

# 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 6, 2017

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

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*This memorandum does not require Board action.*

## STATE AFFAIRS

### Regulatory update

#### Aliso Canyon Update

The ISO continues to work closely with the joint agency team (California Energy Commission (CEC), California Public Utilities Commission (CPUC) and Los Angeles Department of Water and Power (LADWP)) to complete the “Aliso Canyon Winter Risk Assessment Technical Report - 2017-18 Supplement.” The supplement relies on the same gas system modeling assumptions and results presented in the previous Aliso Canyon Winter Risk Assessment Technical Report. The assessment concludes that uncertainties will present new challenges in the winter of 2017-18: Specifically, three natural gas pipelines that the Southern California Gas Company relies on are out of operation. One of these pipelines ruptured on October 1, and its uncertain return to operation raises significant concerns. In addition, LADWP has scheduled necessary maintenance on electricity transmission lines, with work starting February 1.

The combination of these factors with possible additional events makes it likely that the natural gas reserves at the Aliso Canyon storage facility will be needed and that Southern California residents will be called on to conserve both electricity and natural gas at a rate greater than a year ago. Additional factors such as efficiency increases gained from scheduling changes and electricity imports from outside the region could help balance the supply and demand of energy. However, cold weather or unexpected deficiencies in either the natural gas or electricity delivery systems could create concerns.

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) that was opened on February 9, 2017. In Phase 1, the CPUC 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 CPUC 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 CPUC's decision on the appropriate use of the storage field.

### **Legislative update**

The Legislature is currently in recess and will reconvene for the second year of the two-year session on January 3, 2018.

## **STRATEGIC ALLIANCES AND REGIONAL AFFAIRS**

### **Energy Imbalance Market (EIM):**

The EIM benefits report released in October showed total EIM benefits of over \$254 million since the EIM began in November, 2014. The 4th quarter 2017 EIM benefits report will be released in January and will be the first to include Portland General Electric, which began participation on October 1.

Preparations continue for successful implementation of Idaho Power Company and Powerex in April 2018.

As part of its regional outreach, the ISO is engaged with several western entities that are studying EIM benefits and costs for their specific balancing areas. One of the entities studying EIM participation is the Mexican grid operator El Centro Nacional de Control de Energía (CENACE), specifically the Baja Norte area.

### **Energy Imbalance Market (EIM) Governance:**

The EIM Governing Body held a meeting in Boise, ID on November 29. In a general session, they received briefings from ISO staff on a number of EIM-related items, including an update on the western EIM market and a policy outlook. They also heard updates from the Regional Issues Forum (RIF) and the Body of State Regulators (BOSR). The Governing Body voted to approve proposed EIM system functionality enhancements intended to automate manual processes, facilitate bilateral financial settlements, and expand the market's modeling capabilities. The Governing Body also voted to provide the Board with advisory input supporting the non-generator resource modeling functionality proposal. These enhancements are elements of the consolidated

energy imbalance market initiative. The next in-person general session meeting will be held on January 23 in Folsom, CA.

The BOSR held an in-person meeting on October 16 in Reno, NV. During the meeting, Commissioner Jordan White was elected as the new chair and Commissioner Ann Rendahl was elected vice-chair and nominating committee representative. The agenda included a review of BOSR governance documents, comments received as part of its stakeholder feedback survey, and the ISO provided an update on the western EIM and the 2018 ISO Policy Initiatives Catalog process. Chair White is working with the ISO and Western Interstate Energy Board (WIEB) to transfer administrative duties of the BOSR to WIEB staff and to assist in the development of common positions on EIM issues for the BOSR to consider. The next meeting is a teleconference scheduled for January 8.

The RIF sector liaisons, led by Cameron Yourkowski as chair, held an in-person meeting on November 29 in Boise, ID. The forum included stakeholder-led presentations on hydro resources in the EIM, third-party and jointly owned participating resource examples, and the BPA-CAISO Coordinated Transmission Agreement. The liaisons have scheduled the next in-person meeting in Los Angeles, CA on March 7.

## **FEDERAL AFFAIRS**

### **Administration**

Federal Energy Regulatory Commission (FERC) Chair Neil Chatterjee announced at the November 16 Open Meeting that the agency will move on from the Department of Energy's proposed grid resilience Notice of Proposed Rule, and will be seeking a constructive, legally defensible solution that will not distort wholesale energy markets. Chatterjee suggested that FERC should adopt an interim plan under Section 206 of the Federal Power Act requiring ISOs and RTOs to update their tariffs to keep plants that show "resilience attributes" online or to demonstrate why that is not necessary. FERC would then have additional time to consider an appropriate longer-term rulemaking.

### **Congress**

Congressional focus is on tax reform legislation, with House and Senate differing on treatment of renewable energy resources. The House bill, H.R. 1, which passed on November 16, reduces the value of the production tax credit for wind projects from 2.3 cents/kWh to 1.5 cents and also imposes stricter deadlines for production tax credits and investment tax credits for solar and wind projects. The bill would also repeal the \$7500 electric vehicle tax credit after 2017. The House bill would provide investment tax credits for technologies such as fuel cells, small wind, geothermal heat pumps and other systems that were left out of the 2015 tax extenders agreement. In the Senate,

the Finance Committee released its draft of tax reform legislation on November 14 and advanced it out of committee on November 16. The Senate version does not change the wind and solar energy production or investment tax credits, leaving in place the phase-out terms established in 2015. It also leaves the tax credit for electric vehicles intact. However, it does not address the expired energy credits for fuel cell, small wind, and geothermal technologies. Senator Chuck Grassley (R-IA) has announced that Senate Republicans will address certain of those energy credits in a separate “extenders bill” after tax reform legislation is passed.

The current continuing resolution funding government programs will expire on December 8, so it is considered likely that Congress will take up an additional continuing resolution that will extend funding closer to the end of the year.

### **Judiciary**

On November 8, the U.S. Court of Appeals for the D.C. Circuit issued an order extending the hold on lawsuits over the Obama Administration’s Clean Power Plan for an additional 60 days, until January 8. The court heard oral arguments on the plan in September, 2016, and placed the case temporarily in abeyance in April, 2017 and again in August. EPA Administrator Scott Pruitt has said that the agency will issue a replacement proposal in the near future.