

Memorandum

To: ISO Board of Governors

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

Tom Doughty, Vice President, Customer and State Affairs

Date: October 19, 2016

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

This memorandum does not require Board action.

STATE AFFAIRS

Regulatory update

Renewable Energy Transmission Initiative (RETI) 2.0:

The ISO continues to collaborate with the California Energy Commission (CEC) and California Public Utilities Commission (CPUC) on this initiative, which was launched in September, 2015. Of the three working groups, ISO leads the Transmission Technical Input Group (TTIG). The TTIG has completed its assessment of the transmission implications of the renewable development ranges, particularly the Transmission Assessment Focus Areas (TAFAs). These include the San Joaquin, Northern California, and desert areas in California, and Palo Verde and Central Sierra areas outside of the state. The findings have been documented in a report and shared with stakeholders.

Regional outreach, led by the Western Interstate Energy Board (WIEB) with meetings in Portland, OR and Las Vegas, NV, has been completed and feedback from stakeholders has been summarized in a report.

RETI 2.0 is on track to complete a draft report in late October and a final report by mid-December, 2016. The report will summarize findings of the TTIG, regional outreach and environmental and land use assessments to inform the development of renewable resource portfolios by the CPUC and CEC for use in the 2017-2018 transmission planning process.

Joint Agency Workshop - Slow Response Local Capacity Resource Study:

The ISO and CPUC hosted a joint workshop on October 3 to explore the potential availability requirements for slow response resources that must be dispatched pre-contingency to meet local capacity area reliability needs. This specifically applies to resources that are energy limited and cannot be dispatched within 20 minutes post-contingency (e.g., some demand response resources). The joint agency workshop fulfills a requirement of the May 13, 2016 ISO Executive Appeals Committee decision regarding a proposed change in the Reliability Requirements Business Practice Manual.

The requirement directs the ISO to “seek to conduct a joint workshop with the CPUC to address how demand response resources can help the ISO effectively address NERC, WECC and ISO reliability standards applicable to local areas. The ISO will encourage participation from all stakeholders involved in this process, but believes that collaboration with the Commission is fundamental to advancing our shared interests in integrating preferred resources and ensuring electric reliability.” CPUC Commissioner Mike Florio, his advisor Matthew Tisdale, Simon Baker, Program Manager, and key demand response and resource adequacy staff attended the workshop.

The workshop discussed the technical requirements and how they can be operationalized into market rules, resource adequacy rules and demand response program requirements. Finally, the workshop outlined a process to assess and establish pre-dispatch requirements for 2017 and future years. The ISO, CPUC, and stakeholders will consider next steps and whether a follow-up workshop will be beneficial.

Legislative update

Legislature:

September 30 was the last day for Governor Brown to sign or veto bills passed by the Legislature. The 2015-2016 Regular Session adjourns on November 30.

Legislation:

Key energy related bills signed by the Governor:

AB 33 (Assemblymember Quirk): Requires the CPUC to study long duration bulk energy storage resources to help integrate renewable generation into the electric grid, and to work with the CEC to conduct a cost benefit analysis of long duration bulk energy storage, including any local benefits.

AB 197 (Assemblymember Garcia): Adds two Members of the Legislature to CARB as *ex officio*, nonvoting members and provides that the voting members of the state board

are appointed for staggered 6-year terms. This bill also requires the state board, when adopting rules and regulations to achieve greenhouse gas emissions reductions beyond the approved statewide limit and to protect the impacted and disadvantaged communities, to consider the social costs of the emissions of greenhouse gases, and prioritize specified emission reduction rules and regulations.

AB 1110 (Assemblymember Ting): Requires the CEC to develop a reporting program for retail electricity suppliers to disclose greenhouse gas emissions intensity.

AB 1937 (Assemblymember Gomez): Requires IOUs' proposed procurement plans to show they actively seek bids for resources that are not gas-fired generating units located in communities that suffer from cumulative pollution burdens. While considering bids for, or negotiating bilateral contracts for, new gas-fired generating units, they must give preference to resources that are not gas-fired generating units located in those communities.

AB 2454 (Assemblymember Williams): Requires an IOU, in determining the availability of cost-effective, reliable, and feasible demand reduction resources, to consider the findings of the Demand Response Potential Study. The CPUC, prior to approving a contract for any new gas-fired generating unit, will require an IOU to demonstrate compliance with its approved procurement plan.

AB 2868 (Assemblymember Gatto): Requires the CPUC, in consultation with CARB and the CEC, to direct the state's three largest IOUs to file applications for programs and investments to accelerate widespread deployment of distributed energy storage systems. CPUC will be authorized to approve, or modify and approve, programs and investments in distributed energy storage systems, as well as to prioritize programs and investments that provide distributed energy storage systems to public sector and low-income customers.

SB 32 (Pavley): Requires CARB to ensure that statewide greenhouse gas emissions are reduced to 40 percent below the 1990 level by 2030.

SB 380 (Pavley): Continues the moratorium on injection of natural gas at the Aliso Canyon gas storage facility until specified criteria, including testing, are met; requires the feasibility of the storage facility to be addressed; and requires the CPUC, with input from others, to determine the amount of gas necessary at the facility for safety, regional reliability and ensuring just and reasonable rates.

SB 887 (Pavley): Establishes a framework for reforming the oversight of natural gas storage wells, including continuous monitoring and the installation of specified safety technology.

STRATEGIC ALLIANCES AND REGIONAL AFFAIRS

EIM governance implementation:

The EIM Governing Body held its second public meeting on October 5 in Portland and received briefings on the policy outlook, settlements overview, the Western energy imbalance market activity, the Energy Imbalance Market Transitional Committee, the Body of State Regulators, the Regional Issues Forum, and the Aliso Canyon gas-electric coordination proposal phase 2. There were no decisional items for consideration at the meeting this month, however, the EIM Governing Body requested comments from stakeholders on how successful the EIM governance development process has been, how the EIM Governing Body can be most effective, and an appropriate vision of success. These comments are due on November 7 and will be posted to the ISO's EIM Governing Body webpage. Their next in-person meeting will be held on November 30 in Phoenix, AZ.

The Body of State Regulators (BOSR), led by Commissioner Ann Rendahl, has revised its bi-weekly call schedule to focus on EIM related issues and postpone further discussions on regional integration activities until there is more certainty on the governance discussion. The BOSR is developing the agenda for the next face-to-face meeting that is scheduled for the morning of October 31 in conjunction with the CREPC/WIRAB meeting in San Diego, CA.

The Regional Issues Forum (RIF) is working to schedule its next face-to-face meeting on November 29 in Phoenix. The meeting will take place on the day before the next off-site EIM Governing Body meeting to reduce the travel requirements. As part of the planning process, the RIF liaisons will hold update calls every three weeks as they develop the agenda for the next meeting. Additionally, the group is working with sector members on how stakeholder comments should be structured before the ISO posts them on the ISO's Regional Issues Forum webpage.

Regional outreach:

The ISO continues its outreach around the region as part of the ongoing effort to provide information and seek stakeholder feedback on the EIM and regional integration activities. This includes presentations at key regional industry and public forums, as well as briefings to Western regulatory and policy leaders. Discussions continue with other interested balancing authority areas and state regulators, as appropriate.

Regarding the transformation of the ISO to a regional organization, the final California SB 350 studies were submitted to the Governor on September 16 in fulfillment of the legislative mandate. The study results and supporting data files have been published on the ISO's Regional Energy Market webpage. On September 29 the ISO published

the third revised straw proposal for the Regional Resource Adequacy (RA) initiative and the second revised straw proposal for the Transmission Access Charge Options (TAC) initiative. The ISO held a stakeholder meeting for the RA initiative on October 6 and comments are due by October 27. A meeting with stakeholders related to the TAC initiative was held on October 7 with comments due by October 28. The ISO posted an issue paper on the Regional Integration California Greenhouse Gas Compliance initiative on September 29, 2016. The ISO hosted a technical workshop on October 13 to serve as an educational forum and discussion of options before a straw proposal is released. Comments on the workshop presentation are due by October 27.

Additionally, the ISO submitted a second revised proposal for Principles for Governance of a Regional ISO, along with a discussion paper and draft proposal of Potential Topics within the Primary Authority of the Western States Committee to the CEC's docket 16-RGO-01 on October 7, 2016. The CEC hosted a public workshop on October 17 to discuss the proposal and discussion paper, and comments from the public will be due to the CEC by October 31, 2016.

APS and PSE enter the EIM:

After significant training, systems integration, and testing, both Arizona Public Service (APS) and Puget Sound Energy (PSE) successfully cut-over their systems and fully integrated with the Western energy imbalance market on Saturday, October 1.

After the transition, the first hour of operations was very smooth and the few minor issues that developed were quickly resolved. Both APS and PSE passed all of the sufficiency tests for several hours after cut-over. The EIM transfer limits for the two new entities were blocked during the initial hours of the transition to allow systems to stabilize. The entities monitored system conditions, stability, and effectiveness of the market dispatch and then steadily increased transfer capacities across their interties over the next several hours. The EIM is now seeing healthy transfers in all directions. EIM transfers between PSE and PacifiCorp have hit the maximum EIM transfer limit of 300 MW with transfers between APS and the ISO reaching 1,200 MW.

Mountain West Transmission Group (MWTG):

On August 24 the MWTG notified the ISO that it was "setting aside" the ISO's proposal. The MWTG is continuing to evaluate the other proposals that were submitted. The main reason cited was uncertainty regarding ISO governance and a secondary issue was price.

External Resource Participation in the EIM:

The ISO will be participating in a technical conference at FERC on October 28 in Washington, DC. The conference is being held to collect additional information about the technical challenges of implementing economic bidding at EIM external interties.

FEDERAL AFFAIRS**Administration**

Department of Energy: On September 21, the Department of Energy issued a final rule to facilitate permitting for interstate power lines on federal lands. The rule would give developers the option of meeting with agencies and others prior to submitting permit applications in order to identify issues and expedite permit reviews.

Commodity Futures Trading Commission: According to Commodity Futures Trading Commission Chairman Timothy Masaad, who met with ISO/RTO, consumer and industry representatives on September 22, the Commission expects to issue a final order in October that will exempt the markets, products and persons of all seven U.S. RTOs and ISOs from private suits under the Commodities Exchange Act. This action alleviates concerns about RTOs/ISOs and consumers being exposed to costs of private litigation.

Congress

On September 28, the House and Senate both passed a 10-week continuing resolution maintaining funding for government programs through December 9. Following the votes approving the measure, the House and Senate recessed until November 14. President Obama signed the continuing resolution into law on September 29.

Judiciary

On September 27, the U.S. Court of Appeals for the District of Columbia Circuit heard oral arguments in *West Virginia et al v. EPA et al*, a case that challenges the Administration's Clean Power Plan, which establishes state-specific standards for CO₂ under Section 111(d) of the Clean Air Act. The Supreme Court in February issued a stay of the Clean Power Plan rule pending resolution of litigation before the D.C. Circuit. Ten of the eleven active judges in the court heard the arguments, which took place over almost seven hours. Arguments focused on whether the Environmental Protection Agency has the authority to promulgate the rule, as well as on its constitutionality. In 2015 multiple parties, including 27 states, sued EPA to block the ruling. California joined with 18 states and a number of cities, environmental and public health interests, and renewable stakeholders in support of the plan. The D.C. Circuit is not expected to

issue its decision until sometime between December and late February, 2017. Whatever the outcome, it is expected that the decision will be appealed and the Supreme Court will then determine whether to take up the case on appeal.