

# Memorandum

**To:** ISO Board of Governors

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

Tom Doughty, Vice President, Customer and State Affairs

**Date:** June 21, 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 (CEC) and California Public Utilities Commission (CPUC) on this initiative, which was launched in September, 2015. Of the three working groups, ISO leads the Transmission Technical Input Group (TTIG). The TTIG released a report on June 6 summarizing relevant in-state and west-wide transmission capability and upgrade cost information to inform renewable resource development combinations on the reasonably-needed transmission system and to assist in developing potential corridor scenarios. TTIG held a stakeholder meeting on June 9 to present findings from the report and outline existing plans, studies, and other data sources for use in assessing the renewable development ranges in particular 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 TTIG is currently conducting its assessment of the Transmission Assessment Focus Areas and plans to present preliminary results to stakeholders in mid-July. RETI 2.0 is on track to complete a draft report in mid-August and a final report by mid-October, 2016. The report will inform the development of renewable resource portfolios and the 2017-2018 transmission planning process.

**Aliso Canyon update:**

On April 8, 2016, the CEC, CPUC, the ISO, and Los Angeles Department of Water and Power (LADWP) jointly conducted a workshop to discuss the near-term gas and electricity reliability risks to the Los Angeles Basin due to recent events at the Aliso Canyon gas storage facility. The joint agencies presented a draft action plan and technical analysis describing the reliability risks and recommended mitigation measures to reduce anticipated gas curtailments resulting from Aliso Canyon for summer 2016. Of the initial 18 mitigation measures, the ISO is the lead agency for four:

- Provide market information to generators before Cycle 1 Gas Scheduling,
- Consider ISO market changes that increase gas-electric coordination,
- Increase electric and gas operational coordination, and
- Ask customers to reduce natural gas and electricity energy consumption (Flex Alerts).

The draft action plan also recommends rolling out strong energy conservation measures, more energy efficiency programs, closer matching of gas supply to demand by large gas customers, and use of the 15 billion cubic feet of natural gas remaining the Aliso Canyon facility for use during periods of peak demand to avoid energy interruptions. Only two of the mitigation measures involve the use of the Aliso Canyon facility.

On May 4, 2016, the ISO Board of Governors approved the Aliso Canyon gas-electric coordination proposal addressing the first two measures, which were vetted through an expedited ISO stakeholder process. The ISO's tariff amendment was accepted by the Federal Energy Regulatory Commission (FERC) and implementation of the first phase was deployed on June 2 with an additional deployment scheduled for July 6.

On May 16, 2016, the ISO conducted additional tabletop exercises for operating procedures related to gas transmission pipeline outages or de-rates with PEAK Reliability, LADWP and Southern California Gas Company. These exercises, along with previous training, completed the ISO's portion of the activities to increase electric and gas operational coordination.

Lastly, the ISO is prepared for Flex Alert electricity conservation messaging over the summer. The CPUC authorized \$5 million in funding for Flex Alerts on April 28, 2016, and the Flex Alert brand, website and contacts have been transferred to the ISO. The ISO is prepared to call a Flex Alert should there be Aliso Canyon-related gas curtailments affecting reliability. A task force led by the CPUC for separate gas messaging has been created and is working on developing a coordinated messaging program for gas reductions.

On May 27, 2016, the joint agencies posted an update to the action plan. This update included responses to stakeholder comments on the action plan and technical analysis, the

addition of three new mitigation measures, and a status for each measure. The first mitigation measure is to protect the California ratepayers. The ISO leads this effort with the Department of Market Monitoring to monitor natural gas prices, assess ISO market results for uncompetitive bidding behavior including virtual bidding, and issue quarterly reports on its findings. The second measure, accelerating electricity storage, is led by the CPUC/LADWP. The third measure, exploring dual fuel capability, is led by LADWP and focuses on use of alternative fuel and required air permit exemptions in emergency situations. Many of the mitigation measures previously identified have been completed or are well underway. As next steps, the agencies have begun a separate reliability risk assessment analysis for winter 2016/2017 and are actively pursuing independent third party review of the analysis. The agencies will present that analysis at a public workshop in August, 2016. In addition, in 2017 they will conduct a separate evaluation of the potential long term viability of the Aliso Canyon facility.

#### **Business Practice Manual Executive Appeals Committee:**

The ISO convened its first Executive Appeals Committee in April to consider appeals requesting removal of new language in the reliability business practice manual outlining requirements for slow response resources in local capacity areas. On May 13, 2016, the committee rendered a decision to defer implementation of the new business practice manual language in order to conduct a stakeholder process. In the meantime, the ISO will continue to conduct its local reliability assessments but use its discretion not to exercise its annual capacity procurement mechanism authority to address deficiencies caused by this specific issue. In parallel, the CPUC released a proposed decision in the resource adequacy proceeding supporting the Executive Appeals Committee decision and reaffirming several of the ISO's reliability-based requirements for local capacity resources. The ISO will coordinate with the CPUC to host a joint workshop focusing on creative solutions to allow slower responding demand response resources to count toward local capacity requirements based on pre-contingency dispatch capabilities. The workshop will consider technical requirements already under study in the ISO's transmission planning process, questions posed in the CPUC's proceeding, and related contracting and technical capabilities necessary to meet reliability requirements.

#### **Joint ISO and California Public Utilities storage workshop:**

On May 2-3, 2016, the ISO and CPUC jointly hosted a workshop on distribution connected storage-related issues around station power and multi-use applications, where resources are participating in both the retail and wholesale space. Stakeholders were highly supportive of the process. The joint workshop is a continuation of past collaborative efforts on advancing distributed energy resources and lessons learned will be used in both the CPUC's storage proceeding and the ISO's stakeholder initiative.

**Joint Agency Steering Committee welcomes California Air Resources Board:**

The Joint Agency Steering Committee (JASC) includes the ISO, CPUC, and the CEC, focused on optimizing coordination and knowledge sharing in the development of a single forecast set and process alignment. In May, the JASC welcomed the California Air Resources Board (CARB) to the JASC and Chair Mary Nichols to the Executive Oversight Committee, which oversees JASC. CARB's inclusion will help to better understand and reflect CARB policies in the JASC's work, and to coordinate agency touchpoints in compliance with new legislative mandates such as those in Senate Bill 350.

**Legislative update****ISO Board of Governors Senate confirmation:**

Senate Rules confirmation hearing for ISO Board of Governor Mark Ferron has been scheduled to June 29. The confirmation hearing date for Dave Olsen is yet to be confirmed, however it will be scheduled sometime before the end of the Legislative Session.

**Legislative meetings:**

In addition to the passage of Senate Bill 350, which lays out the process for the California ISO to transform into a regional organization, ISO Management has been participating in frequent meetings in the Governor's office with staff and other interested parties to discuss the implications of regional expansion. Roughly 50 representatives from legislative and energy sectors regularly attend to contribute to the discussion.

**Legislative hearings:**

On May 3, Keith Casey participated at a Select Committee hearing, chaired by Senator Ben Hueso (D-San Diego), on California-Mexico Cooperation. Dr. Casey was joined by Marcos Valenzuela Ortiz, the Director of Wholesale Electricity Markets for Mexico's National Center for Energy Control (CENACE), to examine cross-border opportunities for the wholesale electricity market and to accelerate renewable integration.

On May 10, Mark Rothleder testified at a Senate Energy, Utilities and Communications Committee hearing on the Aliso Canyon Storage Facility, also chaired by Senator Hueso. Robert Oglesby, the Executive Director of the CEC, Edward Randolph, the Director of the Energy Division at the CPUC, Roger Schwecke, the Vice President of Transmission and Storage for SoCalGas, Michael Webster, the Executive Director of Power Systems for LADWP, and Mr. Rothleder provided a coordinated joint-agency presentation focused on maintaining summer reliability due to storage facility issues.

**Legislation:**

June 3 was the last day for each house to pass bills introduced in that house. Summer Recess begins on July 1.

Staff are reviewing approximately fifty measures relevant to the ISO or the energy sector in general and will report on them throughout the legislative session, which concludes at the end of August.

Key bills updated:

SB 380 (Senator Pavley): *Signed by the Governor*. This measure institutes an immediate moratorium on all natural gas injections at the Aliso Canyon Underground Storage Facility until the following conditions are met:

- the integrity and risk of each well is evaluated with state-of-the-art technology by the supervisor and independent experts;
- the Division of Oil, Gas, and Geothermal Resources holds a public meeting about the methods and equipment used for evaluation; and
- independent experts develop objective criteria to assess the overall risk of the facility. These criteria would be made public.

The bill also requires the CPUC, in consultation with the CEC and the California ISO, to determine the feasibility of minimizing or eliminating the use of Aliso Canyon while maintaining grid reliability.

AB 33 (Assemblymember Quirk): This measure was recently amended to make pumped hydroelectric storage facilities of any size that become operational after January 1, 2017, eligible to meet storage systems targets established by the CPUC, as a way to mitigate oversupply conditions identified by the California ISO.

AB 2454 (Assemblymember Williams): This measure would require an electrical corporation to consider the findings of the Demand Response Potential Study, sponsored by the CPUC, and to determine the availability of renewable energy, energy storage, energy efficiency, and demand reduction resources before the CPUC approves contracts for new or repowered gas-fired generation.

## **STRATEGIC ALLIANCES AND REGIONAL AFFAIRS**

### **EIM governance implementation:**

Interviews for the EIM Governing Body were conducted on April 13-24 and May 25 for the slate of five open positions. The EIM Governing Body Nominating Committee will present its final slate to the ISO Board of Governors at this meeting. Upon approval, the EIM Governing Body will begin its work in preparation for its first noticed public meeting where it will make its first decisional market rule change, currently scheduled for the October timeframe.

The Body of State Regulators, led by Commissioner Ann Rendahl, hosted a meeting on May 22 at the Western Conference of Public Service Commissioners that included a presentation from Bonneville Power Administration on EIM-related transmission issues as well as a deeper dive into the EIM benefits calculation presented by Mark Rothleder. The Body of State Regulators also conducts bi-weekly calls that rotate between western EIM and regional integration topics and are noticed along with its foundational documents on the Western Interstate Energy Board website.

The Regional Issues Forum held its first meeting on April 6 at the BPA headquarters in Portland, OR. There were approximately 90 attendees on webinar and 60 attendees in person. The group walked through some of the lessons learned on EIM implementation from PacifiCorp, market monitoring and market performance evaluations by the DMM, and a discussion on intertie bidding and settlement issues raised by third party transmission customers. The sector liaisons are drafting foundational documents for the group and working on the agenda for the next forum, which is scheduled for August 4 at Idaho Power in Boise, ID.

### **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 western 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 integration:**

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 meetings were held on June 1 and 2 for the transmission access charge and resource adequacy stakeholder initiatives to present the current straw proposals. The ISO asked

stakeholders to provide comments by June 10 and 15. Metering rule enhancements is the third stakeholder initiative, intended to update the ISO revenue metering rules and provide market participants more flexibility under the tariff. On this topic, the ISO posted its draft final proposal on June 7 and requested comments by June 28. In addition, ISO staff traveled to Portland on May 26 to provide training for PacifiCorp stakeholders on how congestion revenue rights work in the ISO's integrated market. Finally, ISO staff will be in Portland on June 24 to support PacifiCorp in its second meeting to discuss regional integration with its transmission customers.

## **FEDERAL AFFAIRS**

### **Administration**

On May 2, the Department of Energy Office of Energy Efficiency and Renewable Energy announced that it will provide \$25 million in funding for development of hardware and software platforms to accelerate integration of distributed solar energy into grid operations. The goal of the initiative is to integrate sensing, communication, and data analytics to accelerate widespread adoption of solar and other distributed resources. The funded projects will be field-tested to demonstrate their usefulness in a real-world operating environment.

On May 10, the Commodity Futures Trading Commission (CFTC) announced a proposed amendment that would enable companies and individuals trading in wholesale energy markets to sue RTOs and ISOs under federal anti-manipulation laws. The proposed amendment was subsequently approved by a 2-1 vote of the CFTC commissioners on May 10. If adopted, the proposal would modify a 2013 ruling by the CFTC that exempted RTOs and ISOs from CFTC oversight of financial transmission rights, energy transactions, forward capacity transactions, or reserve or regulation transactions under Section 22 of the Commodities Exchange Act (CEA). Commissioner J. Christopher Giancarlo dissented in a strongly-worded statement that the proposal would "simultaneously toss legal certainty to the wind and threaten the household budgets of low and middle-income ratepayers by permitting private lawsuits in heavily regulated markets that are at the heart of the U.S. economy." He also noted that private complaints could be filed with FERC over violations of the Federal Power Act. The proposal asks for comments on several specific issues, including whether the filed-rate doctrine prevents litigation under Section 22 of the CEA. A variety of industry groups, including the ISO/RTO Council, filed comments by the June 15 deadline.

## **Congress**

### **Legislative update:**

On May 26, the House voted 112 to 305 to reject the \$37.4 billion Energy and Water Development appropriations bill for Fiscal Year 2017 (H.R. 5055), which provides funding for the Department of Energy, FERC, the Nuclear Regulatory Commission, and other federal energy and water programs. The unusual move resulted from disagreements over an amendment unrelated to energy and water programs. The Senate version of the bill (S. 2804), which passed by a vote of 90 to 8 on May 12, was cosponsored by Energy and Water Appropriations Committee Chair Lamar Alexander (R-TN) and Ranking Member Dianne Feinstein (D-CA) and was the first stand-alone energy and water funding bill to be approved in the Senate since 2013. The Energy and Water funding bill is considered a bellweather for passage of individual appropriations bills and many observers believe that Congress will need to fall back on an omnibus bill or a continuing resolution rather than take up the remaining 12 bills for Fiscal Year 2017.

Congress appears to have reached an impasse, at least temporarily, on omnibus energy legislation that has passed both House and Senate. The Senate bill, S. 2012, entitled the “Energy Policy Modernization Act of 2015,” was negotiated on a bipartisan basis by Energy and Natural Resources Committee Chair Lisa Murkowski (R-AK) and Ranking Member Maria Cantwell (D-WA). It passed the Senate in April and includes language on grid protections and energy efficiency that are widely supported. The House version, H.R. 8, was passed as an amended version on May 25 with numerous controversial provisions and has drawn a veto threat from the White House. While the House leadership has appointed 24 Republican and 16 Democrat conferees, the Senate has not moved forward to name conferees at this writing. Timing of a conference committee to reconcile the significant differences between the House and Senate versions will be challenging in the coming months, since congressional calendars are shortened due to the national political conventions in July and recess scheduled for all of August and October.

## **Judiciary**

As widely reported, the U.S. Circuit Court of Appeals for the District of Columbia ordered on May 16 that it will hear oral arguments on EPA’s Clean Power Plan on September 27 before the full court. The matter was previously set for oral arguments on June 2 before a three-judge panel. The delay makes it likely that a decision on the case will not be finalized before a new Administration takes control in January of 2017.