

Memorandum

To: ISO Board of Governors

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

Tom Doughty, Vice President, Customer and State Affairs

Date: December 7, 2016

Re: State, Regional and Federal Affairs update

This memorandum does not require Board action.

STATE AFFAIRS

Legislature:

As a result of the November 8, 2016 elections, Democrats in the Assembly and Senate gained a full two-thirds supermajority. With a supermajority they can approve tax increases, place measures on the statewide ballot, enact laws immediately with an urgency clause, and override a governor's veto, without any Republican support. In total, there will be 55 Democrats and 25 Republicans in the Assembly, and there will be 27 Democrats and 13 Republicans in the Senate. Assembly Speaker Anthony Rendon and Senate President *pro tempore* Kevin de León will soon announce energy committee membership, as well as changes in leadership and staff.

November 30 marked the official end of the 2015-2016 Regular Session, and the Legislature reconvened on December 5 for an Organizational Session to begin the 2017-2018 Regular Session.

STRATEGIC ALLIANCES AND REGIONAL AFFAIRS

Energy Imbalance Market:

FERC held a technical conference on October 28 to address intertie bidding at the EIM boundaries. The ISO discussed both external resource participation in EIM and other concepts that could enhance EIM participation by reducing the implementation and ongoing costs for entities that want to participate in EIM. Those concepts explore potential changes in the scheduling timeline, aggregation of smaller BAAs, and the concept of shared EIM services that would centralize some EIM functions and reduce costs for the EIM entities. These same topics were discussed at the November 29,

2016 RIF meeting in Phoenix. The ISO will continue to frame these cost improvement concepts with existing and potential EIM entities.

The EIM Governing Body held its third public meeting on November 30th in Phoenix. The Governing Body received briefings from the Department of Market Monitoring, the Regional Issues Forum, and the Body of State Regulators as well as updates from the ISO on the western energy imbalance market, and responses to the feedback survey. The EIM Governing Body received a presentation regarding the metering rules enhancement initiative, and determined to exercise its advisory role in support of Board approval of the initiative. The EIM Governing Body also passed a motion supporting the guidance document and its submission to the Board, and discussed future agenda items. Their next in-person meeting is an executive session which will be held on January 18. The Body of State Regulators, led by Washington Utilities and Transportation Commissioner Ann Rendahl, held its in-person meeting in San Diego on October 31. At the meeting, Commissioner Rendahl was elected to serve another term as chair and Arizona Corporation Commission Chair Doug Little was elected vice-chair. The Body of State Regulators received an update from the EIM Governing Body Chair, Kristine Schmidt, on its activities as well as a briefing from FERC Commissioner Cheryl LeFleur on EIM matters before FERC and her general comments on markets and Commission activities. Arizona Public Service (APS) and Puget Sound Energy (PSE) provided updates on their integration experience and the ISO presented on the status of the EIM, a policy outlook update, the draft guidance document on the decisional authority of the EIM Governing Body, and carbon attribution in the EIM. Commissioner Rendahl is working with the Regional Issues Forum (RIF) Liaisons and the EIM Governing Body to align meeting schedules and reduce travel expenses for all three groups. The Body of State Regulators is working to develop a strategy for educating its members on EIM policy initiatives and informing the EIM Governing Body on issues of primary and advisory authority. The next in-person meeting is scheduled to take place in Nevada in March, in tandem with the EIM Governing Body meeting.

The Regional Issues Forum held an in-person meeting on November 29 in Phoenix on the day before the EIM Governing Body meeting. The forum received briefings from APS and PSE on the implementation of the western energy imbalance market and were also briefed on potential EIM entities. The meeting then moved to a discussion on the FERC technical conference on expanded external resource participation as well as identification of stakeholder issues regarding the bilateral markets, expanded EIM options, initiatives from the ISO stakeholder catalog that address these issues, and a status on prioritization. The meeting concluded with a presentation from the ISO on EIM carbon attribution and a discussion on education opportunities on EIM settlements. The next in-person RIF meeting is tentatively scheduled for March, 2017 along with the EIM Governing Body and Body of State Regulators meeting.

As part of its regional outreach, the ISO is engaged with several western entities that are studying the EIM benefits and costs for their specific balancing area.

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. On October 17, the ISO presented its *2nd revised Principles for Governance of a Regional ISO* and its *Potential Topics within the Primary Authority of the Western States Committee* papers at a CEC-led workshop. The ISO received hundreds of pages of thoughtful comments on October 31 and are incorporating stakeholder feedback and suggestions into the next iteration of the governance proposal and Western States Committee framework. Western state utility commissioners and energy policy leaders met on November 2 in San Diego and again on December 5 in Salt Lake City to discuss principles for governance of a regional ISO. California stakeholders have been meeting regularly as well, led by key legislative staff and advisors from Governor Brown's office, to discuss various components of regionalization.

In early December, the ISO published draft regional framework proposals for both regional resource adequacy (RRA) and for regional transmission access charge options (TAC) initiative. Additionally, a straw proposal for regional greenhouse gas was published on November 17 with comments being sought by mid-December. The final 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.

FEDERAL AFFAIRS

Outlook:

The 115th Congress will convene on January 3, 2017 for a session lasting through December 31, 2018, with Republicans controlling both Executive and Legislative branches of the federal government. Transition team leaders for the new Administration are being selected and will arrive at agencies in late this year. Selection of the President-elect's Cabinet-level appointments is also underway. Leadership and committee assignments are also under consideration in both House and Senate.

In the U.S. Senate, Republicans will hold 51 seats and Democrats 48 (including two Independents who caucus with the Democrats). A runoff election scheduled in Louisiana on December 10 is expected to go to the Republican candidate, making the final total 52 to 48. As a practical matter, a total of 60 votes are needed under current Senate rules to pass legislation, so Senate Democrats will still have significant weight in deliberations.

In the House, Democrats will hold 194 seats vs. 239 for Republicans, with two Louisiana seats still to be determined on December 10. A total of 218 members are needed for a majority. Of the 139 Democrats elected, 39 are from California.

The California delegation was joined by 6 new members, all Democrats:

- Attorney General Kamala Harris defeated Representative Loretta Sanchez (D -- 46th District – Garden Grove) to take the Senate seat opened by the retirement of Barbara Boxer.
- Ro Khanna defeated Representative Mike Honda (D) in the 17th District (Santa Clara). Representative Honda was the only incumbent California delegation member who was defeated in this election cycle.
- Jimmy Panetta, son of Leon Panetta, won in the 20th District (Salinas) to take the seat vacated by retiring Congressman Sam Farr (D).
- Salud Carbajal won in the 24th District (Santa Barbara) to take the seat vacated by retiring Representative Lois Capps (D).
- Nanette Barragan won in the 44th District (Santa Monica) to take the seat vacated by retiring Representative Janice Hahn (D).
- Lou Correa won in the 46th District (Garden Grove) to take the seat vacated by Loretta Sanchez.

President-elect Trump has issued an “America First Energy Plan” calling for expanded domestic fossil energy development, approval of the Keystone Pipeline, and rescinding the Obama Administration’s Climate Action and Clean Power plans, as well as ending funding for United Nations climate change programs. The incoming Administration has promised to provide \$1 trillion in infrastructure spending, including support for the electricity grid, telecommunications infrastructure, and construction of roads, bridges and water projects. The plan also promotes tax incentives to encourage private business investments in these initiatives.

Lame duck session:

The 114th Congress’s post-election “lame duck” session began on November 14. The major order of business for the session will be action on funding for federal government programs before the current short-term Continuing Resolution expires on December 9. At this writing, it appears that House and Senate leadership will focus on another short-term funding bill to support government agency programs through March 31, 2017. Action on an omnibus energy policy bill now under consideration by a House-Senate conference committee is also possible, although the conference vehicle has not yet been publicly released. Congress is currently scheduled to recess for the year on December 16.