



# Memorandum

**To:** ISO Board of Governors

**From:** Karen Edson, Vice President, Policy and Client Services

**Date:** January 27, 2016

**Re:** **State, regional and federal affairs update**

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*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 and California Public Utilities Commission on this initiative, which was launched in September 2015. Specifically, RETI 2.0 will explore combinations of renewable generation resources in California and throughout the West that can best meet goals, identify land use and environmental opportunities and constraints to accessing these resources, build understanding of transmission implications of renewable scenarios, and inform future planning and regulatory proceedings.

The ISO is leading the initiative's Transmission Technical Input Group (TTIG), which is working with California planning entities to assemble relevant in-state and west-wide transmission capability and upgrade cost information to inform resource development combinations on the reasonably-needed transmission system and to assist in developing potential corridor scenarios. The TTIG is meeting with California planning entities weekly and has conducted its first stakeholder meeting on January 22 to discuss and receive input on transmission planning status and get updates on interregional planning activities and development. The next stakeholder workshop will be held in March to present and receive input on draft results of information gathering.

The CEC is leading a second technical group, the Environmental and Land Use Technical Group. Both technical groups will provide input to the Plenary Group, which will construct and discuss combinations of renewable energy resource areas and associated transmission improvements that can help achieve California's 2030 climate and renewable energy goals. The Plenary Group will discuss and vet planning assumptions, utilizing data from CEC, CPUC and the ISO that support the overall goals

of the RETI 2.0 process, evaluate selection priorities, and consider potential environmental and land use information to assist with identifying lower conflict areas for potential renewable energy development. RETI 2.0 is on track to provide this information, which will serve as an input to the 2017-2018 transmission planning process.

### **Expected Changes to 2016 Long Term Procurement Plan (LTPP):**

CPUC President Michael Picker sent a letter to Steve Berberich and CEC Chair Robert Weisenmiller outlining anticipated changes to the 2016 LTPP proceeding. President Picker's letter noted that, given the CPUC's need to focus resources and attention on Senate Bill 350 implementation, staff from the joint agencies has recommended that the CPUC move forward with a new 2016 LTPP proceeding, but narrowly scope it to not reassess procurement needs or authorize new procurement, except under extraordinary circumstances.

The current resource adequacy picture for California's large investor-owned utilities appears sufficient for system, local and flexibility needs. While planning assumptions and scenarios will still be developed, the CPUC will defer the normal two-year planning process until 2018, the next cycle of the LTPP. The ISO agrees with the changes proposed by the CPUC and will continue to assess the need for additional resources through our own planning studies.

### **Legislative Update**

#### **Legislature:**

The legislature began the second year of the two-year session on January 4, 2016. Prior to returning from recess, Speaker Toni Atkins appointed Assembly Member Mike Gatto (D-Glendale) as Chair of the Assembly Utilities and Commerce Committee. He replaces Assemblymember Anthony Rendon (D-Lakewood) who on January 11 was officially elected by his fellow Assembly members to serve as the next Speaker. He will assume the role on March 7, and given term limits could potentially serve until 2024.

Assemblymember Mike Morrell (R- Rancho Cucamonga) was appointed Vice Chair of the Senate Committee on Energy, Utilities and Communications, replacing Senator Jean Fuller, who is now the Senate Minority Leader.

The last day for bills to be introduced is February 19.

#### **Aliso Canyon Gas Leak:**

Efforts continue to repair the natural gas leak discovered in late October, 2015 at the Aliso Canyon Underground Storage Field, which is located north of Los Angeles. Operated by the Southern California Gas Company (SoCal Gas), this field is the largest of four gas storage facilities in the Los Angeles Basin.

On January 26, 2016, Governor Brown declared a State of Emergency in the area, and numerous state agencies are involved in the response and investigation into the leak. In the emergency response declaration, the Governor called on the CPUC and the CEC, in coordination with the ISO, to take all actions necessary to ensure the continued reliability of natural gas and electricity supplies in the coming months during the moratorium on gas injections into the Aliso Canyon storage facility. Working with SoCal Gas and the state agencies, the ISO is conducting assessments to determine any reliability risks should Aliso Canyon be shut down for an extended period, or should the facility be otherwise unable to provide normal gas flows into the SoCal Gas system.

An oversight hearing was held by the Assembly Utilities and Commerce Committee on January 21 in Granada Hills, a neighboring community to Porter Ranch, which is the community most directly affected by the leak.

The hearing was attended by federal, state and local lawmakers, all of whom called for legislation to address things like when and how utilities must inform residents of such emergencies, and compensating affected residents for reduced home values.

A representative from the Southern California Gas Company and the CPUC each testified. The CPUC's representative emphasized the work being done with the ISO, CEC and others to plan for reliable electric operations in light of the leak.

Prior to the hearing, Senators Fran Pavley and Ben Allen introduced a package of bills in response to the gas leak. The legislation has several goals, including:

- halting new injections of natural gas into the Aliso Canyon storage facility until all wells have been deemed safe;
- proposing that all natural gas storage wells in the state be inspected before January 1, 2018 and annually thereafter;
- installing subsurface safety valves and new leak-detection technology, and developing more rigorous leak response plans; and
- designating the Office of Emergency Services as the lead agency in dealing with future leaks.

## **STRATEGIC ALLIANCES AND REGIONAL AFFAIRS**

### **Energy Imbalance Market (EIM) Expansion and Implementation:**

Following NV Energy's entry into full EIM participation on December 1, 2015, early operations have resulted in significant transfers between NVE and the ISO and PacifiCorp-East. We expect these transfers will translate into direct financial benefits. The Q4 EIM benefits report will be published in early February and will reflect this first month of NVE participation.

EIM project implementation work with Arizona Public Service (APS) and Puget Sound Energy (PSE) is underway in preparation for their participation in EIM beginning October 1,

2016. The ISO is providing EIM briefings and legal support to the stakeholder processes led by APS and PSE that support changes to their open access transmission tariff for EIM.

Since Portland General Electric's commitment to EIM last fall, the implementation agreement has been filed at FERC and project kickoff meetings have occurred to begin the joint work to support their entry into the EIM in October, 2017. FERC approved the PGE implementation agreement in its Jan 19 order, which became effective on January 20.

We continue our outreach and coordination with other possible EIM participants in the West, and are working with three other entities that have EIM cost/benefit analyses underway.

### **EIM Governance Implementation:**

Following the ISO Board of Governors' approval of the documents associated with the governance modifications to create an EIM Governing Body (amendments to the corporate bylaws, a charter and a selection policy for the EIM Governing Body), work has begun to develop the EIM Governing Body. Stakeholder sectors have selected representatives for the Nominating Committee and held an initial meeting to discuss the process of reviewing candidates for consideration to the EIM Governing Body.

The Nominating Committee includes the following representatives:

- EIM Entities: Sarah Edmonds, PacifiCorp Transmission
- Participating Transmission Owners: Eric Little, Southern California Edison
- Suppliers and Marketers of Generation, ESPs: Mark Smith, Calpine
- Publicly-Owned Utilities: Randy Howard, Northern California Power Agency
- The Body of State Regulators: Doug Little, Commissioner, Arizona Corporation Commission
- EIM Transitional Committee: Kevin Lynch, Iberdrola Renewables
- ISO Board of Governors: Governor Angelina Galiteva
- Public Interest and Consumer Advocate Groups: Jennifer Gardner, Western Resource Advocates

The Body of State Regulators, comprised of one state utility regulator from each state in which EIM operates, or will operate, has formed. The members selected Washington Commissioner Ann Rendahl as their Chair and have met several times.

Sectors for the Regional Issues Forum are holding calls over the next several weeks to continue discussions on the selection of liaisons (two per sector) to develop an agenda and logistics for the first forum, intended to be the first quarter of this year.

### **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 other regional 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.

## **FEDERAL AFFAIRS**

### **Congress:**

The House of Representatives returned on January 5 and the Senate returned on January 11 for the second session of the 114<sup>th</sup> Congress.

Prior to recessing for the holidays on December 17, 2015, Congress approved two major bills with energy provisions:

On December 3, both House and Senate passed the 5-year Surface Transportation Reauthorization and Reform Act, H.R. 22, and sent it to President Obama for signature. The bill included a section providing the president with emergency powers to respond to cyberattacks or other grid-threatening events. Entities complying with such a grid security order would not be liable for violations of the Federal Power Act, Federal Energy Regulatory Commission (FERC) orders or reliability standards as long as their actions were not grossly negligent. Grid security responses would be required to minimize environmental impacts and would be limited to 90 days, subject to renewal. The bill also included provisions for the Department of Energy (DOE) to plan a Strategic Transformer Reserve, including enough large transformers and emergency mobile substations to replace damaged transformers and substations critical to electric infrastructure or defense or military installations. It also included requirements for DOE to improve assessments of gas-electric coordination and mandated emergency drills for energy supply disruptions involving state and federal agencies and oil and gas pipeline operators.

Just prior to recess on December 17, Congress passed a tax extenders bill, H.R. 2209, that included a long-term extension and gradual phase-out of the production and investment tax credits for renewable energy projects. The production tax credit for wind was extended, retroactive to January 1, 2015, at current levels but will decrease by 20% annually beginning in 2017. The investment tax credit for solar energy projects was extended with a reduction of 30% in 2019, 26% in 2020, and 22% in 2021, expiring in 2022. Because of a drafting error, the final bill language did not include tax credits for a group of other clean technologies such as fuel cells, microturbines, combined heat and power facilities, and thermal energy projects. These items may be added to an additional tax extender bill during 2016.

House and Senate members have weighed in with federal agencies urging coordination with California entities in responding to the Aliso Canyon natural gas leak. On January 5, Congressman Brad Sherman (D-30<sup>th</sup> District – Sherman Oaks) sent a letter to the heads of the Environmental Protection Agency, FERC, the U.S Department of Transportation's Pipeline and Hazardous Materials Safety Administration, state agencies and others urging immediate action on a plan to stop leakage of natural gas at the Aliso Canyon facility and

calling on all parties to work together to solve the leak and related issues expeditiously. A similar letter was sent to EPA Administrator Gina McCarthy and Transportation Secretary Anthony Foxx on January 7 by Democrat members of the House Energy and Commerce Committee requesting a briefing by both agencies regarding federal actions to address the leak. On January 13, California Senators Barbara Boxer (D) and Dianne Feinstein (D) sent a letter to McCarthy, Foxx and Attorney General Loretta Lynch requesting information on federal agency actions to date as well as legal and technical analyses of the Aliso Canyon leak.