

Memorandum

To: ISO Board of Governors

From: Stacey Crowley, Vice President, Regional and Federal Affairs
Tom Doughty, Vice President, Customer and State Affairs

Date: November 7, 2018

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

This memorandum does not require Board action.

STATE AFFAIRS

Regulatory update

Aliso Canyon:

On October 10, 2018, the California Energy Commission published the Aliso Canyon Risk Assessment Report Supplement for Winter 2018-19. The report is a joint effort by the Aliso Technical Team, comprised of staff of the CEC, California ISO, California Public Utilities Commission and the Los Angeles Department of Water and Power. The team concluded that system conditions and risks are largely the same as last winter, and utilized the rigorous assessment completed for Winter 2017-18 in the Supplement.

Key messages:

- Southern California continues to face reliability challenges to its energy system this coming winter, primarily due to continuing outages and reduced capacity on principal natural gas transmission pipelines.
- Aliso Canyon is a resource of last resort and subject to the withdrawal protocol established by the CPUC.
- The need for curtailments will depend on the weather and how effectively consumers reduce gas demand if and when requested.
- With no reduced risk from last winter, all the mitigation measures established last year will need to continue.

The long-term use of the Aliso Canyon natural gas storage facility is being addressed in a CPUC Order Instituting Investigation proceeding (I.17-02-002), 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. Phase 1 will be resolved by the issuance of an Assigned Commissioner's Ruling providing guidance on the scenarios and assumptions that will be evaluated in Phase 2. 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.

The ISO is a party to this proceeding and has submitted formal comments on proposed scenarios developed by CPUC Energy Division staff in Phase 1. The CPUC staff has included the ISO's power flow modeling as the foundation of the production cost model and an input to the hydraulic modeling.

Significant event capacity procurement mechanism:

The ISO has determined that it will not designate additional capacity under the significant event capacity procurement mechanism (CPM) authority for November 2018. For September and October, the ISO issued a significant event CPM designation in light of an alternate load forecast presented by CEC staff. The initial load forecast was the basis of establishing resource adequacy requirements throughout the year. The alternate forecast has not been officially adopted by the CEC. In November, the ISO will still have available the 446 MW of capacity initially designated for September, now under a 60-day extension per section 43A.3.5 of the ISO tariff. The ISO will separately evaluate the needs for December 2018.

Legislative update

The Governor had until September 30 to sign or veto bills passed by the Legislature. November 30 marks the end of the 2017-2018 Regular Session. The Legislature will convene on December 3 to begin the 2019-2020 Regular Session and new statutes take effect on January 1.

Key legislation signed by the Governor:

SB 100 (De Leon): Establishes a 60 percent Renewable Portfolio Standard (RPS) by 2030, with interim targets of 44 percent by December 31, 2024 and 52 percent by December 31, 2027, and a goal for the remaining 40 percent of electricity sold at retail to be from zero-carbon resources by December 31, 2045. The bill requires the CPUC and the CEC, in consultation with the California Air Resources Board, to take steps to ensure that a transition to a zero-carbon electric system in California does not increase greenhouse gas emissions elsewhere in the western grid.

SB 237 (Hertzberg): Requires the CPUC to issue an order increasing the annual maximum allowable total kilowatt hour limit of the direct access service program by 4,000 gigawatt hours, apportioned across the service territories of electrical corporations.

SB 700 (Wiener): Extends the self-generation incentive program by five years, to December 31, 2024, and the administration of the program to January 1, 2026. The bill requires the CPUC to adopt requirements for energy storage systems to ensure that eligible energy storage systems reduce GHG emissions and prohibits generation technologies using nonrenewable fuels from receiving incentives after January 1, 2020.

SB 901 (Dodd): Establishes a framework to address and prevent catastrophic wildfires, including prevention and planning by the state's electric utilities, management of the state's forests and other lands to prevent and defend against wildfires, and standards to allow investor-owned utilities to recover costs through rates in the event of extensive liability resulting from claims of inverse condemnation. The bill also allows PG&E to issue state-authorized bonds to help cover their 2017 wildfire liabilities.

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.

SB 1339 (Stern): Requires the CPUC, in consultation with the CEC and ISO, to take specified actions by December 1, 2020, to facilitate the commercialization of microgrids for distribution customers of large electrical corporations. The bill also requires the governing boards of local publicly owned utilities to develop and make available a standardized process for the interconnection of a customer-supported microgrid, including separate electrical rates and tariffs.

SB 1369 (Skinner): Requires the CPUC, CARB, and CEC to consider green electrolytic hydrogen, defined as hydrogen gas produced through electrolysis, not including hydrogen gas manufactured using steam reforming or any other conversion technology that produces hydrogen from a fossil fuel feedstock.

STRATEGIC ALLIANCES AND REGIONAL AFFAIRS

Energy Imbalance Market (EIM) Governance:

The EIM Governing Body held a meeting on October 31 in Folsom, CA. In general session, they heard updates from the Regional Issues Forum (RIF) and Body of State Regulators (BOSR). They received briefings from the ISO on a number of EIM-related items, including the Q3 EIM benefits report, the quarterly policy outlook and day-ahead market enhancement 15-minute granularity initiative. The next in-person general session meeting will be held November 29 in Phoenix, AZ.

The BOSR held a meeting on October 24 in Mesa, AZ. They heard a briefing from the Department of Market Monitoring and received an overview from the ISO on the 2019 Draft Annual Plan and Three-year Policy Initiatives Roadmap. Jennifer Gardner of Western Resource Advocates gave a high level response to the draft 2019 plan laying out key issues that could be important to state regulators. The BOSR plans to hold their next call in January 2019.

The next in-person meeting of the RIF is scheduled for November 28 in Phoenix, AZ. Agenda topics include impacts of state policy developments in the west, EIM resource sufficiency evaluations, an update from the EIM Governing Body, and a briefing from the Department of Market Monitoring.

FEDERAL AFFAIRS

Administration

On October 4, the White House nominated Bernard McNamee, the Executive Director of the Department of Energy's Office of Policy, to serve as a Commissioner at the Federal Energy Regulatory Commission for a term expiring on June 30, 2020. McNamee, a Republican, was previously the Director of Life Powered, an initiative of the Texas Public Policy Foundation aimed at ensuring abundant and affordable energy. He also practiced energy law at McGuireWoods, LLP. The nomination requires Senate approval. A confirmation hearing has been scheduled for November 15.

On October 24, FERC Chair Kevin McIntyre announced that he would step down as Chair, citing ongoing health issues. Mr. McIntyre will remain at FERC as Commissioner for a term expiring on June 30, 2023. Also on October 24, President Trump named Commissioner Neil Chatterjee as FERC Chair. Mr. Chatterjee's term expires on June 30, 2021.

Congress

The House of Representatives recessed on September 28 and the Senate recessed on October 12. Both the House and Senate are scheduled to return for the post-election "lame duck" session on November 13, and to remain in session through December 13. Top priorities for the lame duck session will be approval of funding for a number of agencies that are now only funded through December 7, 2018. These include the departments of State, Homeland Security, Commerce, Interior and Justice, as well as the Environmental Protection Agency. The Department of Energy is among a group of agencies funded through September 30, 2019.

The second session of the 115th Congress will convene on January 3, 2019.

On October 3, the Senate passed, by unanimous consent, legislation that formalizes the Department of Homeland Security's (DHS) role as the federal agency overseeing civilian cyber security initiatives. The bill, H. R. 3359, establishes the Cybersecurity and

Infrastructure Protection Programs Directorate as a stand-alone organization within DHS to lead cybersecurity activities for federal networks and critical infrastructure entities, including electric utilities. The bill must now go to conference with the House, which passed its own slightly different version of the bill in December, 2017, during the lame duck session.

On October 10, the Senate approved “America’s Water Infrastructure Act” (H. R. 3021), by a vote of 99 to 1. The House approved an identical bill by voice vote on September 13 and the measure is now on the President’s desk for signature. The bill includes several energy-related provisions, including language streamlining the permit process for baseload hydropower plants and expediting licenses for hydropower projects at existing non-powered dams. It requires FERC to coordinate with other agencies in developing a list of existing non-powered dams with greatest potential for non-federal hydropower development. It also promotes construction of closed-loop pumped storage projects by requiring final licensing decisions within two years of initial application.