

Memorandum

To: ISO Board of Governors

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

Joanne Serina, Director, Customer Service and Stakeholder Affairs

Date: March 14, 2018

Re: State, Regional and Federal Affairs update

This memorandum does not require Board action.

STATE AFFAIRS

Regulatory update

Joint Agency Steering Committee Update:

On February 21, the California Energy Commission (CEC) unanimously (5-0) voted to adopt the California Energy Demand Updated Forecast, 2018-2030. The forecast reflects significant modeling improvements, including a change from a single peak load forecast to an hourly (8760 hours) forecast. This change is necessary to accurately reflect changes to the managed forecast set, including a later peak hour due to behind-the-meter solar penetration (BTM PV), load shapes that reflect the ISO's "duck curve" and emerging impacts from forecasted electric vehicle adoption and additional energy efficiency from Senate Bill 350. New in the forecast this year is "additional achievable" BTM PV, which reflects increased solar from Zero Net Energy homes. Development of the forecast reflects collaborative analyses and discussions led by the Joint Agency Steering Committee and included staff from the CEC, California Public Utilities Commission (CPUC), California Air Resources Board (CARB) and ISO.

Integrated Resource Plan Update:

On February 8, the CPUC unanimously (5-0) voted to adopt a decision articulating the integrated resource plan (IRP) filing requirements for jurisdictional load serving entities. The IRP process is the "umbrella" planning proceeding to consider all of the CPUC's electric procurement policies and programs to meet state greenhouse gas (GHG) reduction goals while ensuring safe, reliable and cost-effective electricity supply. In coordination with the ISO, the IRP decision articulated a process for the

CPUC to transmit reliability and public policy-based portfolios to be considered in the ISO's transmission planning process for the 2018-2019 IRP cycle.

Legislative update

The Legislature began the second year of the two-year session on January 3, 2018. February 16, 2018 marked the last day for the Legislature to introduce new bills. At this time, staff is monitoring over 70 measures relevant to the ISO or the energy sector in general.

Key Legislation:

AB 813 (Holden): Recent amendments remove the existing language in the bill and, instead, allow California load serving entities and transmission owners to participate in a multistate regional transmission system organization if it has certain principles outlined in its bylaws or other organizational documents. California transmission owners and load serving entities are required to submit the bylaws and organizational documents of the multistate organization to the CEC for review and approval. The bill also requires the ISO to submit a governance proposal to the CEC that includes the establishment of a western states committee. The proposal shall be reviewed by the CEC, in consultation with the CPUC and CARB, in at least one public workshop or hearing where public comments can be provided. Lastly, the bill requires the CEC to authorize and verify that the ISO implements a governance structure consistent with the proposal.

AB 2693 (Quirk): Requires the CPUC to determine which natural gas-fired electric generation power plants are needed to ensure long-term electric reliability in California. It also requires them to direct electrical corporations to contract with those power plants and recover the costs of those contracts from ratepayers.

AB 2809 (Patterson) and AB 2814 (Gray): Revises the definition of an eligible renewable energy resource to include hydroelectric generation facilities that are greater than 30 megawatts.

SB 64 (Wieckowski): Requires the ISO by 2019, in consultation with the CPUC, CEC, CARB, and the public, to review and revise its operations to mitigate impediments to the day-ahead scheduling of intermittent renewable energy resources between the ISO and other balancing authority areas to address oversupply conditions. The bill does not facilitate the transformation of the ISO into a regional entity.

SB 100 (De León): Establishes a 60 percent Renewable Portfolio Standard by 2030 and requires the CPUC, CEC, and CARB to incorporate a planning goal of achieving 100 percent reliance on zero-carbon electric generating facilities by December 31, 2045.

SB 692 (Allen): Requires the ISO to undertake a stakeholder initiative to consider modification of the billing determinants to which the ISO applies the transmission and wheeling access charges.

SB 1110 (Bradford): Authorizes publicly owned utilities to implement conditions that reduce the loss of public revenues if procurement requirements of renewable energy resources lead to decreased generation from a power plant with outstanding public indebtedness.

SB 1399 (Wiener): Requires the CPUC to direct large electrical corporations to provide credits for nonresidential customers who generate electricity from renewable energy resources and that is exported to the electrical grid. It also requires the CPUC to ensure that the credits reflect the full value of the electricity and utilizes the same methodology used to determine credits for other customer generation.

STRATEGIC ALLIANCES AND REGIONAL AFFAIRS

Energy Imbalance Market (EIM):

The EIM benefits report released in January showed total EIM benefits of over \$288 million since the EIM began in November, 2014. This is the first benefits report to include Portland General Electric, which began participation in October, 2017. The first quarter 2018 EIM benefits report will be released in April.

The next two operational EIM entities, Idaho Power Company and Powerex, are progressing well toward their April 4, 2018 activation. Executives from the ISO, Powerex, and Idaho Power Company completed the readiness assessment that was submitted to FERC as an informational filing on March 2.

Energy Imbalance Market (EIM) Governance:

The EIM Governing Body held a meeting in Los Angeles, CA on March 8. In a general session, they heard a joint briefing from the ISO, Powerex, and Idaho Power Company on western EIM market readiness, and updates from the Regional Issues Forum (RIF) and the Body of State Regulators (BOSR). The Governing Body voted to support the Commitment Cost and Default Energy Bid Enhancements policy initiative that falls within their advisory authority. They received briefings from ISO staff on a number of other EIM related items including an update on the western EIM market and the Q4 2018 benefits report. The next in-person general session meeting will be held on April 24 in Vancouver, B.C.

The Body of State Regulators, led by Commissioner Jordan White as chair and Commissioner Ann Rendahl as vice-chair, is working with the ISO and Western Interstate Energy Board (WIEB) on preparations for its next in-person meeting on April 18 in Vancouver, B.C.

The RIF sector liaisons, led by Cameron Yourkowski as chair, held an in-person meeting on March 9 in Los Angeles, CA. The forum included two stakeholder-led presentations; one on the ISO's day-ahead market, proposed day-ahead market reforms and potential expansion to western EIM, and one on the EIM and bilateral market interactions. The group also received a briefing from the Los Angeles Department of Water and Power (LADWP) on western EIM implementation activities. The liaisons have scheduled the next in-person meeting on June 6 in Portland, OR.

FEDERAL AFFAIRS

Administration

On January 10, Linda Capuano was sworn in as the head of the Energy Information Administration, a federal entity that collects, analyzes and publishes information on U.S. energy production, demand, imports and exports, and the status of markets. Ms. Capuano has been a fellow at Rice University's Baker Institute for Public Policy and on the faculty in the university's Executive MBA Program. She was formerly the Vice President of Emerging Technologies with the Marathon Oil Corp. and was a member of the ISO's Board of Governors.

Congress

The 2-year budget agreement passed by Congress on February 9 (H.R. 1892) extends the current Continuing Resolution through March 23 to give Congress time to develop an omnibus appropriations bill for the rest of the year. It also reinstates several energy tax extenders that were inadvertently omitted from the 2015 tax package. The bill, which was signed into law by the President that day, would allow production tax credits through 2017 for geothermal, waste-to-energy, qualified hydro and biomass projects, and would allow investment tax credits for fiber-optic solar, fuel cell and small wind projects through 2022. The agreement also includes a \$50/ton tax credit for carbon capture and sequestration projects, an increase of \$20 over previous levels, and expands eligible projects to include smaller facilities such as factories.

Legislation:

H.R. 2371 (Paul Gosar, R-AZ): The "Western Area Power Administration (WAPA) Transparency Act," directs WAPA to establish a seven-year pilot project that publicly displays information, dating back to 2008, on rates charged by power systems to

customers for power and transmission services, the amount of capacity or energy sold by power systems, accounting of expenditures and capital costs by region, and the unobligated balances at the end of each year. Status: Passed House by voice vote on February 7, 2018.

H.R. 2872 (Larry Bucshon, R-IN): Allows FERC to exempt hydropower projects at existing non-powered dams from licensing requirements. Status: Passed House by voice vote on December 11, 2017.

H.R. 2880 (Morgan Griffith, R-WV): Promotes closed-loop pumped storage projects connected to reservoirs. Status: Passed House by voice vote on December 11, 2017.

H.R. 3359 (Michael McCaul, R-TX): Restructures the Department of Homeland Security's National Protection and Programs Directorate, which focuses on eliminating threats to critical physical and cyber infrastructure. Status: Passed House on December 12, 2017 by voice vote.

H.Res. 357: (Jeff Duncan, R-SC): Reaffirms the strategic partnership between the U.S. and Canada to cooperate on energy, security and economic issues. Status: Passed House by voice vote on December 12, 2017.

S. 2232 (Angus King, I-ME): The "Next Generation Grid Resources and Infrastructure Development (GRID) Act," would provide federal support for states and utilities to evaluate their electricity systems and identify areas where distributed energy resources could assist in protecting critical infrastructure or reducing costs. Also recommends parameters for states to use in designing rules for distributed energy resource integration in grid operations and establishing appropriate compensation mechanisms. Status: Introduced in Senate on December 14, 2017.

S. 2444 (Maria Cantwell, D-WA): The "Advanced Grid Security Act," would authorize new programs to address power system cyber vulnerabilities. Status: Introduced in Senate on February 16, 2018.

S. 2445 (Maria Cantwell, D-WA): The "Grid Modernization Act," intended to advance new technologies, particularly for microgrids and electric vehicles. Status: Introduced in Senate on February 16, 2018.