

Memorandum

To: ISO Board of Governors

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

Tom Doughty, Vice President, Customer and State Affairs

Date: August 24, 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 on this initiative, which was launched in September, 2015. Of the three working groups, the ISO leads the Transmission Technical Input Group.

The Transmission Technical Input Group held a stakeholder meeting on July 29 to present its preliminary assessment of the transmission implications of renewable development, particularly in a set of transmission assessment focus areas. 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 will form the basis for a final report to be published in September.

Regional outreach is being conducted through the Western Interstate Energy Board with meetings in Portland, OR and Las Vegas, NV. Feedback from stakeholders will be summarized in a report by the end of September.

RETI 2.0 plans on presenting a draft report in early October and a final report by late October, 2016. The report will inform the development of renewable resource portfolios by the CPUC and CEC to be used in the 2017-2018 transmission planning process.

Aliso Canyon update:

The California Energy Commission, California Public Utilities Commission, ISO, and the Los Angeles Department of Water and Power continued collaborating on the implementation of mitigation measures identified in the Aliso Canyon Action Plan to Preserve Natural Gas and Electricity Reliability for the Los Angeles Basin (Summer Action Plan) released on April 5 and its May update. The agencies completed implementation activities for 17 of the 22 mitigation measures identified for summer. Some measures will continue through the winter, and the agencies will be adding new measures to address the specific winter needs. FERC approved, on an interim basis, the ISO's filing of mitigation measures related market changes that were implemented in June and July. The ISO will evaluate if these measures need to be extended based on how well they have performed and the needs of a winter assessment. The agencies will also be identifying potential opportunities for gas demand response and will help ensure cold weather messaging (beginning in the fall) is in place to encourage gas conservation. The Department of Market Monitoring will continue to monitor the impact of the special market measures approved by FERC and report their findings in the DMM August quarterly report.

In addition to the Summer Action Plan, the agencies released on August 22 an assessment of natural gas and winter reliability issues for the upcoming 2016-2017 winter. This analysis provides updated and new mitigation measures to address risks to reliability this winter and will be reviewed by an independent third party. These updates and the new analysis will be discussed at a public workshop on August 26 in Southern California.

The Aliso Canyon Natural Gas Storage Facility continues to maintain storage in the amount of 15 billion cubic feet, as ordered by the CPUC. However, a moratorium remains in place that prohibits Southern California Gas from injecting natural gas into Aliso Canyon until a comprehensive safety review of the facility is completed. As of July 28, 16 wells had passed all tests required under the safety review. The safety review continues and the Division of Oil, Gas, and Geothermal Resources process to evaluate reinjection may begin by Mid-September.

Lastly, the ISO called for Flex Alerts on July 20, 27, and 28 due to high temperatures and increased loads. There were no gas issues associated with these Flex Alerts.

Legislative update

ISO Board of Governors Senate Rules confirmation hearing:

Senate Rules Committee confirmation hearing for Mark Ferron, Member of the ISO Board of Governors, was held on Wednesday, June 29, 2016. Governor Ferron was confirmed by the full Senate on June 30, 2016. Senate Rules Committee confirmation hearing for Dave Olsen was held on Wednesday, August 10, 2016.

Transformation of the ISO into a regional organization:

The ISO has been a key participant in a series of ongoing meetings regarding regional expansion of the ISO that are being led by Sue Kateley, Chief Consultant to the Assembly Utilities and Commerce Committee, and Cliff Rechtschaffen with Governor Brown's office. Approximately fifty representatives from the legislative, environmental, consumer groups, utility and resource developer sectors participate in the roundtable discussions.

Legislature:

The legislature reconvened from summer recess on August 1. August 31 marks the last day for each house to pass bills, giving the Governor until September 30, to sign them. The 2015-2016 Regular Session adjourns on November 30.

Legislation:

Staff is tracking approximately forty eight measures relevant to the ISO or the energy sector in general.

AB 33 (Assemblymember Quirk): This measure would require the CPUC to study long duration bulk energy storage resources to help integrate renewable generation into the electric grid.

AB 1110 (Assemblymember Ting): This measure would require the CEC to develop a reporting program for retail suppliers to disclose greenhouse gas intensity and their electric portfolio, with certain exceptions.

AB 2630 (Assemblymember Salas): This measure would require the ISO to take into account the May 2016 Solar Convening Report and the Garamendi Principles in transmission planning. It also requires the CPUC, CEC, and ISO to take into account the Report and the Principles in the Renewable Energy Transmission Initiative.

SB 887 (Senator Pavley): This measure would establish 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 newly appointed EIM Governing Body held an orientation and training session on August 8 and 9 in preparation for its first decisional market rule change which is tentatively scheduled for October. Additionally, the Governing Body is planning to hold its first public meeting on August 30 and attend the upcoming Stakeholder Symposium in September.

The Body of State Regulators, led by Commissioner Ann Rendahl, continues to conduct bi-weekly noticed calls that rotate between EIM and regional integration topics. The body is working to schedule its next face-to-face meeting in coordination with the upcoming CREPC/WIRAB meeting in San Diego, CA at the end of October

The Regional Issues Forum held its second meeting on August 4th at the Idaho Power headquarters in Boise. There were approximately 117 attendees on webinar and 50 attendees in person. Among other topics, the group walked through the proposed amendments to the Air Resource Board's cap-and-trade program and expanded external resource participation in the EIM. Through a consensus vote the sector liaisons approved the revised operating guidelines and are working to schedule the next forum in coordination with the upcoming CREPC/WIRAB meeting at the end of October in San Diego.

EIM 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.

Regional energy market:

The ISO continues to work with stakeholders on the multiple policy initiatives supporting the evolution of the ISO to support a broader regional market. Stakeholder working groups were held on July 20 to discuss the maximum import capability, import resource adequacy resources, and uniform counting rules for resource adequacy, and on August 10 to discuss the resource adequacy reliability assessment, inclusive of

uniform counting rules and planning reserve margin. Comments from stakeholders were requested by August 17.

Additionally, a working group was held on August 11 to discuss the default cost allocation for regional transmission projects and the region-wide rate for exports under the transmission access charge policy proposal. The ISO asked stakeholders to provide comments by August 25, 2016.

We are targeting a Q3 commencement of the greenhouse gas and the grid management charge policy initiatives.

On July 26, 2016, the ISO presented the results of studies conducted pursuant to SB 350, assessing the impacts of a regional grid on California and its rate payers. It also presented its revised proposal of principles for regional governance. There were 151 people in attendance and 223 people online. There were numerous public statements from a broad range of stakeholders made on both the studies and governance at this all day workshop led by the Energy Commission, the Public Utilities Commission and the Air Resources Board. Following the workshop, 33 stakeholders submitted written comments. These, as well as other public comments made on earlier workshops on governance are available for review on the CEC website under docket 16-RGO-01.

Mountain West Transmission Group (MWTG):

The MWTG is a group of seven transmission operators including Xcel Energy, WAPA, and Tri-State, representing load primarily in Colorado, and also parts of Wyoming, New Mexico and Arizona. On July 15, the ISO submitted a proposal in response to the RFI from MWTG that seeks options on independent tariff administration and full market participation. In addition to the ISO proposals were submitted by Southwest Power Pool, Mid-Continent ISO, and PJM.

FEDERAL AFFAIRS

Administration

On July 19, the Department of Energy's Office of Energy Efficiency and Renewable Energy announced a new, cross-government partnership called the *Clean Energy Savings for All Americans Initiative*, featuring cooperation between DOE and the departments of Housing and Urban Development, Agriculture, Health and Human Services, the Veterans Administration and the Environmental Protection Agency. The initiative is aimed at increasing access to solar energy and energy efficiency, especially in low- and moderate-income communities, with a goal of bringing one gigawatt of solar energy online by 2020. The initiative includes innovative financing, technical assistance, workforce training, and coordinating with private and philanthropic interests.

On July 21, the Administration announced a collaborative initiative with the departments of Energy and Transportation, the EPA, and the Air Force and Army aimed at promoting consumer adoption of electric vehicles. The initiative consists of providing \$4.5 billion in loans to finance a national vehicle charging infrastructure network; accessing transportation funding to identify zero emission and alternative fuel corridors; and working with state, county and municipal governments in partnership with federal agencies to procure subsidized electric vehicle fleets. The initiative also sets forth guiding principles to encourage market growth and adoption of electric vehicles that are accessible, affordable and reliable for consumers.

On July 26, the White House issued a Presidential Policy Directive setting forth principles for the Federal Government's response to a cyber incident involving the government or the private sector. Principles for federal action in the directive include a commitment to sharing responsibility by individuals, government and the private sector to manage cyber incidents and their consequences; deference to affected entities in providing information to other parties and the public; establishing unified federal response efforts; and balancing security, health and safety with an entity's operational needs.

Congress

Both House and Senate are in recess through Labor Day. Congress is also scheduled to be in recess most of October and early November, leading up to the November 8 election.

Legislative update:

On July 7, Senators Lisa Murkowski (R-AK) and Maria Cantwell (D-WA), the Chair and Ranking Member, respectively, of the Senate Energy and Natural Resources Committee, announced an agreement to allow House-Senate conference on the omnibus energy legislation that has been passed by both House and Senate in different versions. The House named conferees on May 26 and the Senate followed suit on July 12. California Representatives Lois Capps (D-24th District – Santa Barbara), Doris Matsui (D-6th District – Sacramento) and Jared Huffman (D-2nd District – San Rafael), who are members of the House Energy and Commerce Committee, are among the House-named conferees. Senator Murkowski has said that she has gained agreement from House leadership to omit controversial “poison pill” amendments that earned the House version, H.R. 8, a veto threat from the White House. The draft conference vehicle has not been released at this writing.

On July 12, the House passed H.R. 4768, the “Separation of Powers Restoration Act,” which would end judicial use of the so-called *Chevron Doctrine*, a Supreme Court ruling that requires courts to defer to agency interpretations of ambiguous laws, as well as the

so-called *Auer Doctrine*, which favors agency experts' interpretations of ambiguous regulations in court proceedings. The White House has threatened to veto the bill on the grounds that it would unnecessarily overturn Supreme Court precedent and interfere with timely rulemaking processes. The Senate has not taken up the bill to date.

Both House and Senate voted in July to extend Federal Aviation Administration programs through September of 2017, sending the bill to the President for signature without a provision that would extend expiring investment tax credits for geothermal, combined heat and power and fuel cell facilities. Those "qualifying resources" were inadvertently left out of last year's omnibus tax package. Advocates are hoping to identify another vehicle to move the extenders before the end of this congressional session.

On July 7, the House Science, Space and Technology Committee passed an unnumbered draft bill sponsored by committee chairman Lamar Smith (R-TX) establishing an Electric Storage Basic Research Initiative at the Department of Energy to pursue "aggressive, milestone-driven" storage research goals. Floor consideration is not yet scheduled.

On July 14, the House approved legislation to fund the Environmental Protection Agency and other land and water agencies in Fiscal Year 2017. The bill, as passed, contains provisions that would block implementation of the EPA Clean Power Plan and do away with a number of other programs related to water projects. The Senate has not taken up the bill. Most observers predict that a year-end continuing resolution will be the most likely outcome of congressional funding deliberations for the next Fiscal Year, which begins on October 1.

Legislation introduced:

S. 3159, the "Energy Storage Tax Incentive and Deployment Act," sponsored by Senator Martin Heinrich (D-NV), extends investment tax credits currently in place for solar energy facilities to energy storage projects for both business and residential applications. The bill has been referred to the Senate Committee on Finance.