

Memorandum

To: ISO Board of Governors

From: Karen Edson, Vice President, Policy & Client Services

Date: December 6, 2012

Re: Legislative and State Regulatory Update

This memorandum does not require Board action.

STATE AFFAIRS

Legislature

As a result of the November 6, 2012 election, 38 new members in the 80-member Assembly assumed office in December 2012. The Assembly now has 55 Democrats and 25 Republicans. Two new members joined the Senate, while seven former Assembly members were elected to the 40-member upper house. There are now 27 Democrats and 11 Republicans in the Senate. Two Senate seats remain open as a result of the incumbent Senators being elected to Congress. New members officially took office when the next legislative session began on December 3.

Both houses gained enough Democratic seats to create a two-thirds supermajority for the first time since 1883. A two-thirds majority in both houses is able to pass emergency legislation, override gubernatorial vetoes, place constitutional amendments before voters, change legislative rules and approve tax increases.

Regulatory Update

South Coast Air Quality Management District (SCAQMD) – Rule 1304:

Rule 1304 in the SCAQMD allows exemptions for the emissions offsets needed for new power plants that are replacing less efficient boilers. At the Board's October meeting, South Coast staff recommended exploration of a fee for the use of the SCAQMD's internal offset bank. Fees as high as \$100,000 per MW are reportedly being considered. For a 530 MW combined cycle gas turbine, this equates to an additional cost of \$53 million, a 10 percent increase assuming construction cost of \$530 million (\$1 million per MW). This issue is a concern in the LA Basin where California's once-through cooling regulation will drive the need for a minimum of 2370 MW of power plant repowering projects. A permanent loss of the San Onofre Nuclear Generating Station

would increase this need. The SCAQMD Board discussed formation of an *ad hoc* committee to work with SCAQMD staff as well as a stakeholder working group in which the ISO would participate.

21st Century Energy Systems:

The CPUC is considering a joint application of investor-owned utilities to enter into an agreement with Lawrence Livermore National Laboratory for a project titled “21st Century Energy Systems” (CES-21). The CES-21 project activities and associated costs will center primarily around the areas of cybersecurity, electric resource planning and electric/gas system operations.

ISO staff participated in a November 27, 2012 all-party meeting at the CPUC regarding the October 30, 2012 Proposed Decision of Administrative Law Judge Sullivan in A.11-07-008. Staff presented the following comments at the meeting, consistent with Steve Berberich’s March 12, 2012 letter to President Peevey:

- The ISO supports efforts leading to research and development that would ready the electric transmission system for California’s energy and environmental goals.
- California should carefully coordinate the various research and study efforts to ensure there is no duplication.
- The Commission should include the ISO as a representative on the Board of Directors for CES-21 as written in the October 30 proposed decision.

State Water Resources Control Board (SWRCB) – Bay Delta Water Quality Control Plan:

The SWRCB is considering a new regulation that seeks to restore the historical fresh water flows through California’s delta regions. ISO staff participated in a November 14, 2012 workshop to discuss the potential impacts on hydropower resources of various proposed levels of unimpaired flows being considered by the SWRCB in the Bay-Delta Water Quality Control Plan. In a joint presentation with CEC and CPUC staff, we expressed a commitment to achieving state policy goals while ensuring electric system reliability at a reasonable cost to ratepayers, and recommended additional analyses. Potential concerns include the possible loss of capacity and flexibility of resources, especially considering long lead times needed for replacement resources, and the shift of energy production to periods of lower value (spring vs. summer). We will continue to work closely with the SWRCB staff on this issue.

AB 1318 Report:

Assembly Bill 1318 (AB 1318, Perez, Chapter 285, Statutes of 2009) requires the California Air Resources Board (CARB), in consultation with the CEC, CPUC, the ISO and the SWRCB, to prepare a report for the Governor and Legislature by July 1, 2010

that evaluates the electrical system reliability needs of the South Coast Air Basin. The report is to include recommendations for meeting those reliability needs while ensuring compliance with state and federal law. Specifically, given the current air quality permitting issues facing power plants under the South Coast Air Quality Management District's current program, the report is to include recommendations for long-term, sustainable permitting of additional needed capacity.

The ISO has been working collaboratively with CARB, CEC and CPUC staff since 2009 to complete this report. An interim report was issued July, 2010 that identified studies needed to complete a final report. At CARB's request, the report has been delayed further to include results of nuclear replacement studies being conducted in the 2012 – 2013 Transmission Planning Process. The current schedule anticipates that a draft final report will be completed for stakeholder review in March 2013.

Renewable Resource Portfolios/2013 – 2014 Transmission Planning Process:

ISO staff has been discussing development of renewable resource portfolios with the CPUC and the CEC for use in policy studies for the 2013 – 2014 Transmission Planning Process. We will participate in a December 19, 2012 joint CEC-CPUC workshop where draft portfolios will be discussed with stakeholders. We expect to receive final portfolios by early February 2013 for inclusion in the 2013 – 2014 draft unified planning assumptions and draft study plan.

Desert Renewable Energy Conservation Plan – Transmission Impacts:

ISO staff has co-lead an effort this year with the CEC and CPUC to develop a high-level analysis of transmission impacts of delivering renewable energy to load from six alternatives in the Desert Renewable Energy Conservation Plan planning area. The analysis and report were completed with participation by transmission planning engineers from the investor-owned utilities, Los Angeles Department of Water and Power and Imperial Irrigation District. The report will be included in a December 14, 2012 document to be published for Desert Renewable Energy Conservation Plan stakeholder comments due in January 2013. The current schedule anticipates release of a draft EIR/EIS with a preferred alternative by September 2013.

FEDERAL AFFAIRS

Congress:

With the lame duck session now underway, Members are focused on a negotiated settlement for the “fiscal cliff.” Energy-related issues that will potentially be a part of these discussions include a carbon tax, extensions of tax incentives for wind and solar energy and other energy resources, and energy efficiency legislation that was passed by the Senate in September.

Election Results:

Democrats increased their majority by two seats in the U.S. Senate, from the current 53-47 to 55-45 (with Maine Senator-elect Angus King, an Independent, caucusing with the Democrats). The new balance of power will not be enough to prevent a filibuster. In the House, Democrats picked up nine seats for a total of 200 vs. 234 Republicans and one vacancy.

In the California congressional elections, Senator Dianne Feinstein easily won another six-year term. Fourteen new members of the House of Representatives will be coming to Washington in January. A total of 38 Democrats and 15 Republicans will be in the California congressional delegation in the new Congress.