

Memorandum

To: ISO Board of Governors

From: Stacey Crowley, Vice President, Regional and Federal Affairs

Tom Doughty, Vice President, Customer and State Affairs

Date: July 18, 2018

Re: **State, Regional and Federal Affairs update**

This memorandum does not require Board action.

STATE AFFAIRS

Regulatory update

Aliso Canyon:

The long-term use of the Aliso Canyon natural gas storage facility is being addressed in a California Public Utilities Commission (CPUC) Order Instituting Investigation (I.17-02-002) proceeding which was opened on February 9, 2017.

- In Phase 1, the Commission is undertaking an effort to develop the appropriate analyses and scenarios to evaluate the impact of reducing or eliminating the use of Aliso.
- In Phase 2, the Commission will evaluate the impacts of reducing or eliminating the use of Aliso using the scenarios and models adopted in Phase 1. The results of the models will inform the Commission's decision on the appropriate use of the storage field.

On June 28, California ISO (ISO) staff submitted informal comments on the CPUC Energy Division's update to its June 26, 2017 scenarios framework in preparation for a July 31 workshop. Key ISO recommendations:

- Incorporate results of the ISO's power flow modeling into the production cost modeling analysis.
- Study multiple unplanned gas transmission and storage outages.

- Consider electric reliability based on multiple perspectives and objectives.

The CPUC Energy Division plans to issue its Final Staff Proposal by August 30. Phase 1 will be resolved by the issuance of an Assigned Commissioner's Ruling adopting the scenarios, assumptions and models that will be evaluated in Phase 2 in 2019.

Legislative update

The Legislature adjourned on July 6 for Summer Recess and will reconvene on August 6. Upon their return, they will have until August 31 for each house to pass bills, giving the Governor until September 30 to sign them. November 30 marks the last day of the 2017-2018 Regular Session.

Legislation:

AB 813 (Holden): Builds upon previous work by state agencies in the development of a multistate regional transmission system organization (MRTO) governance proposal. The proposal must comply with certain criteria defined in the bill and provides for the establishment of a Western States Committee, which includes three appointees by the California Governor. The proposal shall be reviewed by the California Energy Commission (CEC), in consultation with the CPUC and California Air Resources Board (CARB), including at least one public workshop or hearing where public comments can be provided. The bill allows California load-serving entities (LSE) and transmission owners to participate in an MRTO if certain principles are outlined in its bylaws or other organizational documents. The CEC must verify that the proposal meets certain criteria outlined in the bill, and the new governance structure is prohibited from going into effect until January 1, 2021. *Status: Passed both Senate Energy, Utilities and Communication Committee and Senate Judiciary Committee. Location: Senate Appropriations Committee*

AB 893 (E. Garcia & Hueso): Requires retail sellers of electricity and publicly-owned utilities (POU) to procure a statewide total of 3,000 MW of electricity from geothermal power plants. The bill directs the CPUC to determine, by June 30, 2020, the "proportionate share" of the 3,000 MW that each retail seller and POU is required to procure. The bill also requires projects, for which construction began on or after January 1, 2019, to demonstrate an environmental benefit and an economic benefit to disadvantaged communities. *Status: Passed Senate Energy, Utilities and Communications Committee. Location: Senate Appropriations Committee*

AB 2787 (Quirk): Requires the ISO to complete a process for the procurement of long duration energy storage projects that total between 1,000 and 2,000 MW, in aggregate, by December 31, 2019, and develop a methodology for cost allocation to all LSEs. *Status: Re-referred to Senate Rules Committee. Location: Senate Rules Committee*

AB 3232 (Friedman): Requires the CEC, in consultation with the CPUC and ISO, by January 1, 2021, to assess whether the State of California can reduce the emissions of greenhouse gases from residential and commercial buildings by at least 40 percent below 1990 levels, by January 1, 2030. *Status: Passed Senate Environmental Quality Committee. Location: Senate Appropriations Committee*

SB 64 (Wieckowski): Requires fossil-fuel plants dispatched by a California balancing authority, on a quarterly basis to provide to the CARB emissions data associated with startups, shutdowns, and cycling of those plants and make that data available to the air districts and public. The bill will also require the CPUC and the CEC, on or before June 1, 2019, with input from state agencies, to complete a study with recommendations on how to reduce electrical generation from, and prioritize the retirement of, natural gas-fired plants to minimize localized air pollution, with early priority for disadvantaged communities. *Status: Passed Assembly Utilities and Energy Committee. Location: Assembly Appropriations Committee*

SB 100 (De Leon): Establishes a 60 percent Renewable Portfolio Standard (RPS) by 2030 and a goal for all electricity sold at retail to be from zero-carbon resources by December 31, 2045. Specifically, the bill establishes the following RPS timelines to achieve 60 percent by 2030: 44 percent RPS by December 31, 2024, and 52 percent by December 31, 2027. *Status: Passed Assembly Utilities and Energy Committee. Location: Assembly Floor*

SB 237 (Hertzberg): Requires the CPUC to expand direct access over three years, so that all nonresidential, end-use customers may acquire their electric service from other providers in each investor-owned utility's distribution service territory. *Status: Passed Assembly Utilities and Energy Committee. Location: Assembly Appropriations Committee*

SB 1136 (Hertzberg): Requires the CPUC, in establishing resource adequacy requirements, to ensure the reliability of electrical service in California while advancing the state's clean energy goals, reducing air pollution and greenhouse gases, minimizing the need for backstop procurement by the ISO and facilitating new generating, nongenerating and hybrid capacity. *Status: Passed Assembly Utilities and Energy Committee. Location: Assembly Appropriations Committee*

SB 1339 (Stern): Requires the CPUC to consider the role of microgrids in providing grid resiliency and to establish a tariff for each electrical corporation for the use of microgrids to provide electrical grid resiliency. The bill also requires each electrical corporation to file an advice letter implementing a tariff that minimizes costs and maximizes benefits to all ratepayers and meets the requirements of the rulemaking, before January 1, 2020. *Status: Passed Assembly Utilities and Energy Committee. Location: Assembly Appropriations Committee*

SB 1347 (Stern): Requires the CPUC, by January 1, 2020, to consider the procurement of up to 2,000 megawatts of energy storage systems with potential targets for LSEs to procure by December 31, 2030. *Status: Passed Assembly Utilities and Energy Committee. Location: Assembly Appropriations Committee*

STRATEGIC ALLIANCES AND REGIONAL AFFAIRS

Energy Imbalance Market:

Since the energy imbalance market (EIM) began operation in November 2014, benefits have exceeded \$330 million through Q1 2018. The Q2 2018 EIM benefits report will be released in late July and will include Idaho Power and Powerex for the first time, following their activation in EIM on April 4, 2018.

Work continues with four other EIM entities: BANC/SMUD is scheduled for participation in April 2019, and Salt River Project, Los Angeles Department of Water and Power, and Seattle City Light in April 2020.

Public Service Company of New Mexico (PNM) hosted a public EIM technical workshop on June 28 in Albuquerque, NM. In addition to presentations by the ISO, E3 presented on the PNM benefits study, and Utilicast presented on implementation and ongoing staffing requirements and cost. PNM plans to file with the New Mexico Public Regulation Commission in mid-August to gain pre-approval of treatment of their EIM capital costs as a regulatory asset.

Energy Imbalance Market Governance:

The EIM Governing Body held a meeting in Folsom, CA on June 21. In a general session, they voted to approve the Nominating Committee-recommended slate that reappointed Carl Linvill and appointed Travis Kavulla to the Governing Body. The Governing Body also voted to elect Valerie Fong as Chair and Carl Linvill as Vice Chair to terms starting July 1, 2018 and ending June 30, 2019.

The EIM Governing Body held a meeting in Folsom, CA on July 12. In a general session, they heard updates from the Regional Issues Forum (RIF) and the Body of State Regulators. The Governing Body voted to approve the EIM greenhouse gas attribution enhancements proposal, which falls within their primary authority. They received briefings from ISO staff on a number of other EIM-related items including an update on the western EIM market and the Q1 2018 benefits report. The next in-person general session meeting will be held on August 22 in Denver, CO.

The Body of State Regulators has its next call on August 3. Their next in-person meeting is October 24 in Mesa, AZ.

The RIF sector liaisons held an in-person meeting in Portland, OR on June 6. The forum included stakeholder-led presentations from Powerex and Idaho Power on their go-live experiences, and a panel discussion with the ISO on Load and Variable Energy Resource Forecasts. The group also received two informational overviews from guest speakers David Patton of Potomac Economics and Vickie VanZandt of ISO New England's Board of Directors. The next in-person RIF meeting is scheduled for November 28 in Phoenix, AZ.

FEDERAL AFFAIRS

Administration

On June 21, the White House Office of Management and Budget issued a plan designed to streamline federal government operations. Among a large number of other proposed changes, the plan would consolidate the Department of Energy's applied research programs into a new Office of Energy Innovation, along with parts of the now-separate Advanced Research Projects Agency – Energy. It would also create an Office of Energy Resources and Economic Strategy to support U.S. energy dominance initiatives. It reiterates the Administration's proposal to privatize the electric transmission assets owned by the Power Marketing Administrations. The proposal would require congressional action for approval.

Federal Energy Regulatory Commission (FERC) Commissioner Robert Powelson announced on June 28 that he will leave the Commission to become president and CEO of the National Association of Water Companies. Powelson has served as commissioner since August, 2017. His departure leaves FERC with two Democratic and two Republican members. Scheduling constraints may prevent confirmation of a new nominee prior to the November 6, 2018 midterm elections.

Congress

On June 25, the Senate passed its funding bill for the Department of Energy and other federal programs for Fiscal Year 2019, which begins on October 1, 2018. The House passed its version of the bill on June 8. The House and Senate have now agreed to begin conference negotiations. There are significant differences between the two bills, but both provide level or slightly increased funding levels for energy programs that the Administration proposed to cut, including the Office of Energy Efficiency and Renewable Energy, energy research programs, and the Office of Science.

Legislation:

H.R. 2371 (Paul Gosar, R-AZ): "Western Area Power Administration (WAPA) Transparency Act." Directs WAPA to establish a seven-year pilot project that publicly displays information, dating back to 2008, on rates charged by power systems to customers for power and transmission services, the amount of capacity or energy sold

by power systems, accounting of expenditures and capital costs by region, and the unobligated balances at the end of each year. Status: Passed House by voice vote on February 7.

H.R. 2872 (Larry Bucshon, R-IN): Allows FERC to exempt hydropower projects at existing non-powered dams from licensing requirements. Status: Passed House by voice vote on December 11, 2017.

H.R. 2880 (Morgan Griffith, R-WV): Promotes closed-loop pumped storage projects connected to reservoirs. Status: Passed House by voice vote on December 11, 2017.

H.R. 3359 (Michael McCaul, R-TX): Restructures the Department of Homeland Security's National Protection and Programs Directorate, which focuses on eliminating threats to critical physical and cyber infrastructure. Status: Passed House on December 12, 2017 by voice vote.

H. Res. 357 (Jeff Duncan, R-SC): Reaffirms the strategic partnership between the U.S. and Canada to cooperate on energy, security and economic issues. Status: Passed House by voice vote on December 12, 2017.

S. 2232 (Angus King, I-ME): "Next Generation Grid Resources and Infrastructure Development (GRID) Act." Provides federal support for states and utilities to evaluate their electricity systems and identify areas where distributed energy resources could assist in protecting critical infrastructure or reducing costs. Also recommends parameters for states to use in designing rules for distributed energy resource integration in grid operations and establishing appropriate compensation mechanisms. Status: Introduced in Senate on December 14, 2017 and referred to the Committee on Energy and Natural Resources.

S. 2444 (Maria Cantwell, D-WA): "Advanced Grid Security Act." Authorizes new programs to address power system cyber vulnerabilities. Status: Introduced in Senate on February 16, 2018 and referred to the Committee on Energy and Natural Resources.

S. 2445 (Maria Cantwell, D-WA): "Grid Modernization Act." Provides for advancing new technologies, particularly those for microgrids and electric vehicles. Status: Introduced in Senate on February 16, 2018 and referred to the Committee on Energy and Natural Resources.

H.R. 5174 (Tim Walhberg, R-MI and Bobby Rush, D-IL): "Energy Emergency Leadership Act." Requires the Secretary of Energy to name an Assistant Secretary to oversee energy security and energy emergency functions for infrastructure, cybersecurity, emerging threats, energy supply emergencies, planning coordination, and response and restoration. Status: Passed House Energy and Commerce Energy Subcommittee on April 17, 2018 and referred to the Committee on Energy and Natural Resources.

H.R. 5175 (Fred Upton, R-MI and Dave Loebsack, D-IA): Establishes a program to coordinate federal agencies, states and private industry to ensure the security, resiliency and survivability of pipeline and LNG facilities and authorizes the DOE to coordinate response and recovery following physical and cyber incidents impacting these facilities. Status: Passed House Energy and Commerce Energy Subcommittee on April 17 by voice vote; referred to the full committee for consideration.

H.R. 5239 (Bob Latta, R-OH and Jerry McNerney, D-CA): “Cyber Sense Act.” Establishes a voluntary program within the DOE that identifies and promotes cyber secure products for use in the bulk power system. Status: Passed House Energy and Commerce Energy Subcommittee on April 17 by voice vote; referred to full committee for consideration.

H.R. 5240 (Bob Latta, R-OH, and Jerry McNerney, D-CA): “Enhancing Grid Security through Public-Private Partnerships Act.” Establishes a DOE program to facilitate public-private partnerships to advance physical and cyber security for electric utilities and allows the DOE to coordinate with state regulators to enhance distribution system cyber and physical security. Status: Passed House Energy and Commerce Energy Subcommittee on April 17 by voice vote; referred to full committee for consideration.

H.R. 5733 (Don Bacon, R- NE): “DHS Industrial Control Systems Capabilities Enhancement Act of 2018.” Amends the Homeland Security Act of 2002 to require the Department of Homeland Security to identify and guard against cyber threats to industrial control systems such as Supervisory Control and Data Acquisition Systems used in the energy sector. Authorizes the Department of Homeland Security to provide technical assistance to industry stakeholders. Establishes a vulnerability codification program to inform industry of existing vulnerabilities. Status: Passed House by voice vote on June 25.