WPTF
Western Power Trading Forum

QUARTERLY REPORT

December 2018

Racing to Year's End

I'll let you in on a little secret about regulators (having been one myself): They like to try and issue significant orders just before holidays. Often, it is done in the hopes that it will escape notice for a while. Sometimes the staff of commissions likes to do it as a way to get the commissioners to issue an order to clean the table of outstanding business. So, it should be no surprise that the Federal Energy Regulatory Commission (FERC) issued an order denying the La Paloma complaint regarding the resource adequacy (RA) market in California. It came out the week before Thanksgiving.

In what almost seemed like a coordinated strike, the California Public Utilities Commission (CPUC) Administrative Law Judges issued a Proposed Decision on RA that favored a "centralized" procurement for local RA. But hey, it allows CPUC to live in the fiction that RA is in its jurisdiction, not FERC's. FERC, for its part, wants CPUC to believe it has jurisdiction so that no one gets upset. Profiles in courage? Not.

Speaking of RA, we have a new RA Committee that has been formed with Gregg Klatt as Chair. Gregg is a partner with Dan Douglass, and offers this service as a way to cover RA matters before the CPUC and provide predictability in budgeting, as do our other committees. The RA Committee is up and running, and you can expect regular reports beginning in the next Quarterly Report. If you have any questions about the committee, contact Gregg at klatt@energyattorney.com.

The California Independent System Operator (CAISO) continues to tinker with the capacity procurement mechanism (CPM) and reliability must run (RMR). It is also working on "enhanced day-ahead" products for California, ultimately to roll out to the Energy Imbalance Market (EIM). Carrie will fill you in on these initiatives; pay attention going forward.

Washington and Oregon are moving ahead on carbon issues, so the legislative sessions in both states also bear watching. California soon will have new voices on electricity matters with a new Governor and Legislature, which are sure to propose new policies that will affect our industry.

Things are brewing in the West outside of California, with ballot initiatives in Arizona and Nevada and the possibility of other changes in Colorado and elsewhere. Why should California have all the fun?

Hang on folks, the remainder of the year could be full of more surprises before we get fully into the holiday season. In the meantime, best wishes to you all.

Scott Miller

Contents

Save the Date

2019 Winter General Meeting
February 21-22
The Grand Del Mar
San Diego, California

Check the WPTF website for all the details

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.*

2018 Fires Shaping the Next Legislative Session

At the end of the last legislative session, Governor Brown and the legislative leadership struggled to deal with the devastating 2017 fire season. The session ended with approval of a controversial bill, Senate Bill (SB) 901, which secuaritized the investor-owned utilities (IOUs) from the 2017 fires. That bill goes into effect on January 1. When the Joint Legislative Conference Committee sent SB 901 to the full Legislature for a vote, no one expected a repeat of the debate, but that's exactly what is likely to happen. We now know that the 2018 fire season could be just as, if not more, impactful than the 2017 season.

- As of November 23, 6,154 fires have burned nearly 1,670,000 acres.
- The Camp Fire in Butte County was the deadliest wildfire anywhere in the U.S. in 100 years.
- With several hundred still considered missing, 88 souls are counted as having perished as a result of the Camp Fire. In Southern California, the Woolsey Fire claimed three lives.
- PG&E, already facing billions in potential liability for the 2017 wildfires, is under scrutiny by the CPUC for possibly causing the Camp Fire.
- The Thomas and Tubbs Fires from 2017 continue to be investigated.
- The annual fire-fund budget is $442.8 million for 2018.
- CAL FIRE anticipates that the 2018 fire season costs could exceed $1 billion.

So, once again, the Legislature is anticipating a robust and critical debate on how the utilities in those areas worked or didn't work to prevent those fires. Senator Hill, who represents the San Bruno area in the Bay Area and who has been a constant critic of both the CPUC and PG&E, told the press that he intends to introduce legislation to possibly break up PG&E if it is found at fault for the Camp Fire. Meanwhile, CPUC President Picker said that no one wants to see the IOUs in bankruptcy, and the Chair of the Assembly Utilities Committee, Assemblyman Holden, said that the Legislature will work on legislation to address the 2018 fires.

Governor-elect Newsom will jump into the debate immediately, as he will have appointments to the SB 901 Blue Ribbon Task Force that will provide guidance to the Legislature on what else can be done to prevent wildfires. The task force will be made up of three gubernatorial appointees, one member of the Senate, and one member of the Assembly. Newsom wants this group appointed by February.

We expect to see more fire legislation, not only as it relates to the Blue Ribbon Task Force, but also to address the financial implications of the 2018 fires. Although SCE is not seeking to reopen inverse condemnation, PG&E has told Brown and Newsom that inverse condemnation must be part of the discussion in the next legislative year. It has warned that the utility may be underinsured, and that this could be a huge credit risk problem.

The Legislature returns to work on January 7, when Newsom will be sworn in. We will not be surprised if one of the first acts of Governor Newsom is to call a special session of the Legislature on the wildfires of 2018. Ordinarily, bills can't be acted on by committees or the floors until after the language has been in print for 31 days. With a February 22 bill introduction deadline, this delay means that the real legislative work with policy committees can't begin until March or April. We may see a repeat of the Joint Legislative Conference Committee on fires from last year, given the complexity and politically charged nature of the matter.

Governor Newsom, who will govern with a supermajority of Democrats in both houses, is entering his first term with a budget surplus, but with a potential financial problem brewing with California's largest utility. The last time this happened, the scenario did not play out well for Governor Gray Davis. He, too, entered his first term with a budget surplus, a Democratic majority, and a brewing energy crisis, with PG&E teetering on bankruptcy.

Governor-Elect Newsom Appointments on the Horizon

As with all changes in administrations, new appointments are expected. For the first time since the 1800s, a Democrat is succeeding a Democrat in the Governor's office. Newsom has stated only that he will continue to promote Governor Brown's direction on the environment and energy policy. Notwithstanding, we expect changes at the energy agencies, and have more questions than answers:

- Governor's Office: Who will Newsom appoint as his energy advisor?
- California Energy Commission (CEC): Will Chair Weisenmiller stay as Chair? Will we see new commissioners named?
- CPUC: Will President Picker remain? Commissioner Peterman has already indicated she does not wish to be reappointed, so we will see at least one new member.
- CAISO: A search is already underway to recommend at least two new board members.
- Division of Oil, Gas, and Geothermal Resources: With a push to eventually end petroleum extractions, will Newsom appoint hardliners to this agency?
- California Air Resources Board: Mary Nichols is perhaps the only one who is certain to remain in her current place. At least, that's the "good rumor."

Possible Legislative Policy Issues for 2019

Several energy policy issues were left on the cutting floor at the end of the 2018 session. With a Democratic supermajority, what might come back in 2019, other than fire liability for the IOUs? Keep in mind that SB 100 was approved in 2018, so the Renewable Portfolio Standard (RPS) target is moving from 50% to 60%. It's possible we could see tweaks to the RPS. And, in part because of the new target, the following failed initiatives from 2018 could resurface:

- The conversion of the CAISO into a West-wide RTO: The Senate President said at the end of the session that this would be back in 2019; Assembly Energy Chair staff is already talking about bringing the idea back in the coming session.
- Closure of some, if not most, natural gas-fueled facilities: This time the interest is spurred by a Union of Concerned Scientists report, claiming that 28 California plants could be closed without harm to reliability. This adds to the pressure on all of the aging once-through cooled facilities that also are likely to close, and to ongoing pressure to close SoCal Gas's Aliso Canyon natural gas storage facility. CEC is working on a study that will explore closing Aliso Canyon in the next 10 years.
- A CAISO requirement to procure energy storage projects, particularly from pumped storage: This idea was heavily lobbied in 2017.
- Mandated procurement of geothermal generation: Geothermal interests and Salton Sea proponents pushed this very hard in 2018, and it's likely to come back in 2019, as Labor is looking to secure jobs for its membership.
- Procurement of 2,000 MW of battery storage systems, in addition to the existing IOU mandates: Will the mandates be expanded to memoranda of understanding?

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 Fire Resiliency and the Annual Plan

As a born and raised Californian I vividly remember the Bay Area earthquake in 1989. It seemed like nothing could be as devastating to an area as that earthquake. I remember the street in front of me rolling like a giant snake was underneath the concrete, and caras rising in the air before smashing back down. Overall, that earthquake killed 67 people and caused more than $5 billion ain damages. The wildfires that have encompassed our state for the last four years are far worse, and the Camp Fire has been the worst of these. At the time of writing, the Camp Fire has killed at least 83 people and expected to top $20 billion in damages to the state, insurers, and homeowners. The total damage—including impacts from the smoke that gave Northern California the worst air quality in the world—will be much, much greater. The Woolsey Fire will add to these damages; these fires combined burned over 250,000 acres this month, an incredible amount of land.

But as the fires have become contained and rain finally arrives, it occurs to me that the CAISO seems to have had no trouble keeping the lights on. I confirmed this with several members of the CAISO staff. Essentially, while there were increased levels of manual intervention by operators, the market operated pretty much as usual. The exact additional cost to ratepayers to keep the lights on during the fires will likely go unrecorded. After the last wildfire, the WPTF CAISO Committee requested that CAISO add a new Exceptional Dispatch (manual generation dispatch) code to indicate when CAISO intervenes due to a fire. Although CAISO seemed agreeable to this request, it is unlikely the staff already have the dispatch code in place. This is a shame, because as the state considers the total cost from fires, the additional costs to run the electric grid should be in there too.

Aside from potentially adding an Exceptional Dispatch code, CAISO doesn't seem to have any plans (or any need) to address the "new normal" of extreme wildfires through new policy or procedures. It is reassuring that the electric grid and energy markets in California are so resilient. The WPTF CAISO Committee will ask for a public discussion on the impacts from the fires at the December 11 Market Performance and Planning Forum meeting.[1]

CAISO posted its 2019 Three-Year Policy Road Map and Annual Plan, and it has other priorities. The three-year roadmap notes the following main drivers (page 5):

- Operational challenges pointing to day-ahead market enhancements that will help manage net load in real time

- Continued improvements to EIM to meet the needs of an expanding market
- Extension of day-ahead market enhancements to EIM balancing areas to provide regional benefits
- Increasing risk of retirement, leading to increase in backstop, driving need to reform the resource adequacy (RA) program
- Lower barriers to distributed energy resources (DER) and storage market participation

The plan itself is ambitious, with CAISO taking on major reforms to both the energy markets and RA rules. In addition to RA enhancements and the plan to enhance and extend the day-ahead market, CAISO has created several new initiatives that will overlap the creation of a day-ahead fifteen-minute market. These include initiatives to redo the market settlement timeline ("Market Settlement Timeline Transformation" initiative) and create new energy market deliverable capacity products ("Day-ahead Flexible Ramping Product" initiative).

CAISO also plans to perform an analysis for system market competitiveness within the balancing area. Currently, CAISO performs only local market power mitigation checks, but because more gas resources have been retiring, the Department of Market Monitoring (DMM) has grown concerned about system market power. This concern was described on page 251 of their [2017 annual report.](#) They make several recommendations, including to:

- set local and system RA requirements sufficiently high,
- reexamine RA provisions relating to imports,
- eliminate exemptions to must-offer obligations for resources procured to satisfy RA requirements or through CAISO backstop capacity procurement (RMR and CPM),
- strengthen the penalties and the enforcement of the penalties for must-offer obligations, and
- carefully track and seek to limit out-of-market purchases of imports at above-market prices, which can encourage economic and physical withholding of available imports.

These recommendations cross over many topics, and we expect that they will be included across multiple policy initiative proposals in 2019. One of the main challenges we expect DMM to face will be to get its recommendations into the RA rules. At this point, CAISO (and the Federal Energy Regulatory Commission [FERC]) appears to have ceded primary authority of the program to the California Public Utilities Commission (CPUC). The roadmap lists CAISO's priorities for the CPUC RA tracks, but ultimately it will be up to the CPUC to adopt them. Already, one of the CAISO Annual Plan priorities, "Modify RA showing timeline to enable orderly retirement decisions," has been rejected in the initial Proposed Decision refining the RA program.

Despite the encompassing DMM recommendations and RA goals, we expect CAISO to focus in 2019 on evolving the CAISO markets and extending the day-ahead to EIM. The scope for this stakeholder initiative is large:

- Transmission cost recovery for day-ahead market
- Day-ahead resource sufficiency evaluation and functionality to enable entities to trade capacity for resource sufficiency tests
- Mechanism to distribute congestion revenues and full network model enhancements
- Day-ahead greenhouse gas attribution for states with carbon cost policies
- Last and most importantly, governance to account for larger market scope

Ultimately, it looks like 2019 will be a busy year for the WPTF CAISO Committee, and for its newly created EIM Sub-Group.[2]

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1. Less financially resilient, perhaps, are the utilities, which may ultimately bear these costs. https://www.wptf.org/california-exceptionalism-and-other-tragedies

2. The EIM Sub-Group monitors and advocates on EIM-specific matters that occur outside the CAISO policy initiative framework.

CALIFORNIA PUBLIC UTILITIES COMMISSION (CPUC) COMMITTEE

Dan Douglass

Dan Douglass has directed WPTF's legal efforts since helping to cofound WPTF with Gary Ackerman in 1998. On behalf of WPTF, he has been extremely active at the California Public Utilities Commission and assists Ellen Wolfe, Caitlin Liotiris, and Carrie Bentley with WPTF matters at the Federal Energy Regulatory Commission (FERC).

His firm, Douglass & Liddell, specializes exclusively in energy law issues, providing regulatory and transactional counsel to generators, suppliers, and end-users in the electricity and natural gas markets. This work has included the formation and representation of several influential regulatory advocacy organizations in addition to WPTF.

Prior to Douglass & Liddell, Dan was a partner with the national firm of Arter & Hadden, where he headed the firm's California energy practice; he previously was General Counsel of LG&E Power and President of Cook Inlet Energy Supply. Dan also spent 15 years at Southern California Gas Company and its affiliates and worked on several international and domestic gas supply and storage issues during that time.

CPUC Decision Resolves PCIA Debate—for Now

As reported in the spring WPTF Quarterly Report, CPUC launched Rulemaking 17-06-026 "to Review, Revise, and Consider Alternatives to the Power Charge Indifference Adjustment." Commonly known as the PCIA, it is the mechanism adopted by CPUC to ensure that when electric customers of the IOUs depart from IOU service and receive their electricity from a non-IOU provider, those customers remain responsible for costs previously incurred on their behalf by the IOUs—but only those costs.

The PCIA in place today dates to a statute enacted during the 2001 California energy crisis (AB 1X Stats. 2001 1st Extraordinary Sess., ch. 4.). Without recounting the entire history of the energy crisis, it soon emerged that the Department of Water Resources (DWR) purchases and contracts that were authorized by AB 1X were extremely expensive relative to post crisis electricity costs. As a result, the CPUC noted that DWR had made purchases on behalf of direct access customers who returned to bundled service during the crisis, as well as bundled service customers who later entered into direct access arrangements. The CPUC determined that there would be a significant amount of cost-shifting if energy crisis costs were borne solely by bundled service customers, but direct access customers were not required to pay a portion of these costs, which were supposedly incurred by the state on behalf of all retail end-use customers. The CPUC ordered that "direct access surcharges or exit fees shall be developed [...] so that there is an equitable allocation of the DWR costs and other costs that may be considered, and that direct access customers pay their fair share of DWR costs and non-DWR costs and bundled service customers are indifferent." The CPUC then adopted a "cost responsibility surcharge" methodology intended to incorporate the relevant costs covered by that directive. Over time, that charge morphed into today's PCIA. It is allocated on a "vintaged basis," which basically provides that departing customers remain responsible for their share of contracts entered into up to the year of their departure.

After a week of hearings and voluminous briefing by multiple parties, Administrative Law Judge (ALJ) Stephen Roscow issued his Proposed Decision (PD) on August 1. His PD had the following effects:

- It rejected the Joint IOU proposal for a charge that would have increased the exit fees and complicated compliance by assigning renewable and RA attributes.

- It kept the same structure for PCIA calculation. The ALJ proposed revisions to the Green and Capacity benchmarks, which would be based on actual contract costs, as reported to the CPUC's Energy Division by all load-serving entities, including electric service providers.
- Direct access customers would be able to negotiate a prepayment for future PCIA obligations (i.e., a buyout).
- The PCIA would be capped and floored to ensure that it doesn't go unreasonably high (or low). The PD approved 2.2 cents per kilowatt hour cap and also allows for changes to the cap as situations warrant.
- The CPUC will open a new phase of the proceeding to address IOU over-procurement and various implementation issues.
- The PCIA will be trued-up each year. This will add to volatility, and a load of details need to be worked out as to what exactly being "trued-up" means.
- CCA customers would not be liable for pre-2002 utility-owned generation (UOG). This became a hot button issue, as described below.
- The PD maintained the 10-year limitation of utility cost recovery for certain UOG and storage contracts that the IOUs sought.

After oral argument was held in early August, an alternate PD (APD) was issued by Assigned Commissioner Peterman. Very similar to the ALJ's proposed decision, the chief differences were elimination of the ALJ's proposed protection of CCA customers from costs associated with legacy UOG. This caused the CCA community to mobilize in major opposition to the APD. However, despite the CCAs' all-out effort, the APD of Commissioner Peterman was approved at the CPUC's October 11 meeting.

In her remarks at the CPUC meeting, Peterman explained that her APD found it fair for CCA customers to pay legacy UOG costs. She said she was aware of the concern that her APD would make it more difficult for CCAs to start up or continue operations. However, she examined CCA rate impact claims and found their assumptions flawed. She believes that many PG&E CCA customers could in fact see a rate decrease compared to projections under the old PCIA methodology. She also noted that CCAs retain the flexibility to design and modify their programs. Most CCAs have launched this year, and so have had a chance to evaluate the proposals at play, including the rejected IOU proposal that would have increased costs even more.

Given these considerations, Peterman said she was sorely disappointed by the "misleading and often false" claims about her APD and its effect on California's goals. The PCIA must be about treating all customers fairly and not picking and choosing winners and losers. She concluded by asking her colleagues to support the APD, which they did in a unanimous roll call vote. However, the PCIA saga is by no means over.

First, several applications for rehearing were filed, alleging that elements of the decision violate state law.

Second, the IOUs' November updates in their respective Energy Resource Recovery Account proceedings revealed that each utility was interpreting the decision differently, leading to the PCIA calculation being done differently in each jurisdiction. As expected, this has caused great concern among CCA and direct access interests.

And finally, the new phase 2 in the proceeding is expected to begin shortly, and is likely to be quite meaningful, especially if it leads to new standards for IOU portfolio management.

GREENHOUSE GAS COMMITTEE

Clare Breidenich

Clare Breidenich coordinates WPTF's GHG 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.

State Elections Changed Prospects for Carbon Pricing in Northwest

The recent elections in Washington and Oregon have changed the prospects for climate policy in the West. In Washington, the Carbon Fee Initiative (1631) failed with 57% of state voters opposed, thanks in large part to the more than $31 million dollars spent by Western States Petroleum Association and others to defeat it. After a failed attempt to adopt a carbon tax in the 2018 legislative session, it's doubtful that the legislature will have the appetite to take another run at carbon pricing any time soon, despite having a Democratic majority in both houses. Instead, the Governor' Office and key senators have been quietly consulting with electric utilities and environmental groups on a 100% clean energy mandate, modeled after California's Senate Bill 100. Informally, Washington senators Ranker and Tarleton separately circulated two draft bills for feedback. Both bills would require utilities to eliminate coal-fired electricity for serving state load by 2025 and to serve 100% of load with non-greenhouse-gas-emitting resources by 2045. Both also requires utilities to serve at least 80% of load with non-emitting resources by 2030, and to offset any emissions associated with the remaining 20%. However, the bills differ in what they deem to be acceptable means for offsetting emissions.

Ranker's bill would allow utilities to pay an alternative compliance payment, purchase excess renewable energy credits, or invest in approved "energy transformation" projects. The amount of the alternative compliance payment would be determined jointly by the Utilities and Transportation Commission and the Department of Commerce and would escalate over time. In contrast, Tarleton's bill would allow only for purchase of Renewable Energy Credits or payment of the alternative compliance payment to offset emissions, and sets the cost for the alternative compliance payment at $50 per megawatt hour (MWh). Utility support for either of these bills may depend on legislation to address emissions from other sectors, particularly transportation.

Down in Oregon, Democratic Governor Kate Brown was reelected, and the Democrats now hold a supermajority in both the House and Senate. This greatly improves the prospects for a cap-and-trade program to pass the legislature this coming session. The Governor's office has worked behind the scenes with stakeholders and legislative staff over the summer and early autumn. As a result, we will likely see revised language for the next joint committee meeting in early December.

California Regulatory Changes

The California Air Resources Board (CARB) is moving forward with modifications to the cap-and-trade and mandatory reporting regulations for the post-2020 period, and has just released the second of two amendment packages. The changes of most relevance to electricity stakeholders pertain to cost containment, offsets, accounting for Energy Imbalance Market (EIM) outstanding emissions, and de-linkage from Ontario.

Assembly Bill (AB) 398, adopted last year, requires CARB to modify the program's allowance price containment reserve from a one-tier to a two-tier structure, and to establish a hard price cap above the level of the second tier. CARB's proposed amendments will set the price ceiling relative to the auction reserve price for a given year. The spread between the auction reserve and the price ceiling will be set initially at $65 (putting the ceiling at $76.71 in 2021) and will increase annually by 5% plus inflation. The price ceiling will be populated with a fixed pool of allowances, but if ever depleted, CARB must issue additional allowances to meet covered entity demand. Revenue collected from sale of these price ceiling allowances will be used to seek additional greenhouse gas reductions to maintain the environmental integrity of the cap.

AB 398 also required CARB to reduce the limit on use of offsets, from 8% of an entity's compliance obligation under the current program to 4% in 2021, then increase the limit up to 6% in 2026. Additionally, half of the offsets used by an entity after 2020 must be sourced from projects that provide "direct environmental benefits" (DEBs) by reducing air or water pollution in the state. CARB has proposed a broad interpretation that would automatically deem any offset project physically located within the state as providing DEBs. For projects located outside the state, CARB proposes to review projects on a case-by-case basis. Offsets already issued from existing projects and retired after 2020 will also be subject to the DEBs standard.

CARB's treatment of unaccounted emissions associated with EIM imports to the state continues to be contentious. In the 45-day package, CARB staff proposed to initiate the EIM Purchaser approach, replacing the so-called "bridge solution," in which allowances not sold from auction are retired to cover EIM outstanding emissions. The EIM Purchaser approach would have calculated EIM outstanding emissions for each 5-minute interval, and assigned these to all California entities that purchase from the EIM in that interval. In response to stakeholder concerns that this approach could inappropriately create a new compliance obligation for many entities, including renewable generators, staff modified the proposal in the second regulatory package. CARB now proposes to calculate EIM outstanding emissions across the entire year and to retire an equivalent quantity of allowances from the electricity sector allocation. The allowance will be deducted from the individual accounts of utilities that participate in the CAISO based on each utility's annual share of retail load.

Lastly, following Ontario's abrupt cancellation of its cap-and-trade program this past summer, CARB staff introduced several provisions into the regulation to allow for formal severance of program linkages. These give explicit authority to the Executive Officer to suspend, revoke, or repeal an approved linkage in the event that a linked partner takes an official act to revoke its program, and allows the Executive Officer to freeze transfers of allowances between holding accounts of entities in the linked program and California. Additionally, the changes give authority for reducing the quantity of allowances made available at auction, and to issue or cancel allowances to maintain environmental integrity. The amendments also codify CARB's promise earlier this summer that all Ontario-issued allowances and offsets that are held in accounts of California and Quebec entities remain valid for compliance.

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 county. 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.

Election Results and Their Potential Implications for Western Markets

The 2018 midterm election, which took place on November 6, included several closely watched Western energy-related initiatives, including energy choice in Nevada and Renewable Portfolio Standards (RPSs) in Arizona and Nevada. This article explores the ballot initiatives and other election results that might impact the wider West going forward. Ultimately, the election results were mostly as observers expected, and none of them are expected to have a major impact on Western electricity markets. Instead, the biggest impact on Western energy markets in the coming years will likely come from the election of governors and state legislatures that are seeking to increase renewable energy mandates, which may drive some utilities back into serious discussions about the formation of a Regional Transmission Organization (RTO) or other wholesale market opportunity.

Nevada's energy choice initiative, Question 3, was probably the most closely watched energy-related ballot initiative in the West. Energy choice was rejected, with two-thirds voting against the measure. That's almost the same fraction that voted for the initiative when it was on the ballot in 2016. The reason that Question 3 was voted on twice is because two consecutive affirmative votes are required to pass a constitutional amendment in Nevada. Thus, the 50% RPS that passed in Nevada also will require another approval in 2020 in order to become law. However, with a Democrat holding the governorship in Nevada and the party also controlling the state house and state senate in 2019, it may be that the legislature moves a bill to adopt a 50% RPS in the upcoming session, negating the need for another ballot initiative vote on the matter.

Although 50% RPS moved forward in Nevada, the same proposal tanked in Arizona. Its demise may be, in large part, due to language that was added to the description on the ballot. The language stated that the 50% RPS would be implemented "irrespective of cost to consumers." It's hard for voters to approve something with an unlimited cost cap, especially with significant spending in opposition of the measure by the local utility, Arizona Public Service. Arizona now appears to be exploring a "clean energy standard" through a proceeding at the Arizona Corporation Commission.

Given that none of the "major" energy-related ballot initiatives truly passed into law, they are unlikely to have much of an impact on electric markets in the West. But, election results for governorships and state legislatures may yield more meaningful outcomes.

For instance, New Mexico and Colorado both elected Democratic governors who are interested in increasing the states' renewable energy mandates. Colorado's governor-elect supports a mandate of 100% renewable energy by 2040. And with control of the Colorado house and senate in Democratic hands, such a mandate, or at least a significantly higher RPS than currently exists, could come to pass.

Public Service Company of Colorado (PSCo), the largest utility in Colorado, is integrating substantial amounts of renewable energy, with plans to procure 1,800 megawatts (MW) of incremental renewable generation in the coming years as a result of its latest Request for Proposals (RFP). The levels of renewables on PSCo's system are significant and, at times, can create operational challenges for PSCo. During Mountain West Transmission Group (MWTG) discussions, PSCo seemed to imply that renewable integration benefits were one of the drivers for PSCo to consider participation in an RTO. If PSCo joined an RTO, it would provide greater diversity of renewable resources and easy access to additional resources to respond to system needs.

If higher RPSs are mandated in Colorado in 2019 or 2020, it is possible that the need to integrate additional renewables could cause PSCo to revive previous discussions with regional neighbors on market options. That could include a reinvigoration of the MWTG and potential participation in the Southwest Power Pool (SPP). Or, it could encourage PSCo and other Colorado utilities to evaluate other market options that may be available. Perhaps the allure of an extended day-ahead market (EDAM) from CAISO, and of joining forces with California (another state that has its sights set on 100% clean energy), will cause PSCo to consider exploring CAISO's EDAM or the PJM market option that is still being floated.

New Mexico could be in a similar situation, with a governor who supports a 50% RPS and a Democratic house and senate. These changes, plus the continued exploration of EDAM, may give EDAM even more momentum. While the prospect of better wholesale markets through EDAM is intriguing, Wider West Committee participants know that many details still need to be worked out for EDAM to proceed, not the least of which have to do with transmission compensation and transmission use in the market. There will be significant work to do just to ensure that EDAM actually improves the competitive market structure over what exists today.

Although any movement related to market exploration as a result of increased RPS mandates is likely to be years away, the potential for continued market exploration in the West seems to have increased following this election and, interestingly, it had little to nothing to do with the results of the closely watched ballot initiatives.

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.

Mexico City is striking at all times of day, but sunset is especially stunning. The Day of the Dead, celebrated at the beginning of this month, is connected to the lowest point in the passage of the sun, when it is said that the sun deity visits with ancestors below. According to ancient Maya thought, the zenith and nadir suns define a vertical connection between the upperworld and the underworld.

On November 30, the sun will set for the very last time over the Institutional Revolutionary Party (PRI) and National Action Party (PAN) presidency reign that has lasted over 80 years. As of December 1, the MORENA party will be inaugurated and Andres Manuel López Obrador (AMLO) will take office for the next 6 years.

But has Mexican politics reached its own nadir? MORENA is unproven in Mexico and it arrives in the country at a time when international politics is going through its own discourse that could both ease and complicate matters. It is also important to note that this is the first time in Mexican history that a government is adopting a deregulated energy market, and that carries its own set of complications.

Credit Agency Fears

Credit agencies have reacted negatively to how 2019 might pan out. On October 19, Fitch Ratings downgraded the state oil company Pemex to BBB+ and revised its outlook on debt held by Pemex to "negative" from "stable," based upon Pemex's $77 billion of notes. The retort from the future head of the Energy Secretariat (SENER), Rocio Nahle, was forceful, calling the decision "absurd." She intimated that Pemex needs to spend in order to recover, and she may have a point. Nevertheless, markets respond to predictions, and the international purveyor is arguably less bullish about the development of energy markets under a new administration. Standard and Poor's and Moody's also have downgraded Pemex from "stable" to "negative," citing policy uncertainty.

Midterm Auctions

The midterm auctions for the power market are under review by the Mexican regulators. There are certain changes to the Market Bases ("Bases del Mercado") that would have a grave effect on how the auctions from 2018–2019 could adapt. The most relevant of these would be for the Regulatory Commission of Energy (CRE), rather than SENER, to have ruling authority over the auctions. Changes also give the ISO (i.e., CENACE) authority to change the minimum MW bid volumes and the guarantee amounts for each auction.

Financial Transmission Rights Auctions

CENACE held a forum on November 14, and will hold another on November 27, for registered market participants in its upcoming Financial Transmission Rights auctions. These forums are actually training sessions held at CENACE headquarters, to help marketers refresh their knowledge of market theory as well as take part in some practical discussions.

According to the most recent news on the Financial Transmission Rights auctions, we expect the announcement and publication of the first timeline to be in March 2019, with results anticipated to be issued in the middle of May 2019.

Liquefied Natural Gas

The Energía Costa Azul Liquefied Natural Gas (LNG) terminal project, an IEnova investment, could commit to deliveries as early as 2023. The proposed project is anticipated to expand capacity by 2.5 metric tons per year in Phase 1, and Phase 2 is expected to add another 12 metric tons annually. At the start of November, the Mexican subsidiary of Sempra announced an agreement with Japanese entities (Mitsui and Tokyo Gas) and the French oil and gas group (Total) for the full export capacity of Phase 1 of the Baja California project.

Fighting Corruption

On November 1, thirty days before taking office, AMLO presented his *Presupuesto* (Budget Estimate) for 2019. He spent 27 minutes elaborating on how he wishes to steer the nation fiscally. On the topic of energy, he made himself clear: There will be no increase in taxes and no new ones will be created. He assured the people of Mexico that there will be no *gasolinazos*, (spikes in gasoline prices) and thus prices will only increase due to market inflation. He then rhetorically asked how he will find the budget to not raise prices or costs. His answer: Eliminate corruption.

In 2015, the United Nations released a document called "United Nations Millennium Development Goals." It explained the detrimental effects that corruption has on economic and social development. It stated that there are three key ways to end corruption: focus on education, create a culture of integrity, and demand accountability. These are expansive and generational issues that require a huge overhaul of social and political values. According to Transparency International in 2017, Mexico is ranked 135th among 180 countries listed from least to most corrupt. It is neighbored by failed states and loose democracies such as Venezuela, Haiti, and the Republic of Congo. In other words, the current state of Mexican corruption is on a par with some of the most ruptured and dictator-driven nations in the world. AMLO's lofty idea is to tackle these issues in the first year of his presidency.

To take a step back, during most of its post-revolutionary history (that is, the life of the National Revolutionary Party [PNR], which became the PRI and effectively monopolized all levels of government for 71 years), Mexican politics has been marked by an authoritarian political system. This system was arguably necessary for piecing together a fractured state immediately after the Mexican Revolution. However, the PRI remained at the helm of the political hierarchy for seven decades. As a result, Mexican politics and society has been steeped in hegemony, totalitarianism, and *caciquismo* (local tribal male rule), which have fostered *machismo* (male bravado) and paved the way for corruption. These problems will not dissipate overnight. The nation has come a long way, first with the PAN and now a true consolidation of democracy with the election of the MORENA party. Its future president has highly ambitious plans to defeat corruption and clearly has the support of the people to act. Should he fail, his budgetary plans to not raise taxes may require an overhaul.