125% of the CAISO’s calculated cost. At this point, the CAISO plans to file at FERC reducing the current 125% bid cap for commitment costs down to 110% and still seek approval for suppliers to update fuel costs. While we see the benefit of allowing fuel costs to be updated, reducing the bid cap seems to contradict the overarching policy goal. The goal was to move away from a cost-based market for commitment costs to a paradigm that allowed market-based offers by increasing the bid cap to 300% while applying mitigation when needed. So . . . until Phase 2 is implemented (maybe 2022?) suppliers will only be able to bid up to 110% of the CAISO’s estimate of its commitment costs (assuming FERC approval).

CARBON AND CLEAN ENERGY COMMITTEE

Clare Breidenich

Clare Breidenich coordinates WPTF's [Carbon and Clean Energy Committee](#). Clare has over 18 years' experience on greenhouse gas regulation and policy. In addition to her work with WPTF, Clare has worked on international climate issues with the Environmental Protection Agency, the Department of State, and the United Nations Framework Convention on Climate Change secretariat. She has also served on the Washington State Governor's Climate Action Team and on a National Academy of Science's Committee on monitoring of greenhouse gas emissions.

No New Climate Action out of Short Legislative Sessions in Oregon and Washington

The 2020 legislative sessions in both Oregon and Washington were less than two months, but both had a suite of climate bills up for consideration.

In Oregon, which has a constitutionally mandated quorum for legislative action, Republicans were able to block a vote on a cap-and-trade bill for the second year in a row simply by not showing up in Salem. Although Democrats had a majority in both houses of the legislature last year, they were not confident enough that the bill would pass to attempt to force the Republicans' hand. Ultimately, Democrats agreed to cancel a Senate vote in order to get the Republicans back to pass other legislative priorities.

This year things played out a little differently. Working closely with staff from the Carbon Policy Office, Democrats made substantive changes to this year's version of the cap-and-trade bill to address concerns of the program impacts on the natural gas sector, particularly for energy-intensive, trade-exposed (EITE) natural gas users, and on rural area from increases in transportation fuel costs. These changes moved the point of regulation upstream to gas utilities, provided an allowance allocation for EITE gas users, and would've phased in the requirements on transportation

fuels in rural areas. Despite industry acknowledgement that these changes were welcomed, they were not enough to mollify Republican legislators, who again walked out during the last week of the session. However, because Democratic legislators were confident that they had sufficient votes to pass the legislation – if only they could get to a vote – this year they did not cave to Republican demands to kill the cap-and-trade bill. Even though there were several high-priority funding bills pending, as well as concerns about the emergent coronavirus, Democrats allowed the session to end without votes on these bills.

In the meantime, Governor Brown has repeatedly threatened to take Executive Action to achieve ambitious GHG reductions in the state if the cap-and-trade bill was not adopted. Immediately after the end of the session, she acted on this threat. First, the 20-member Oregon Emergency Board was convened. This is a special legislation committee authorized to meet when the legislature is not in session to address emergency budget and funding matters. The Board is made up of both Democrats and Republicans but is not subject to the quorum requirements of the House and Senate. The Emergency Board authorized nearly \$25 million in emergency funding for several priorities, including the state's coronavirus response. \$5 million

of this amount was designated for the Department of Environmental Quality (DEQ) to conduct new rule making to reduce state greenhouse (GHG) emissions. The Board also approved the establishment of 10 new DEQ positions for the rule-making and related activities.

The following day, Governor Brown issued a 14-page [Executive Order](#) on climate change. That order tightens the state's GHG reduction goals to 45% below 1990 levels by 2035, and 80% by 2050 (the existing legislative goal is at least 75% below 1990 levels by 2050) and directs state agencies to "exercise any and all authority and discretion" authorized by law to meet these GHG goals. Additionally, the Executive Order directs the DEQ and other agencies to develop and implement specific activities and programs:

- Sector-specific GHG caps for transportation fuels, natural gas, and large industrial polluters,
- Doubling of the GHG targets under the Oregon Cleans Fuels Program (Oregon's equivalent of California's Low Carbon Fuel Standard) and accelerated crediting for vehicle electrification,
- Higher energy efficiency standards for new construction and appliances,

- Assessment of, and development of, a plan to address infrastructure needs for electric vehicles in the state, and
- Prioritization of Public Utility Commission proceedings and activities to decarbonize the electricity sector.

Governor Brown has set an ambitious schedule for these actions. Agencies have been directed to prepare and submit initial proposals in these areas by May 15, 2020 and will likely initiate rule-making soon thereafter. Although the Governor's office believes that the state has existing statutory authority to undertake these measures, Republicans and Industry representatives are, not surprisingly, skeptical. It is likely we will see legal challenges to both the Executive Order activities and the Emergency Board funding. Even if these legal challenges are ultimately successful, they will take some time to play out. In the meantime, the Governor and Democrats in the legislature will keep trying to pass the cap-and-trade legislation with the hope that industry opposition to the Executive Order measures will sway support toward cap and trade.

Washington also tried to pass new GHG legislation this year on top of the Clean Energy Transformation Act passed for the electric sector last year. These

included separate bills to create a cap-and-trade program and a Low Carbon Fuel Standard, as well as a bill to tighten the state's GHG goals. Additionally, in response to a Washington Supreme Court ruling in January that invalidated the state's Clean Air Rule for application to indirect GHG emission sources (e.g. natural gas and transportation fuels), the legislature introduced legislation that would give the state's Department of Ecology authorization to regulate these sources. Like Oregon, Washington also has a Democratic majority in both legislative houses, but the session ended without adoption of any of the bills. All will likely be reintroduced for the 2021 session.

CALIFORNIA LEGISLATIVE COMMITTEE

Jesus Arredondo

WPTF Legislative Committee

consultant is Jesus Arredondo.

Jesus is the principal and founder of Advantage Government Consulting LLC and has over 19 years of experience in media and government relations, including concentrated experience in energy policy. Prior to launching Advantage Consulting, Jesus worked as a senior advisor for two major public relations firms in the United States and Mexico. Jesus also served as a policy advisor to a major California transmission project, principal advisor on an education effort in California concerning natural gas and on a national education campaign concerning the FERC's push for standard market design. Before launching Advantage Consulting, Jesus was a bilingual spokesman for two California governors and served five years as director of regulatory and government affairs for a fortune 250 independent power producer and two years at the California Power Exchange, where he served as director of corporate communications.

COVID-19 is Shutting-Down Businesses and Government-Essential Energy Employees Can Still Go to Work

California's Governor Gavin Newsom issued an Executive Order that calls on the State's nearly 40 million residents to stay home, making it the first State to impose that strict mandate on all residents to counteract the outbreak of COVID-19.

The order that took effect immediately and remains in place "until further notice" builds on work already underway by a number of State agencies that are actively responding to the declared pandemic.

As the signing of the order, Californians are not allowed to leave home except for essential purposes. They may purchase groceries, prescriptions and health care, as well as commute to jobs deemed essential. For the energy industry, this means that your facilities in the state may continue to operate and your employees are allowed to continue to show up to work.

Just prior to the issuance of the order, Democratic leaders in Sacramento had said that work was to remain unchanged, the Capitol was open for business. While both the Senate Pro Tem Toni Atkins said the Senate would continue to follow the public health guidelines, the Senate was not planning to make any scheduling changes. Assembly Speaker

Anthony Rendon effectively reiterated that the Assembly was following guidelines.

All of that abruptly changed on the afternoon of March 19, 2020.

As for the work of the Legislature on energy matters, the WPTF Legislative Committee is tracking just over 140 energy-related bills in the current session. Staff has said they will continue to do work from home, but clearly no hearings will be taking place.

And the energy agencies? As of this article, the energy agencies will adhere to the Newsom order. At the CAISO, they had previously announced that they had canceled all tours of the facility through March. CAISO is also restricting in-person meetings in its offices and off-site venues. Instead, CAISO is calling for teleconferences and webinars whenever possible.

Once public health officials state the spread of the Coronavirus is under control, will things return towards normal? We hope it comes sooner than later, but for now, be prepared for more electronic communication rather than in-person interaction.

PG&E Reaches Deal with Governor Newsom to Emerge from Bankruptcy – Plan to Cost \$58 Billion

PG&E this month told the CPUC that its plan to exit bankruptcy and pay victims of fires caused by its power lines would cost \$57.65 billion. The exit plan would be

funded partly by PG&E raising more than \$44 billion in new financing. Since State law (AB 1054) requires PG&E to resolve its bankruptcy without raising rates, most of the financing, about \$28.5 billion, would come through new debt held at the company and subsidiary. The debt and equity raise could be a historic effort of its own.

During this week’s CPUC Evidentiary Hearings in PG&E’s Bankruptcy Proceeding PG&E’s chief financial officer, Jason Wells told the Commission: “This ... will be the largest capital raise in the utility industry and one of the largest in corporate history.”

Agreeing to Governor Newsom’s Terms

Critical to emerging from bankruptcy is securing the support of California Governor Gavin Newsom. On Friday, March 20th, PG&E announced that they had reached a deal with Newsom and would emerge from its Chapter 11 case before the State’s June 30 deadline.

As part of the deal, PG&E agreed to not pay dividends to investors for the next three years, along with committing to use \$7.6 billion of shareholder assets to repay or refinance the utility’s debt. These moves will result in \$1.4 billion of savings to customers. One of Newsom’s conditions for PG&E’s bankruptcy exit was that it have a neutral financial impact on ratepayers.

PG&E also agreed to “a complete overhaul of its board selection process,” and will agree to a step-up enforcement process at the CPUC for any future violations, along with appointing a chief transition officer and allowing the state to select an operational observer for safety.

Most significantly, if the reorganized PG&E is “unable to succeed” after it emerges from Chapter 11 protection, according to Newsom’s office, the utility would be sold. That differs from Newsom’s previous threat to have the state take over the company.

Is the plan a done deal? No – the five CPUC commissioners must still vote on a decision, but they will likely vote in favor, now that Newsom is on board.

In addition to the idea of a group of mayors who would like to break up the company and turn it into a muni, there is SB 917 which seeks to create a structure by which the State could take over PG&E by eminent domain. Both of these now seem highly unlikely.

While we are very early in the session, there are at least 20 bills that touch on the matters of wildfires and specifically Public Safety Power Shutoffs (PSPS) and the costs associated with those events. Both the Senate and the Assembly have expressed significant concern with the impacts of the PSPS and through legislation, will seek to limit them to some degree.

There will likely be many other ideas in the coming month that we will monitor closely, and the impacts of the potential next wildfire, will continue to be a top priority in this legislative session.

MEXICO COMMITTEE

Rajan Vig

The WPTF [Mexico Committee](#)

Consultant is Rajan Vig. Rajan started his career in strategy consulting with FTSE 100 companies, working at WPP Group in London before working at private equity firm, Hamilton Bradshaw, where he began his consulting focus on commodities. He moved to Houston in 2014 to found an energy human capital consultancy within Sir Peter Ogden's portfolio, where he oversaw the build-out of commercial energy businesses across oil, gas and renewables into emerging markets across the Americas, specifically Mexico and the Southern Cone. Most recently, Rajan started and ran BioUrja Trading's office in Mexico City, managing the company's implementation across trading and origination in Mexico across fuels, gas and electricity. Rajan has a BA (Hons) in Modern Languages (Spanish & Italian with Portuguese) from the University of Manchester and an MSc in Latin American Studies (Economics & Politics) from Oxford University.

Private Power Auctions

The deregulation of the wholesale electricity market in Mexico (MEM) has been a long, drawn-out process, made even more taxing in the past year with the introduction of the MORENA government. As market participants look for alternative ways to build private enterprise, two specific entities have been pushing forth with power trading auctions, with unique selling points and with the ambition to catalyze a dormant market.

The two aforementioned companies are Vitol, the largest private trading house in the world, and Bravos Energía, a Mexico-based power consulting firm. Bravos Energía is headed up by Jeff Pavlovic, a highly experienced individual who worked for many years at SENER (Secretary of Energy).

The impetus for both these auctions came last year when the government made it clear it was not advocating government-backed power auctions. Both auctions seek to add liquidity to the market and garner interest in the power arena, as well as having a possible positive effect on infrastructure development. Bidding has been completed in both auction forums, though results are forthcoming.

New CRE Commissioners

At the start of March, the Senate plenary session elected Hermilo Ceja Lucas and Guadalupe Escalante Benítez to occupy the two vacant commissioner positions

within the governing body of the Energy Regulatory Commission (CRE). This is the second time that Escalante Benítez will hold a position within the plenary of the regulatory body. In April of last year, she was elected by the legislature to replace Montserrat Ramiro, who resigned from the position last January, and whose term ended in December 2019.

Escalante Benítez was elected with 91 votes. A second vote was necessary for her election, since she did not obtain the qualified majority in the first round. Her only competition for the position was Alfonso López Alvarado, Head of Petroleum Contracts in the Hydrocarbons Under-secretariat of the Energy Secretariat. Víctor David Palacios Gutiérrez was also nominated to this shortlist by President López Obrador, but he never showed up, automatically disqualifying him from the selection process.

The two elected commissioners join a list of CRE commissioners who have previously worked at Petróleos Mexicanos (Pemex) or at the Federal Electricity Commission (CFE).

Escalante Benítez, a chemical engineer from the National Polytechnic Institute, worked at Pemex as a collaborator in the management of the petrochemical operation and production superintendent in the production unit of the Pemex Petrochemical operations sub-directorate. Last year, Escalante Benítez's appearance caused controversy because she was unable to clearly answer what the Energy Regulatory Commission is.

Ceja Lucas, who will occupy the position vacated by Guillermo Pineda last April, was elected with 112 out of a possible 120 votes. The new civil servant was elected over Rogelio de Jesús García Castañeda and Enrique Meingüer Velásquez. He graduated as an electrical engineer and joined CFE from 1982 to 2015 where he held positions as distribution coordinator and distribution planning manager. He was also a consultant to CRE between 2015 and 2016.

Pemex 2019 Losses

In late February, Mexico's state oil company Pemex reported losses of 346 billion pesos (US \$18.3 billion) for 2019, a 92 percent increase over last year's deficit. Pemex said the results were due to the burden of US \$105 billion in debt, a drop in crude sales and an increase in tax payments. The loss included almost 170 billion pesos in the fourth quarter of 2019.

Total sales dropped 16 percent in 2019 compared to the previous year, with the fourth quarter registering a 22 percent fall. Pemex said its debt fell 4.8 percent compared to 2018 "mostly because of the early repayment of debt that formed part of the debt management operation of September 2019."

The company needs an investment boost to reverse a trend in reduced production, currently at 1.6 million barrels a day, down from 3.4 million barrels a day in 2004. With the onset of coronavirus now affecting

global crude prices and local production as well as the peso devaluating, these are testing times for Mexico's NOC.

The left-wing government of President Andres Manuel López Obrador has already invested US \$10 billion in Pemex in a bid to prop up the finances of a company considered essential to his "Fourth Transformation" bid and manifest promise to the Mexican masses.

Public – Private Investments

On March 3rd, a list containing the energy infrastructure projects that would be open to private investment was submitted to President López Obrador, according to the Head of SENER, Rocio Nahle. She explained that the list only includes projects deemed necessary, and specifies which of those projects can be completed with state funds as opposed to requiring private sector involvement. According to Nahle, the energy ministry at SENER has been working on drafting the list alongside state-run energy companies CFE and Pemex, energy regulator CRE, power market operator CENACE and Alfonso Romo, the President's Chief of Staff.

The presentation of the energy infrastructure plan was scheduled for the end of February, after being postponed a couple of times. The document is the energy chapter of a larger infrastructure plan released in December that was drafted in collaboration with the private sector. The chapter was said to

have been pulled at the last minute due to conflicting visions between Alfonso Romo and private sector groups and the heads of SENER, Pemex and CFE.

According to the document to which the agency would have access, the companies that are forming the project package are Shell, IEnova, Total, Engie and Enel, together with the Business Coordinating Council (CCE) under the presidency of Carlos Salazar Lomelí.