

Memorandum

To: ISO Board of Governors
From: Karen Edson, Vice President, Policy and Client Services
Date: January 30, 2014
Re: Legislative and State Regulatory update

This memorandum does not require Board action.

STATE AFFAIRS

Regulatory update

Single Managed Forecast:

In February, 2013, the ISO, CEC and CPUC jointly responded to Senator Alex Padilla and Jean Fuller's letter requesting joint recommendations for changes to existing processes to ensure that the state's investments in energy efficiency achieve the goal of reducing the need for new power plants. Through collaboration the three entities have successfully agreed to a single forecast set to be used for resource and transmission planning and procurement processes, rather than the three separate agency forecasts used previously. The effort also aligned the uses of the forecast by each agency to ensure more uniform results. The agreement was documented in the 2013 final Integrated Energy Policy Report, which was adopted at the January 15, 2014 CEC business meeting.

CPUC issues Proposed Decision on Pio Pico:

On January 3, the CPUC Administrative Law Judge issued the Proposed Decision relative to Pio Pico Generating Station, approving SDG&E's proposed power purchase tolling agreement with Pio Pico. The Proposed Decision grants the request for approval in all respects, without modification. The ALJ summarily rejected all arguments recommending that the decision be deferred, or that the need could be filled entirely with preferred resources, or that the studies conducted by the ISO should be modified. The decision also made it clear that such arguments about the ISO transmission planning policies for the N-1-1 overlapping contingency constituted a collateral attack on the prior need determination and would not be re-litigated in this proceeding.

Comments on the Proposed Decision are due January 23, and the earliest opportunity for a Commission vote on the decision is February 5.

US EPA Carbon Pollution Guidelines for Existing Power Plants:

As reported in December, staff is participating in a collaborative effort led by CARB and involving the ISO, CEC and CPUC to provide input to the US Environmental Protection Agency as they develop carbon pollution standards for existing power plants.

Background

On June 25, 2013, President Obama issued a Presidential Memorandum directing the EPA to work expeditiously to complete carbon pollution standards for the power sector. EPA is using its authority under section 111(d) of the Clean Air Act to issue requirements that address carbon pollution from existing power plants and modifications of those plants. The Presidential Memorandum specifically directs EPA to build upon state leadership, provide flexibility, and take advantage of a wide range of energy sources and technologies toward building a cleaner power sector that provides reliable and affordable power to meet our energy needs. The Memorandum directs EPA to issue proposed carbon pollution standards and guidelines for modified and existing power plants by no later than June 1, 2014, and to issue final standards and guidelines by no later than June 1, 2015. States must submit implementation plans no later than June 1, 2016.

Recommendations to US EPA

On December 27, 2013 CARB Board Chair, Mary Nichols, sent a letter of recommendations developed by the interagency team to US EPA. In general, California is advocating for a system level (versus source-based) approach to compliance that recognizes existing programs in place such as cap-and-trade and energy efficiency initiatives. Comments in the letter were based upon six core principles. Principles of greatest interest to the ISO are that standards should:

- recognize that electricity system-level programs, such as energy efficiency measures, can cost-effectively curtail emissions from covered 111(d) sources.
- build upon working programs in the states, supporting the continued operation and extension of these programs as tools to achieve and demonstrate compliance with the standards in substantial part.
- be designed to maintain state control over energy programs and other system-level policies.

Next Steps

The inter-agency effort continues with a shift in focus to facilitating collaboration with other western states. Staff has reached out to the Western Governors Association,

which has expressed an interest in formulating recommendations to US EPA from the western states. A separate working group is looking at developing comments on proposed standards for new (versus existing) power plants. Staff will continue to participate in both inter-agency working groups.

Long-Term Procurement Plan Proceeding – Track 4:

The ISO has been actively involved as a party in Track 4 of the CPUC 2012 long-term procurement plan proceeding. The CPUC added this track to the scope of the 2012 proceeding on May 21, 2013 for the purpose of determining local area needs in the LA Basin and San Diego areas without SONGS. (Decision D.13-02-015 on February 13, 2013 authorized procurement in Track 1 of this proceeding for local capacity requirements based upon studies that included SONGS.) Our activity in this proceeding since last reporting on this item has included participation in evidentiary hearings in October and filing of briefs and reply briefs in December.

The outcome of this track of the proceeding is a critical regulatory action identified in the “Preliminary Reliability Plan for LA Basin and San Diego.” The ISO filed testimony in this track of the proceeding based upon planning studies that included assumptions defined by the CPUC. Studies reveal that (in addition to local capacity procurement authorized in the Track 1 decision) there is an incremental need of 2,300 – 2,542 MW by 2022, depending on the split of resources between the SCE and SDG&E local areas. The ISO supports requests by SCE and SDG&E for a “no regrets” approval of 1,050 MW all-source procurement. We expect to see a decision from the Commission in the first quarter of 2014.

Legislative Update

The legislature reconvened on January 6, 2014 for the second year in the two-year session.

Legislation:

Since the legislature returned, two-year bills have started moving again, and new bills have been introduced. Bills we are tracking include the following:

- **AB 177 (V. Perez) Renewable energy resources: Salton Sea.** On January 14, 2014 the author accepted the amendments that the Assembly Committee on Utilities and Commerce recommended in their analysis of the measure. The amended bill now declares that renewable resources in Imperial County near the Salton Sea can assist in grid reliability and lower renewable integration costs. Amendments also add specific language about electric reliability and renewable integration attributes to the CPUC’s procurement mandate. Finally, the measure mandates the CEC to convene a stakeholder group to provide advice on steps to properly develop renewable resources around the Salton Sea. Previous

amendments removed proposed changes to ISO-related provisions of existing law.

- **SB 456 (Padilla) Disclosure of sources of electrical generation:** Existing law establishes a program under which retail suppliers of electricity, including electrical corporations and local publicly owned electric utilities, disclose accurate, reliable, and simple to understand information on the sources of energy that are used to provide electric services. This bill would require that the information disclosed include how much electricity is purchased in-state vs. out-of-state as well as the percentage of annual sales of electricity dispatched from an energy storage system.
- **SB 760 (Wright) California Renewables Portfolio Standard Program:** The bill calls for the PUC, by rulemaking, to adopt a process that provides criteria for the rank ordering and selecting of least-cost and best-fit eligible renewable energy resources to comply with the California Renewables Portfolio Standard Program obligations on a total cost and best-fit basis. The bill requires that geothermal and other renewable be evaluated based on their ability to provide environmental and electrical system benefits and contribute to grid reliability.

FEDERAL AFFAIRS

Administration:

Presidential Memorandum on energy infrastructure review

On January 9, President Obama signed a Memorandum directing all federal agencies to contribute to a quadrennial review of the nation's energy infrastructure, including all systems used to transport, transmit or deliver energy. The review will be led by the Director of the Office of Science and Technology Policy and the Director of the Domestic Policy Council. The first report, which is due by January 31, 2015, is intended to be a roadmap for dealing with issues such as infrastructure interdependencies with water, telecom, and transportation systems; climate change impacts; and cyber and physical threats.

FERC/CFTC Memoranda of Understanding

Acting FERC Chair Cheryl LaFleur and outgoing Chair of the Commodity Futures Trading Commission Gary Gensler on January 2 finalized two long-awaited memoranda establishing non-binding agreements for jurisdiction over energy trades. The MOUs, which were required under the Dodd-Frank Wall Street Reform and Consumer

Protection Act, address legal issues and information sharing practices for market surveillance and other data from electricity and natural gas markets.

EPA publishes greenhouse gas rule for comment

On January 8, US EPA published in the *Federal Register* its revised New Source Performance Standards for power plant greenhouse gas emissions. The revised proposed rules establish separate standards for new coal-and gas-fired power plants and require coal-fired plants to use partial carbon capture sequestration technology. The agency is accepting comments on the proposal through March 10. A public hearing is scheduled for January 28 in Washington, DC. The standards, when finalized, will trigger similar emission standards for existing power plants under the Clean Air Act.

On January 16, Senate Republican Leader Mitch McConnell offered a “disapproval resolution” on the proposed rule under the Congressional Review Act, a seldom-used law that allows the Senate to repeal a regulation with a simple majority vote. A total of 40 Senate Republicans have cosponsored the resolution. Timing of any further action remains uncertain.

Congress:

2014 Outlook

As the 113th Congress returns to Washington for its second session, Members will be focused on both legislative priorities and the politics of a midterm election year. Both House and Senate were able to reach agreement on Fiscal Year 2014 budget and spending bills, averting another government shutdown and providing agencies with funding certainty through September 30. Initiatives of interest to the ISO that are expected to be high on the congressional agenda include the energy efficiency bill cosponsored by Senators Jeanne Shaheen (D-NH) and Rob Portman (R-OH), which is being rewritten to incorporate bipartisan amendments; extension of the Production Tax Credit for renewable energy projects, which expired in December; and cybersecurity legislation.

Senate committee transition

On December 18, President Obama announced his intent to nominate Senate Finance Committee Chairman Max Baucus (D-MT) as Ambassador to China. His departure is expected to trigger a domino effect in Senate committees, with current Energy and Natural Resources Committee Chairman Ron Wyden (D-OR) moving to chair the Finance Committee and Senator Mary Landrieu (D-LA) taking the gavel at Energy and Natural Resources. Senate Majority Leader Harry Reid endorsed her for Chair on January 16. Senator Landrieu’s major interests are related to oil and gas development.

Climate change initiative in Senate

On January 8, Senate Environment and Public Works Committee Chair Barbara Boxer announced that she and Senator Sheldon Whitehouse (D-RI) have established a Climate Action Task Force, with more than 20 members. The effort will focus on putting climate issues at the forefront of congressional debate this year. The group will also work to encourage regulatory efforts, promote energy efficiency legislation, and defeat anti-environmental legislation.

Cyber bill advances

On January 15, the House Homeland Security Committee's Subcommittee on Cybersecurity, Infrastructure Protection and Security Technologies approved by voice vote a bipartisan bill, H.R. 3696, entitled the "National Cybersecurity and Critical Infrastructure Act." The bill essentially codifies ongoing activities at the Department of Homeland Security to protect power plants, water systems and other critical infrastructure assets. Members approved an amendment that would require all federal agencies to disclose any serious data breach within 48 hours. The measure was supported by a coalition of utility advocacy groups, including the Edison Electric Institute, the National Rural Electricity Cooperative Association, the American Public Power Association, and the American Gas Association. At present, the bill does not have a Senate counterpart.

Delegation transition

Congressman George Miller (D-11th District --Richmond) announced on January 13 that he will not seek a 21st term in the House of Representatives, and Congressman Howard "Buck" McKeon (R-25th District – Santa Clarita) announced on January 16 that he will not seek a 12th term. Representatives Miller and McKeon join 14 other House Members who have also announced their retirement from office, including Congressman John Campbell (R-45th District – Irvine). An all-party California primary is scheduled for June 13, and the filing date is March 7.

STRATEGIC ALLIANCES AND REGIONAL AFFAIRS

Energy imbalance market (EIM):

Tariff stakeholder process

The Board's November approval of the market design provided Management with the authority to move forward with filing an amended tariff to the Federal Energy Regulatory Commission. The ISO is conducting additional stakeholder meetings and providing opportunities for comment on the draft tariff language, first released on November 12. The tariff amendment is scheduled to be filed February 28, 2014.

Governance proposal

Following the Board's approval of the EIM governance proposal at its December meeting, work has begun to organize the 7 sectors that will nominate and rank candidates. Interest in participation in the sector process is high and reflects a region-wide interest. This effort leads to seating of the EIM Transitional Committee by the Board at its May 2014 meeting.

PacifiCorp

Work is continuing between ISO and PacifiCorp on preparations for the October 1, 2104 go-live date of the EIM. PacifiCorp employees have been visiting the ISO for various training and data sharing exercises, and implementation milestones are continuing to be met. Draft market simulation scenarios will be developed over the next month and reviewed through the stakeholder process this spring.

Training

The ISO released the second EIM training module, in computer based training format. The module is available at <http://content.caiso.com/training/HowEIMWorks/player.html> and is entitled "How EIM works".

NV Energy

Following NV Energy's announcement that they plan to seek approval from their Public Utilities Commission (PUCN) to join the EIM, ISO staff have been coordinating the completion of the joint study, where preliminary results showed benefits to both balancing authorities. NV Energy plans to provide briefings to PUCN staff and commissioners over the next two months and will file an application for PUCN approval in March, followed by a filing with FERC of the EIM implementation agreement.

Engagement with potential EIM entities

Ongoing discussions continue with other interested outside Balancing Authority Areas to explore EIM within their territories.

Regional outreach:

The collaboration between the ISO and other regional stakeholders continues to provide beneficial feedback and input on the EIM governance process. Considerable support and comments were provided throughout the EIM governance stakeholder process. As an example, the chair of the PUC-EIM group, a working group of western utility commissioners under the Western Interstate Energy Board, signed a letter together with CPUC President Peevey and Commissioner Florio supporting the EIM governance proposal, reflecting valuable collaboration among key western regulatory officials. The PUC-EIM group plans to continue discussions of western market activities at its next meeting, scheduled for March 24-25 in Tempe, Arizona.