QUARTERLY REPORT

June 2021

Summertime, and the livin's easy…

I've always loved this song, by George Gershwin that evoked the kind of summer we all envision. Easy, slow, almost lethargic. My favorite rendition is the one by Ella Fitzgerald which conveys that "languid" quality. The more modern cover by Nina Simone does a pretty good job too but parts become too frantic.

But this summer? Frantic might best capture the mood. After last August with its power interruptions and high prices in nodes surrounding California, everyone has been on edge preparing for this summer. We've collectively endured endless regulatory proceedings, legislative hearings, and stakeholder meetings at the CAISO. Entities procuring power for customers across the West have been working urgently to "cover" as much as possible. Then, an early heat wave in California and much of the West got everyone's attention. Suddenly my phone was blowing up with mainstream press – folks just looking for a train wreck – calling to discuss the presumptive early stages of Armageddon.

Most of us are concerned about the later stages of summer as we did have an exceptionally dry spell across most of the West this year. We have very little snowpack, many reservoirs at or near record lows, and dry soil is absorbing what little runoff there is. The danger, I have explained on some of these press calls, is probably going to be later when heat last longer for much of the West, and peaking resources unaccustomed to running frequently are over-taxed. This is the dreaded circumstance in which those units "trip" offline.

I know everyone is doing their best to make sure that make sure load is served power outages are avoided. But my fear is this: what happens if things go slightly sideways? We've already seen politicians and press representing a preferred political narrative about what was at the root of last summer's difficulties in the West and the Texas winter woes. We are in danger of our industry becoming the latest weapon in the larger political disfunction. The Right will say that this is all the fault of renewables. The Left will say it is a market failure. Undoubtedly, neither side will wait to consider facts, and this may lead to ill-conceived legislation in state houses, Congress, and others with political agendas. Let us work to avoid that horror show.

That said, there are many things happening around the West in the power business that are important and some that may be useful – like broader regional integration, etc. Take a look at the following articles from real experts. And, join us to learn more and lend your voice to further discussion at the WPTF Summer Meeting taking place in Coeur d'Alene, Idaho July 21 - 23.

Scott Miller

Contents

CAISO Committee Report *Page 2*

Wider West Committee (2WC) Report *Page 4*

Carbon and Clean Energy Committee Report *Page 6*

CPUC Committee Report *Page 8*

California Legislative Committee Report *Page 10*

Mexico Electricity Reform Committee Report *Page 13*

Save the Date

Check the WPTF website for all the details on the WPTF 2021 Summer Meeting – July 21 – 23 at The Resort at Coeur d'Alene

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.

Looking toward summer and beyond

Now that FERC has (mostly) approved CAISO's whirlwind filings to shore up reliability this summer, we look forward to uncertain reliability, challenging implementations, and new policy proposals. The CAISO has already issued multiple days of FlexAlerts as an untimely heat wave moved across much of the Southwest. While a cursory review of available capacity seemed like the CAISO was not in much danger of blackouts, it is significant that the heat arrived this early in the year. Mark Rothleder, CAISO Senior VP and COO noted a big concern: more hydro used now means less available flexible hydro power later in the summer when system conditions are even tighter.

Challenging Implementation

The CAISO for some reason has never had an easy time implementing new policies. We routinely see implementation issues especially when there are tight timelines and significant changes to the market model. And, the summer reliability changes have both these features. Rolling out new rules related to pricing and export/import priorities right before the summer has proved even more challenging than usual.

All this is especially concerning because the new pricing rules related to the $2,000 hard offer cap are confusing enough without implementation issues. When entities can offer above $1,000 and what the price could go to in the day-ahead and real-time under what circumstances has befuddled even the most sophisticated shops. Many people, including us CAISO Committee consultants, are working with the CAISO to try and get more clarity and we urge patience with the CAISO.

The CAISO's Customer Inquiry, Dispute, and Information (CIDI) system is overwhelmed and there are not enough subject matter experts nor customer representatives to answer questions. The CAISO will get to everyone, but if it is urgent, we highly recommend reaching out to the right person directly or working with WPTF to get a resolution.

New and revived policies

As usual, the CAISO has put forth an ambitious policy plan in their annual policy initiatives catalog. The document and process are of limited use, but they do allow stakeholders to get a snapshot view of all the initiatives that may move forward. The CAISO plans to continue storage and hybrid enhancements (in two separate initiatives) that will develop a market-based mechanism to replace the Minimum State of Charge requirement and improve hybrid functionality. Load, Export, and Wheeling Priorities Phase 2 is expected to be prioritized throughout 2021. This will develop a process that will permit wheel-through transactions to reserve import capability and transmission across the CAISO system at a minimum and probably reconsider other priorities as well.

Revived initiatives include Resource Adequacy (RA) Enhancements and Day-Ahead Market Enhancements. Despite the CPUC moving rapidly forward with their own significant RA program changes, the CAISO has not changed their description of the RA Enhancements scope in the last three years. Given that the CAISO has lost a significant portion of their staff, most notably their RA leads, we expect a pivot in both organization and scope once positions have been filled and staff has been onboarded.

On the other hand, CAISO's Day-Ahead Enhancements policy staff are still there, so we expect no immediate changes to the scope. The catalog states that they will redesign the day-ahead market and introduce new day-ahead market products. This likely is a hold-over from when the CAISO previous proposed and then dropped combining the Integrated Forward Market (IFM) and the Residual Unit Commitment (RUC). The only specifics provided in the that catalog is that the "CAISO is considering a design that introduces a new uncertainty product, termed imbalance reserves, to ensure the day-ahead market schedules sufficient real-time dispatch capability to meet net load imbalances that materialize between the day-ahead and fifteen-minute markets."

While WPTF supports this as a needed policy change, there is a missed opportunity in the scaled back version of the initiative. It has become apparent that during even minimally constrained periods, exports are being cut in RUC due to the sequential nature of the day-ahead market. This is a previously unrealized benefit of integrating the markets. While in the past WPTF has not supported integration of IFM and RUC due to lack of benefits and high costs, this could be a significant enough benefit to make the policy change supportable by even its loudest opponents.

Additionally, the CAISO has committed to two new important market initiatives. First is Scarcity Pricing Enhancements and System Market Power Mitigation. The existing scarcity pricing mechanism is a blunt instrument that only increases energy prices when there are not enough bids to meet load and maintain reserves, and sometimes this amount even includes a buffer. An important enhancement would be to allow prices to rise as the CAISO neared shortage conditions to act as a signal to the market, especially imports.

Finally, the CAISO plans to address a shortfall of the current market design whereby the real-time market cannot reflect ancillary service scarcity in the 5-minute real-time dispatch because the market only procures ancillary services in the 15-minute real-time dispatch. This initiative also comes with a relook at whether the CAISO should move forward with system market power mitigation. It is paired with a second initiative targeting Ancillary Service deliverability and real-time re-optimization. This initiative will consider implementing nodal ancillary services by including a deployment scenario in the market optimization to ensure the capacity awards are transmission feasible when a contingency event occurs. This may also support the re-optimization ancillary services in the real-time market because operators will be assured the capacity awards are deliverable.

So with FERC directive in hand, the CAISO continues to implement and real-time test reliability measures for this summer. The rest of us in the CAISO markets will strive to absorb this whirlwind of changes as we weather another test of California summer.

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.

A Western Regional Transmission Organization Coming (Somewhat) Soon to a State Near You

The Climate Leadership and Environmental Action for our Nation's (CLEAN) Future Act was introduced in the US House earlier this year and, among other things, would compel the Federal Energy Regulatory Commission (FERC) to require public utilities to place transmission facilities under the control of an Independent System Operator (ISO) or Regional Transmission Organization (RTO) within two years. The CLEAN Future Act would speed up the pace and the scope of RTO formation in the West, but it has not yet advanced.

Western state-level RTO legislation, however, rapidly advanced during the 2021 legislative session. Legislation that passed in Nevada, Colorado, and Oregon will likely be sufficient to move areas of the West into an RTO after multiple failed attempts over the last 20+ years. State legislators in Nevada and Colorado passed legislation that will require, except in certain circumstances, utilities in their states to join an organized wholesale electric market by 2030. These policies all but guarantee the expansion of RTOs in the West in the coming decade. They may also potentially deal a blow to theCAISO's long delayed Extended Day-Ahead Market (EDAM) initiative. Given that, if utilities previously interested in EDAM are required by state legislation to join an RTO, there will likely be a reduction in the number of potential EDAM participants. While these developments may be problematic for EDAM, they also present potential new opportunities for the CAISO and Southwest Power Pool (SPP).

Both the Colorado and Nevada bills requiring utilities to join an organized market lay out a series of qualifying characteristics that the organized market must have. In Nevada, SB 448 (which has been signed into law by the Governor), requires utilities to join an RTO by 2030. During drafting SB 21-072 in Colorado, the term RTO was changed to Organized Wholesale Market (OWM) – probably because there are not enough acronyms in this space already! Regardless of which acronym is used (RTO or OWM), both bills require the organized market to meet similar specifications. In particular, the organization must be approved by FERC, effectuate separate control of transmission and generation facilities, minimize rate pancaking to the extent reasonable, and improve reliability of service. Additionally, the RTO or OWM must be of sufficient scope to increase economic supply options for customers. The RTO or OWM must also have an independent governance structure and an "inclusive and open stakeholder process that does not place unreasonable burdens on, or preclude meaningful participation by, any stakeholder group." This provision in particular may impact which existing RTOs can qualify under the laws, under their current governance structure, as discussed more shortly.

In addition to the bills requiring RTO participation in Nevada and Colorado, Oregon also passed an RTO-related bill in 2021. Oregon's bill requires study of an RTO, rather than requiring utilities to join at RTO by a date certain. SB 589, which has been signed into law, directs the Oregon Department of Energy, in consultation with the Oregon Public Utility Commission, to prepare a report identifying benefits, opportunities, and challenges associated with an RTO in the state. An advisory committee will be established to provide guidance during the creation of the report. The report must be completed by the end of the year and may include recommendations for additional legislation. The report may well recommend future legislative action similar to what was seen in Colorado and Nevada thus establishing a path for Oregon utilities to join an RTO.

If Oregon were to consider and pass similar legislation, then there would then be three states in different subregions of the Western Interconnection (the Southwest, Northwest, and Rocky Mountains) all mandating RTO participation. That distribution of states may be sufficient in scale and location to move the vast majority of the West into an RTO. Other utilities may opt in, other states may pursue similar legislative action, or a multi-state utility, like PacifiCorp, may move forward with placing all of its transmission facilities into an RTO. Thus, perhaps these legislative fixes will do what the plethora of prior industry-driven efforts could not: lead to the successful development of a large-scale Western RTO.

Given these bills, potential future action in Oregon, and ongoing efforts of some utilities to join SPP, an RTO presence in the West seems all but assured by 2030. But, the million-dollar question is which entity can and will serve that role. There are, of course, two obvious potential candidates: CAISO and SPP. As is well understood, CAISO would not be tapped as the RTO for Colorado's and Nevada's utilities without a change to its governance structure. There surely could be another legislative push to change California law and allow modification to CAISO's governance structure. Perhaps these bills might be the threat (or incentive?) that California legislators need to go through with that change after failing to do so on several occasions over the last few years.

But, if that does not happen, SPP seems like the obvious candidate for Colorado and Nevada utilities. Some public interest organizations, however, are likely to argue that SPP, as currently governed, does not meet the requirements for an RTO/OWM under the Nevada and Colorado laws. This is because of its membership requirements. While SPP was recently required by FERC to change its membership terms to provide more reasonable exit fees for non-transmission-owning members, membership provisions remain that may place an unreasonable burden on, or preclude participation by, some stakeholders. Specifically, the annual membership fee of $6,000 along with SPP's Membership Agreement Section 4.2, which requires a withdrawal deposit of $50,000, could be interpreted as placing unreasonable burdens on certain stakeholder groups. Thus, some argue, if SPP wants to qualify under the Colorado and Nevada definition of an OWM/RTO, it must change its Bylaws and membership provisions. SPP can do so through its current member-driven process but whether that would be successful likely depends on how the current members feel about the prospect of SPP's expansion westward. There is no doubt SPP's management and Board are supportive. However, at least in the past, there were concerns from SPP members about its focus on westward expansion efforts. Those concerns seem to have been more acute during the days of Mountain West Transmission Group, but they likely have not disappeared completely.

In addition to SPP and CAISO, it is always possible a "new" RTO could form. Though the efficiencies of using an existing operator, in some manner, are likely to be enticing. The operational and supply challenges the interconnection is facing this summer will keep everyone on their toes and laser focused on reliability this summer. In the longer term, it appears utilities and other stakeholders are likely to be consumed with several more years of organized market discussions.

CARBON AND CLEAN ENERGY COMMITTEE

Clare Breidenich

Clare Breidenich coordinates [WPTF's Carbon and Clean Energy Committee](). In this role, Clare has been actively involved in the development of California's cap and trade program since its inception and has particular expertise on issues related to the treatment of electricity imports under the program and the interactions of the carbon market and the markets operated by the CAISO. Clare also represents WPTF on matters related to carbon and clean energy policies in other western states.

Prior to joining WPTF, Clare worked on international climate issues at the Environmental Protection Agency, the US Department of State and the United Nations Framework Convention on Climate Change Secretariat. Clare has extensive knowledge of the technical and policy options for greenhouse gas mitigation, including market mechanisms, and methodologies and protocols for estimation, reporting and verification of greenhouse gas emissions and reductions. She has served on the Washington Governor's Climate Action Team, the Washington Carbon and Electricity Markets Workgroup and on a National Academy of Sciences' Committee on monitoring of greenhouse gas emissions. Clare is a graduate of the University of Michigan and has a Master of Public Affairs and a Master of Science in Environmental Science from Indiana University School of Public and Environmental Affairs.

Washington finally passes a Cap-and-Trade Bill

After multiple failed attempts, 2021 was the year that the Washington State Legislature finally passed a cap-and-trade bill. The Climate Commitment Act is modeled after California's program, but is not identical. It establishes 4-year compliance periods, beginning January 2023. For the most part, Washington's program covers the same sources and sectors as California's program: electricity generation and imported electricity, manufacturing and other industries, fuel and natural gas suppliers are included in the first compliance period. Waste-to-energy facilities, landfills, and railroads are covered in later periods. The program also allows participation of opt-in covered entities and general market participants.

Like California's program, Washington's cap-and-trade regime allows limited use of offset credits for compliance, but only from projects that provide direct benefits to the state or are located in linked jurisdictions. It also relies on a combination of free allocation (to utilities and energy-intensive trade-exposed industry) and auctions to distribute allowances. Auction price floors and a price containment reserve mechanism are included to provide some allowance price certainty – though differences between the design of these features and California's may undermine their effectiveness.

Rules for electricity imports are also intended to be similar to California's First Jurisdictional Deliverer approach, but with some differences to accommodate the multi-state systems of BPA, Avista, and Pacific Power. For electricity imports into a balancing authority area (BAA) located entirely within Washington, which would apply to power scheduled to most utility systems or to the Mid-C, the responsible importer is considered the PSE on the e-tag on the leg of the physical path that crosses into the state. The ICE contract requires entities that wish to offer at Mid-C to agree to schedule to the hub. As a result, responsibility for the associated carbon for electricity that sinks in Washington as a result of these transactions would fall on the seller. However, a seller cannot know where the power it offers will ultimately sink, and thus cannot determine whether to include carbon compliance costs (or carbon premium for clean energy) in offers. The WSPP plans to initiate an effort under its Contract Sub-Committee to consider whether an alternative ICE product(s) is needed to enable differentiation of offers based on the carbon content or where the buyer intends to sink the electricity.

The Climate Commitment Acts is clearly intended to link with the California and Quebec programs, but there are several obstacles. Key program rules must be developed and be deemed sufficient by the California Air Resources Board (CARB) for California to approve linkage. In particular, the exact level of Washington's annual program caps, and rules for treatment of emissions associated with EIM imports to Washington, will be critical to CARB. Different rules related to auctions and price collar mechanisms could also complicate linkage. Both sides must also conduct public processes and an assessment of the effects of linkage before linkage can be approved. For Washington state, this must include an evaluation of whether the unused pre-2020 allowances under California's program would undermine the stringency of Washington's program.

We can expect a flurry of activity by the Department of Ecology and other agencies over the next 2 years to develop the program cap, allowance allocation methodologies, and detailed market rules before the January 1, 2023 start date. Although program linkage is extremely unlikely to occur by that time, Washington will probably contract to use the allowance-tracking and auction infrastructure used by California and Quebec. The exact timing of the rule-making is not yet clear. The state two-year omnibus appropriations bill designates $23 million dollars to Ecology for program implementation, and smaller amounts to other entities. Ecology may use emergency rule-making authority for the initial phase rule-making, so things could move quickly once they start.

But being Washington, the legislature added some last-minute uncertainty to program implementation. The grand bargain planned by the Democrats of the Cap-and-Trade Program, the Clean Fuels Standard and a substantially increased state transportation budget fell apart in the last week of the session, when the proposed transportation bill failed. Rather than kill the two climate laws, the Democrats reached a deal to make enforcement of the bills contingent on passage of a 5-cent increase in the state fuel tax. If this increase is not adopted in 2022, covered entities would start accruing carbon obligations as of 2023, but would not know whether or when an allowance retirement obligation would occur.

While nobody liked this outcome, the Democrats considered it essential to the fragile coalition they had built to get the climate bills passed. They were understandably riled when Governor Inslee vetoed the fuel tax contingency two weeks later. Both Democrats and Republicans have threatened to sue on the grounds that that Inslee has once again exceeded his authority. The last time the Governor attempted a line-item veto in 2019, it took a year for a state Supreme Court to rule in favor of the legislature. So, it may be a while before we have certainty on whether the program is contingent on a fuel tax hike, or not. If Inslee's veto is upheld, or if it is overturned but a fuel tax increase is passed, the first retirement of allowances will likely occur in autumn 2024.

CPUC COMMITTEE

Greg Klatt

Greg Klatt coordinates the [CPUC 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.

Proposed Decisions Galore

The CPUC has done a remarkable job of keeping proceedings moving along during the pandemic. However, some important decisions were inevitably delayed. In this report, we cover two recently issued proposed decisions (PDs) that the Commission will vote on this summer.

Direct Access Denied

The first PD concerns the Direct Access (DA) program, which enables retail customers of PG&E, SCE and SDG&E to purchase power from non-utility suppliers (thereby gaining "direct access" to the wholesale power market).

Load eligible to participate in DA has been capped since the 2000-2001 electricity crisis, with the Legislature twice directing the CPUC to increase the cap in response to California's commercial and industrial (C&I) sectors' persistent calls for more DA. The first increase was implemented in phases over a four-year period ending in 2014. A second increase ordered by Senate Bill 237 was implemented in 2020 and 2021.

Besides increasing the DA cap, SB 237 directs the CPUC to provide recommendations to the Legislature for the phased reopening of DA to all C&I customers. SB 237 also specifies that the CPUC's proposed pathway for reopening DA must be consistent with the state's GHG policies and not increase local pollutants, undermine system reliability, or produce cost shifts.

Per that directive, CPUC staff proposed reopening DA over a ten-year period, with each phase of DA expansion being conditioned on DA service providers' compliance with Resource Adequacy (RA), Renewables Portfolio Standard (RPS), and Integrated Resource Planning (IRP) requirements. After Staff's draft recommendations were issued for comment in September, nothing more was heard on the subject.

Finally, on May 14, Commissioner Guzman Aceves issued her terrible, horrible, no good, very bad PD.[1] Instead of presenting the CPUC's recommendations for a phased reopening of DA as required by SB 237, the PD's only recommendation is that DA not be reopened "at this time."

The PD reasons that expanding DA would "present an unacceptable risk to the state's long-term reliability goals" and could "result in increased [GHG] emissions, criteria air pollutants, and toxic contaminants when compared to maintaining the current cap on Direct Access." Why? Because DA providers have

[1] See Viorst, J., *Alexander and the Terrible, Horrible, No Good, Very Bad Day* (Atheneum 1972).

not been signing as many long-term PPAs for new resources as community choice aggregators (CCAs) have signed over the past few years. Oh, and because DA providers procure more "unspecified power" from the CAISO markets as compared to CCAs, which the PD suggests gives DA providers some sort of unfair competitive advantage. In other words, the PD finds DA providers wanting (compared to CCAs) based on imaginary standards that are nowhere to be found in SB 237.

Compounding these legal errors, the PD admits there is no reason to doubt DA providers will meet their RPS requirements, including the 65% long-term contracting requirement that went into effect this year. (Nor, for that matter, is there anything in the record suggesting DA providers will not meet their IRP procurement obligations.) Adding insult to injury, the PD points to the February blackouts in Texas as evidence that fully competitive retail markets are fraught with danger.

While the PD does not completely foreclose the possibility of DA being reopened in the future, it does signal the current Commission's antipathy toward competitive markets. Equally troubling is the PD's apparent disregard of statutory directives. Should the PD be adopted, there is a good chance it will be appealed.

Resource Adequacy ~~2.0~~ 1.5

The second PD addresses proposals for restructuring the RA program. As previously reported, there were three comprehensive proposals in the mix:

- The "Wolak proposal" to replace the existing RA construct with a requirement for LSEs to procure Standard Fixed-Price Forward Energy Contract products to cover their forecast hourly demand on a multi-year rolling basis).
- SCE's proposal to revamp the existing RA construct and add a "net qualifying energy" procurement requirement.
- PG&E's proposal to rework the existing RA construct by establishing seasonal RA requirements for multiple slices of the day.

I predicted the Commission would select SCE's proposal but hedged my bets by saying I would not be surprised if both SCE's proposal and PG&E's "slice-of-day" approach made it to the next round. It was thus something of a surprise to see the ALJ's PD pick only PG&E's proposal for further consideration.

The Achilles heel of SCE's proposal is that its key feature—the net load duration curve—does not account for the specific hour in which the identified peak energy need occurs. The potential disconnect between system need and resource availability came to be referred to as the temporal concern.

That concern is the main reason PG&E's proposal comes out ahead in the PD, which finds that PG&E's proposal "addresses the hourly energy sufficiency concerns" that SCE's proposal does not, and thus "better ensure[s] that reliable resources are available in critical hours." (Secondarily, the PD finds that PG&E's proposal is less complex than the others and has a reasonable chance of being implemented for the 2024 RA compliance year.)

The PD does not simply adopt PG&E's proposal and call it a day. Rather, it directs the parties to develop a "final restructuring proposal" based on the slice-of-day approach. To that end, the PD directs a minimum of five workshops over the next six months to work out the details.

I never thought I would say this, but after being cooped up for so long, I am looking forward to six months of workshops—assuming, of course, they are held in person and *not via Zoom*.

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.

A Confluence of Factors to Close Q2 2021 for the Governor and Legislature

In our last report, we discussed the high likelihood of a gubernatorial recall election – but it was not quite clear if it would happen. We also discussed how the COVID-19 pandemic could possibly muddy the current Legislative session, as it related to new energy policy. For better or worse, we now have some clarity.

The Newsom Recall

First, the recall election will happen; it may be as early as August, or as late as November. The Secretary of State will make that decision this coming month. The good news for Governor Gavin Newsom is that the latest poll from the Public Policy Institute of California said that 54% of Californian's approve of Newsom's job performance. More importantly, just 40% of likely voters would vote to recall Newsom if the election were held now. Unless something very bad happens, Newsom should survive the recall.

But then again, we are in California, what could go wrong?

COVID-19 Reopening of California

California health officials and the Centers for Disease Control and Prevention announced this month that over 68.5 percent of Californians 12 and older had received at least one shot of a COVID-19 vaccine. Among Californians 18 and older, 71.6 percent have at least one dose and 56.8 percent are fully vaccinated. In ither good news, the positivity rate for COVID-19 tests has fallen very significantly from the peaks of the pandemic.

Notwithstanding the great numbers, Newsom again repeated this week that he intends to keep California under a coronavirus-spurred State of Emergency even after the State fully reopens. "This disease has not been extinguished. It has not vanished," Newsom told the press.

In addition to the reopening State-wide, the Capitol building has now also re-opened, albeit with several evolving pandemic rules.

Record California Budget

Newsom's record $267.8 billion budget is a long way from being fully cooked, but it's looking increasingly likely that the plan will be a placeholder that satisfies State law. Negotiations will be ongoing after the Constitutional deadline for Newsom to sign the budget on July 15. The Democratic Leadership and Newsom today remain at odds on various pieces, so specifics will be fleshed out in budget trailer bills and additional iterations of the main budget bill – likely through the end of the Legislative year.

What's in the Budget for Energy?

- $350 million to support pre-commercial long-duration storage projects;

- $250 million for energy efficiency in the industrial sector;
- $110 million in green hydrogen production to accelerate the transition away from using fossil fuels;
- $35 million for critical resource and transmission planning to support California's efforts to 100% clean energy;
- $20 million to spur environmentally responsible development of offshore wind energy;
- $10 billion in spending on climate adaptation, water infrastructure and clean transportation;
- $160 million for low-emission trucks and equipment at ports;
- $134 million in funding for the State's Clean Vehicle Rebate Program; and
- $750 million in Federal stimulus funding on a "community economic resilience fund" to help the petroleum industry and others transition to a carbon-neutral economy.

California's Drought Heatwaves of 2021

A wide-ranging heat wave hit much of the Western Region from June 16 to June 20. While the CAISO issued consecutive FlexAlerts and Governor Newsom issued an Executive Order declaring a heat emergency, California weathered the first real test of the summer. With a worsening drought gripping the West and wildfire season also looming, any subsequent heatwave this year will tax the State's power supplies. Of particular concern is the dramatically low fill levels on some of the State's key reservoirs that generate hydro power.

What is Newsom Hoping For?

In baseball vernacular, the best that can happen for Newsom is that he bats 1.000, going 4 for 4. If he strikes out on just one of the four "at bats", perhaps the only one he can afford to strike out on might be the budget. While all four pitches are bound to be tough, the budget affords him more time and less consternation, given the record surplus. The other three tries leave little to no room for error: the COVID-19 reopening, potential rolling blackouts due to heatwaves, and wildfires. He needs to get "on base" with the other three at the very least; California voters will be less forgiving – and poor performance on these issues is bound to hurt Newsom in the recall. No, he didn't cause any of these – but the buck stops with him.

What About Legislation?

As we began the year, the Legislative Committee was tracking more than 120 new energy policy bills. By the time the final deadlines passed, we wound up with a mere 52 new possible energy policy proposals.

An early victim of the process was a controversial bill, **AB 525** (Chiu) that would have required the State energy agencies to develop a strategic plan to achieve a goal of at least 10,000 MWs of offshore wind energy developments installed off the California coast by 2040, with an interim target of 3,000 MWs installed by 2030.

Another victim of the process was **AB 1139** (Gonzalez) that would have required the CPUC to adopt a new net metering tariff by August 2022. Had the CPUC failed to meet the deadline, a "backstop" tariff would have been instituted by the end of 2023. Several climate bills, including SB260, SB30 and SB67 also failed to gain traction.

Still Alive:

SB 99 (Dodd) would create a grant and technical assistance program at the CEC to help local entities design and install clean microgrids in optimal locations. It also aims to help put local government staff on equal footing with utility staff as they work together on installations of community solar and battery storage projects and other non-polluting microgrids.

SB 533 (Stern) would require utilities to identify circuits frequently turned off during dangerous fire conditions. It also directs utilities to work with local governments to develop microgrids that would supply power when those circuits are de-energized.

SB 612 (Portantino) would allow community aggregators and other providers to access the benefits of costly utility generation they pay for—early renewable contracts and utility-owned generation. The above market costs of these utility legacy resources show up in the Power Charge Indifference Adjustment fee imposed by the CPUC, other providers and ratepayers.

AB 1110 (Rivas) would establish the California Clean Fleet Accelerator Program administered by the Department of General Services to provide small local governments and rural public entities needed technical and financial support to buy zero emission vehicles

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.

Mid Term Elections Macro Outlook

The people of Mexico have spoken. They are no longer content with how the government has managed internal politics and are pulling power away from the ruling party, MORENA. The President's government no longer has an absolute majority in the Lower Congress. As a result, it is unable to implement sweeping changes to the Constitution, including any radical changes to the Energy Reform. The news is important: it bodes well for foreign direct investment and demonstrates that the MORENA ideology is starting to lose support.

CFE's new power plants

Construction is being planned for six new combined-cycle plants to be operated by the CFE. In its business plan, the state-owned company stipulated 381,544 million pesos in investment projects by 2025, with 53% of the amount allocated to electricity generation. It is under this plan that the six new combined-cycle plants will be built. The plants will install a capacity of 1,545 MW for the Yucatan peninsula and 1,714 MW for the Baja California peninsula. In addition, they will be added to the 1,086 MW of the Tuxpan Phase I plant in Veracruz, for a total project size of 4,345 MW. The announcement occurs amid the controversy over the reform of the Electricity Industry Law (LIE), promulgated on March 9 and promoted by President Andrés Manuel López Obrador, who seeks to "rescue" the state company from private and foreign entities.

These new plants are considered a priority for the Mexican government, which has determined that national companies will be contracted to build at least 12%, but optimally 25% of the projects. Although the CFE has recognized that the Electricity Industry Law does not consider these targets mandatory, the requirement will apply to the execution of Priority Investment Projects (PPI) under the CFE Master Investment Trust.

Government Bonds

The CFE will once again carry out a bond issuance via the Mexican Stock Exchange (BMV) to generate around 10,000 million pesos according to information from the state- owned company.

On May 27, the CFE divided the sale of its bond certificates into four offers with different time periods and interest rates that will facilitate its refinancing. CFE's debt as of March 31, 2021, is 436,350 million pesos, and with this bond issuance the new debt level will lower to 62,556 million pesos.

PEMEX and CFE Figures

PEMEX and CFE, both state-owned companies, had another dark quarter. PEMEX registered losses of 37,358 million pesos; CFE reported losses of 35,606 million pesos. The sum of losses for the titanic state companies was 72,964 million pesos.

Fuel Oil Contamination

Because of high levels of fuel oil contamination in Mexico City and surrounding areas, the Environmental Commission of the Megalopolis (CAMe) asked the CFE to reduce the use of fuel oil at its power plant in Tula, Hidalgo. The Commission requested that the CFE cut 30% of its use of fuel oil which is a dirty refined product that PEMEX produces at relatively high levels still. CAMe also asked PEMEX to reduce activities at its oil refinery in Tula because of the high levels of pollution in the Valley of Mexico, which triggered the first atmospheric emergency alert of 2021. A lack of rain and wind created the unfortunate conditions leading to the accumulation of pollution in the metropolitan area.

United States-Mexico-Canada Agreement

During the first United States-Mexico-Canada Agreement (USMCA) reunion, US Commerce Representative Katherine Tai, asked Mexico's Secretary of Economy, Tatiana Clouthier, to offer an energy policy which respects the United States' investments and facilitates commerce.

Secretary Clouthier replied that Mexico is open to work with the US and Canada on their concerns about government efforts to strengthen and improve the CFE at the expense of private companies. She defended the government policy arguing that the reforms to the electricity law are "part of their sovereign right to regulate". She remarked that Mexico will work with national and international investors to help build long-lasting relationships based on mutual benefit. Consequently, the government will comply with the decisions taken by the Mexican Courts, where the new law is being impugned by several companies and investors. She added that Mexico will maintain an open dialogue with its North American allies concerning the new electricity reform.

Over the two-day trilateral meeting, Tai criticized Mexico's insular electricity ideals. Both she and Canadian Minister of Small Business, Export Promotion, and International Trade Mary Ng expressed their concern over the damage caused to North American investments in the electricity sector.

Infrastructure, Infrastructure, Infrastructure

"Mexico is 'many steps behind' the US and Canada in energy transition and needs to build more infrastructure to allow natural gas to serve as a bridge to a future with greater use of renewables in power production," IEnova CEO Tania Ortiz Mena said during a summit sponsored by Columbia University's Center on Global Energy Policy. Ortiz Mena characterized the situation as more of an opportunity than a challenge for a country that imports about 70% of the gas it consumes from the US. She went on to assert that "better community engagement is the key in generating the support needed to build more pipelines and transmission to facilitate the energy transition. That means acknowledging, not avoiding, the impact of fossil fuel emissions on climate change. The fact is that energy infrastructure, even the cleanest energy infrastructure, has an environmental impact and has a social impact. Compensating and mitigating the long-term impacts on communities from the development of more energy infrastructure in Mexico is important. Energy companies have a serious responsibility, really in order to survive."

"The northeast region, comprising the states of Coahuila, Nuevo Leon, and Tamaulipas, has the potential to generate 30% of the country's power needs with solar and wind energy," Rogelio Montemayor Seguy said. He is the president of the energy cluster of the state of Coahuila, home of many local and foreign companies. "That enormous potential is being wasted with the current restrictions to private generation," Montemayor Seguy added during a virtual panel organized by IMEF, one of Mexico's largest financial non-profit organizations.

Could Green Hydrogen substitute natural gas imports?

During "Siemens Energy Innovation Days", Israel Hurtado, president of AMH said that clean hydrogen could be a good option as a substitute for natural gas in power generation across the grid. He added, “it could be that sector which we need in order to satisfy our electricity demands; this way we wouldn’t depend on a foreign supply chain”. Mexico has great potential to produce enough green hydrogen to fulfill its own needs and become a leading player in this emerging space.

Andreas Eisfelder, Siemens’ New Energy Business for Latin America Director, affirmed that is necessary to develop a pipeline network to transport green hydrogen. It is not possible to use the current natural gas pipeline network because hydrogen cannot mix into a natural gas pipeline and maintain its hydrocarbon chain. “We can produce green hydrogen at competitive prices as long as it is done close to demand centers, otherwise it is necessary to develop alternative transportation methods.”