

Memorandum

To: ISO Board of Governors

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

Tom Doughty, Vice President, Customer and State Affairs

Date: March 17, 2016

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

This memorandum does not require Board action.

STATE AFFAIRS

Regulatory update

CPUC issues an Order Instituting Rulemaking to develop an Electricity Integrated Resource Planning Framework:

On February 11, the California Public Utilities Commission approved an Order Instituting Rulemaking in compliance with the requirements of Senate Bill 350 to adopt a process for integrated resource planning to ensure that load serving entities meet the state's emissions reduction targets. The proceeding will develop a framework for integrated resource plans (IRPs) and will build on the current Long-Term Procurement Planning (LTPP) proceedings. The IRP discussion will serve as an umbrella proceeding for 19 other proceedings, ranging from resource adequacy to distribution resource planning. The IRP discussion can authorize, but currently does not foresee a need for, additional capacity procurement. The proceeding will rely on a series of workshops to coordinate across agencies. The ISO will be fully engaged in this effort.

ISO participation in CPUC's Time-of-Use proceeding:

On February 26, ISO staff were presenters at a CPUC pre-hearing conference to discuss time-of-use rate periods that align with the grid's operational needs. This proceeding is a result of a request from the ISO for a consolidated proceeding to address time-of-use rate periods. The ISO participates in this proceeding by providing analyses on the shift in the peak period due to solar penetration and identifying periods when there is abundant renewable energy.

Renewable Energy Transmission Initiative (RETI) 2.0:

The ISO continues to collaborate with the California Energy Commission and CPUC on this initiative, which was launched in September 2015. Stakeholders are engaged in three working groups, one of which, the Transmission Technical Input Group (TTIG), is led by the ISO. The TTIG held a stakeholder meeting on January 22 to discuss and receive input on transmission planning status from California transmission planning entities and interregional transmission project developers.

The next RETI 2.0 stakeholder workshop has been tentatively planned for April 15. Participating stakeholders will receive a summary of the background information that has been collected, including quantitative estimates of total California renewable energy demand by 2030, a description of existing and planned transmission system capacities, and information on existing environmental and land use planning activities. The session will also help to identify renewable resource zones with potential transmission needs and transmission solutions that could integrate a range of renewables. Finally, stakeholders will discuss next steps, such as the development of methodologies for identifying transmission impacts of various resource scenarios and environmental and land use assessments to evaluate the feasibility of resource locations.

RETI 2.0 will culminate in a report in early October 15. The report will inform the development of renewable resource portfolios and the 2017-2018 Transmission Planning Process.

Legislative update**Aliso Canyon Storage Facility:**

On February 22, the California Assembly Utilities and Commerce Committee held a special hearing on SB 380 (Pavley), relating to the Aliso Canyon Underground Storage Field. In response to the methane leak at Aliso Canyon, California Senator Fran Pavley (D-Agoura Hills) introduced SB 380 which, among other provisions, prohibits further injection at the field until specified conditions are met. The Chairman of the Committee, Senator Mike Gatto, asked that the CPUC, CEC and ISO participate in the hearing. Mark Rothleder testified on behalf of the ISO and addressed questions regarding grid reliability.

Legislation:

February 19 was the last day to introduce bills. Staff are reviewing approximately eighty measures relevant to the ISO or the energy sector in general and will report on them throughout the legislative session, which concludes at the end of August.

Key bills include:

SB 380 (Senator Pavley): Referenced above, this measure institutes an immediate moratorium on all natural gas injections at the Aliso Canyon Underground Storage Facility until the following conditions are met:

1. the integrity and risk of each well is evaluated with state-of-the-art technology by the supervisor and independent experts;
2. the Division of Oil, Gas, and Geothermal Resources holds a public meeting about the methods and equipment used for evaluation; and
3. independent experts develop objective criteria to assess the overall risk of the facility. These criteria would be made public.

The bill also requires the CPUC, in consultation with the CEC and ISO, to determine the feasibility of minimizing or eliminating the use of Aliso Canyon while maintaining grid reliability.

SB 919 (Senator Hertzberg): Requires the CPUC, before July 1, 2017, in consultation with the ISO, to adopt and implement policies or tariffs that address the oversupply of renewable energy resources, including, but not limited to, a tariff for facilities that create or augment local water supplies, such as desalination, brackish water desalting, water recycling, or water reuse facilities.

SB 1453 (Senate President Pro Tem De León): Requires the CPUC to review any capital expenditure proposed by an electrical corporation for baseload generation that does not comply with the greenhouse gas (GHG) emission performance standard. Cost recovery would not be permitted in rates if it was assessed that the proposed capital expenditure would materially extend the service life of the baseload generation, if cost-effective alternative resources would provide value to customers and meet GHG performance standards, or if accelerated retirement of a baseload generation unit would promote state and regional goals for the reduction of emissions of GHGs.

AB 2454 (Assemblymember Williams): This measure re-characterizes the term “demand reduction” as “demand response.” It requires an electrical corporation to determine the availability of cost-effective, reliable, and feasible demand response resources, to consider the findings of a specified study due to the CPUC in 2016, and to consider both load-modifying and supply-side demand response resources.

STRATEGIC ALLIANCES AND REGIONAL AFFAIRS

EIM governance implementation:

Work continues to develop the EIM Governing Body. Through a public market notice and outreach to their sectors, the Nominating Committee collected names of potential candidates for the EIM Governing Body and is working with the executive search firm to narrow the list of qualified individuals.

The Nominating Committee includes the following liaisons:

- EIM Entities: Sarah Edmonds with PacifiCorp Transmission
- Participating Transmission Owners: Eric Little with Southern California Edison
- Suppliers and Marketers of Generation, ESPs: Mark Smith with Calpine
- Publicly-Owned Utilities: Randy Howard with Northern California Power Agency
- The Body of State Regulators: Doug Little, Commissioner with the Arizona Corporation Commission
- EIM Transitional Committee: Kevin Lynch with Iberdrola Renewables
- ISO Board of Governors: Governor Angelina Galiteva
- Public Interest and Consumer Advocate Groups: Jennifer Gardner with Western Resource Advocates

The Body of State Regulators, led by Commissioner Ann Rendahl, continues to discuss foundational issues and works to continue the process for providing notice of meetings and information to its members. The Body of State Regulators is working on the methods it will use to express its opinion in ISO stakeholder processes, the EIM Governing Body, and optimal scheduling of face-to-face meetings to mitigate travel expenditures.

The Body of State Regulators includes the following representatives:

- Arizona: Doug Little
- California: Michael Picker
- Idaho: Kristine Raper
- Nevada: Paul Thomsen
- Oregon: John Savage
- Utah: Thad LeVar
- Washington: Ann Rendahl
- Wyoming: Bill Russel

Each of the five sectors for the Regional Issues Forum has selected two representative liaisons. The liaisons have started to facilitate input and participation from their

respective sectors on potential agenda topics and content as well as timing and location for the first forum.

The Regional Issues Forum includes the following sector liaisons:

- Transmission owning utilities: Sarah Edmonds from PacifiCorp Transmission and Eric Little from Southern California Edison
- Independent power producers and marketers: Ryan Leonard from Iberdrola Renewables and Bob Khan from Northwest & Intermountain Power Producers Coalition
- Publicly owned utilities: Tony Braun from the California Municipal Utility Association and Clay McArthur from Deseret Power
- Consumer advocates and public interest groups: Cameron Yourkowski from Renewable Northwest and Dave Walker from the Wyoming Office of the Consumer Advocate
- Neighboring Balancing Authority Areas: Jim Shetler from Balancing Authority of Northern California and Suzanne Cooper from Bonneville Power Administration

Regional integration:

The ISO continues to work with stakeholders on the multiple policy initiatives supporting the evolution of the ISO to support a broader regional market. Straw proposals were posted on February 10 and February 24 respectively for the transmission access charge and resource adequacy stakeholder initiatives. The ISO held stakeholder meetings on March 1 and March 2 to discuss those topics. Metering rule enhancements is the third stakeholder initiative, intended to update the ISO revenue metering rules and provide market participants more flexibility under the ISO tariff. On this topic, the ISO posted a straw proposal on February 23 and hosted a conference call with stakeholders on March 3.

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 other regional 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.

FEDERAL AFFAIRS

Administration

Administration cybersecurity initiatives:

Just prior to the release of his budget proposal on February 9, President Obama issued a new Cybersecurity National Action Plan, proposing to increase federal cybersecurity funding by more than 30%, to over \$19 billion. The plan includes a \$3 billion fund for overhauling federal computer systems and establishes goals for strengthening partnerships with the private sector to deter, detect and disrupt cyber threats to critical infrastructure. It also proposes a new cybersecurity Center of Excellence, which will bring together industry and government experts to develop advanced cyber technologies.

On February 16, the Department of Homeland Security and the Department of Justice released interim policies and procedures for the Cybersecurity Information Sharing Act, which was incorporated in the long-term omnibus appropriations bill that passed in Congress on December 16, 2015. The Act provides liability protections to companies that share information on cyber threats or vulnerabilities with the government. The agencies will issue final guidelines, including a specific protocol for ensuring liability protections, by June 15.

Congress

Legislation introduced to split up 9th Circuit:

On February 3, Senator Jeff Flake (R-AZ) and Representative Matt Salmon (R-AZ) introduced companion bills (S. 2490 and H.R. 4457) that would split up the 9th Circuit Court of Appeals, with Arizona, Nevada, Montana, Idaho and Alaska to be moved to a new 12th Circuit and California, Oregon, Washington, Hawaii, Guam and the Northern Marianas remaining in the 9th Circuit. Also on February 3, Senators Steve Daines (R-MT) and Dan Sullivan (R-AK) introduced a bill (S. 2477) that would leave only California, Hawaii, Guam and the Northern Marianas in the 9th Circuit, with the other states moving to a new 12th Circuit. Both bills have been referred to the respective Senate and House Judiciary Committees for consideration.

Omnibus energy bill stalled in Senate:

Prospects remain uncertain for the “Energy Policy Modernization Act” (S. 2012), which is the first major energy bill to be taken up by the Senate since 2007. The 427-page bipartisan bill, sponsored by Senators Lisa Murkowski (R-AK) and Maria Cantwell (D-WA), contains provisions to enhance energy efficiency, provide for large-scale upgrades to the electric grid, support cybersecurity initiatives, and subsidize development of hydro and geothermal resources, among other things. Sponsors brought the bill to the Senate

floor on February 3, where it attracted more than 300 potential amendments, including an amendment sponsored by California Senators Dianne Feinstein and Barbara Boxer that would ensure federal support for state and local initiatives at the Aliso Canyon gas storage facility. The Feinstein-Boxer amendment passed by voice vote on February 3. However the bill stalled on February 4 due to disagreements about potential responses to the Flint, Michigan water pollution crisis. The bill remains stalled although negotiations continue. If passed in the Senate, the bill would still have to be conferenced with a House version (H.R. 8), which passed on a party-line vote in June.

Judiciary

Supreme Court stays Clean Power Plan:

As widely reported, on February 9 the Supreme Court overturned the decision of the Court of Appeals for the DC Circuit that denied petitioners a stay of the U.S. Environmental Protection Agency's (EPA's) Clean Power Plan, which established emissions requirements for existing power plants. The 5-4 ruling was considered to be an unusual action by the Court, since it has not previously acted to stay such a rule before review by the lower court. The case now moves to consideration of the plaintiffs' constitutional and statutory arguments by the D.C. Circuit, where briefs are due in April and oral arguments are scheduled for June 2. According to experts, if the Supreme Court decides to take up the case on appeal a decision would not be possible until at least 2017. EPA is now barred from enforcing the regulation, but the agency is expected to continue to issue guidance materials and related communications to states. The states of California, Colorado, Minnesota, New York, Oregon, Pennsylvania, Virginia, Washington and Wyoming have announced that they will continue working toward implementation of the plan.