

Memorandum

To: ISO Board of Governors

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

Tom Doughty, Vice President, Customer and State Affairs

Date: July 19, 2017

Re: State, Regional and Federal Affairs update

This memorandum does not require Board action.

STATE AFFAIRS

Regulatory Update

Joint Agency Workshop on Multiple Use Applications for Storage Resources:

On June 2, the California ISO and California Public Utilities Commission held a joint workshop to discuss a framework for multiple use applications to enable storage resources to participate at customer, distribution system and wholesale levels. The initiative is endeavoring to address gaps in current market rules and regulations that do not support the stacking of incremental values and revenue streams by energy storage systems. The framework and accompanying report, jointly written by ISO and CPUC staff, seeks to identify and address these gaps in order to enhance the economic viability and cost-effectiveness of storage and similar resources. Stakeholder feedback was requested on 15 specific questions; these responses will be used to finalize the framework and rules in the CPUC's storage proceeding and to identify related issues for possible inclusion in Phase 3 of the ISO's Energy Storage and Distributed Energy Resources (ESDER) stakeholder initiative.

2017 Integrated Energy Policy Joint Agency Workshop – Integration of Distributed Energy Resources on the California Grid:

On June 29, the ISO participated in a joint agency workshop with the California Energy Commission and the CPUC in the CEC's Integrated Energy Policy Report docket on various efforts to integrate distributed energy resources. The representatives from the agencies reported on the progress made on each of the joint agency roadmaps focused on energy storage, demand response and energy efficiency, and vehicle-grid integration. The workshop also included updates from each agency, electric utilities,

and industry representatives on efforts to increase the deployment of distributed energy resources in the state.

Aliso Canyon Update:

On May 22, 2017, an Integrated Energy Policy joint agency workshop was held on energy reliability issues in Southern California. ISO staff joined representatives of the CEC, the CPUC and the Los Angeles Department of Water and Power in a joint presentation on reliability issues associated with the Aliso Canyon gas storage facility, which is owned and operated by the Southern California Gas Company.

Current status of the Aliso Canyon Natural Gas facility:

- The moratorium on injections at Aliso Canyon continues;
- As of May 1, 2017, Aliso Canyon held approximately 14.8 Bcf of natural gas;
- Aliso Canyon inventory remains available for withdrawal at critical times;
- A new storage safety enhancement plan is being implemented across all Southern California Gas storage facilities; and
- Inventories at other SoCalGas natural gas facilities are below levels needed to achieve target inventory to support summer needs. In response to a May 8, 2017 directive from CPUC Executive Director Tim Sullivan, SoCalGas began an Enhanced Injection Plan to bring gas inventories at these remaining facilities to levels that will support reliability needs. SoCalGas reports that injections are proceeding to meet monthly targets set by the CPUC.

The ISO also worked closely with the joint agency team to complete the 2017 Aliso Canyon summer assessment. Key findings from the May 19, 2017 assessment:

- Expected demand can likely be met if pipeline supply is at 100 percent and adequate storage inventory remains available, excluding Aliso Canyon.
- If pipeline supply is reduced or storage inventory at the non-Aliso facilities is inadequate, the system could face challenges.

If the electric system is not fully available or electric supplies outside of Southern California are limited, the electric system could still be at risk even with the higher storage supply rates. Other risks factors include prolonged hot weather affecting gas supply availability and electric import capability.

Combined, the 2016 Aliso Canyon Action Plan mitigation measures and a mild summer weather pattern helped to prevent significant electric generation curtailments during summer, 2016. The joint agencies continue to manage over 30 mitigation measures in 2017, with one new measure added to increase storage injections into the Honor Ranch and La Goleta storage fields in order to reach adequate inventory levels to maintain reliable delivery during peak summer days. The joint agencies are closely monitoring SoCalGas' plan for increasing these storage inventories.

The ISO is in the process of extending the market changes put in place last year for Aliso Canyon. The stakeholder process for Aliso Canyon Gas-Electric Coordination Phase 3 was initiated on June 2, 2017 with a Straw Proposal, and a webinar was held on June 23 to discuss the Draft Final Proposal. Management expects to bring the results of this initiative to the EIM Governing Body and the ISO Board of Governors in July.

The long-term use of the Aliso Canyon natural gas storage facility is being addressed in a CPUC Order Instituting Investigation (I.17-02-002) proceeding, which 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

July 14 was the last day for policy committees to report bills to fiscal committees, and July 21 marks the last day policy committees can report bills. Summer recess begins upon adjournment. The session ends on September 15. Staff is tracking approximately 50 bills related to the ISO or the energy sector in general.

Key legislation:

AB 79 (Assemblyman Levine and Senator Stern): Requires the California Air Resources Board (CARB), in consultation with the ISO, to modify the methodology of calculating greenhouse gas emissions from unspecified sources of power by January 1, 2019, and to distinguish those emissions between sources in California and sources imported from other regions in the West.

The ISO has asked the author's office to accept amendments which clarify the definition of unspecified sources.

SB 100 (Senator De Leon): 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 338 (Senator Skinner and Assemblyman Mullin): Requires the CPUC and governing boards of local publicly owned electric utilities (POUs) to consider the role of distributed energy resources to help ensure load serving entities (LSEs) and POUs meet “net-load peak” energy and reliability needs while reducing the need for new generation and transmission in achieving the state's energy goals at the least cost to ratepayers.

SB 520 (Senator Mitchell): Recent amendments require the CPUC to develop a program to provide compensation for advocate’s fees, expert witness fees, and other costs of participation in processes of the ISO, and in certain proceedings at the CEC. The Intervenor Funding Program would be funded through a charge by the IOUs on the local distribution system. The bill requires the CEC, along with the ISO and CPUC, to report to the legislature on the program by January 1, 2024.

The Senator accepted the following committee amendments, which are not yet in print: 1) provides compensation for proceedings at the ISO regarding transmission planning, transmission access charge, energy markets and regionalization; 2) groups eligible to receive compensation must directly represent ratepayer interests or environmental justice communities and have a history of substantial contributions in CPUC proceedings; 3) CPUC administer the program; and 4) the program sunset on January 1, 2023.

SB 692 (Senator Allen, Senator Wiener and Assemblyman Berman): Requires the ISO to undertake a stakeholder initiative to consider modifications of the billing determinants to which the operator applies the transmission and wheeling access charges. Specifically, in considering modifications of the transmission access charge, the ISO “shall make consistent the basis for applying these access charges to each distribution utility, community choice aggregation program, local publicly owned electric utility, and electric services provider in a manner that fully compensates each of those entities for the distributed generation within the entity’s distribution grid.” The bill would require the ISO to submit proposed modifications of the billing determinants to FERC for approval by June 30, 2018.

The Senator has indicated he plans to make this a 2-year bill.

AB 1405 (Assemblyman Mullin): Requires the CPUC and governing boards of local POUs to consider the role of clean energy technology, demand response, and energy efficiency to help ensure LSEs and POUs meet “net-load peak” energy and reliability

needs while reducing the need for new generation and transmission in achieving the state's energy goals at the least cost to ratepayers.

STRATEGIC ALLIANCES AND REGIONAL AFFAIRS

Energy Imbalance Market (EIM):

In the last month, two new entities committed to the Energy Imbalance Market: Vancouver, B.C.-based Powerex and LADWP. Powerex plans to begin participation in EIM in April 2018, and LADWP in April 2019. Both entities bring further resource diversity and additional transmission resources to the EIM.

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 areas. Entities studying EIM participation include the Mexican grid operator El Centro Nacional de Control de Energía (CENACE) Baja Norte, Northwestern Energy in Montana, and others.

The EIM Governing Body held a meeting in Folsom, CA on July 13. This meeting was the first with Doug Howe serving as the chair and Valerie Fong as vice-chair. In the general session, they heard a presentation from the Regional Issues Forum (RIF) on the re-evaluation proposal and revised operating guidelines and an update from a representative from the Body of State Regulators. The Governing Body voted to support the element of the Aliso Canyon gas electric coordination phase 3 initiative proposing to extend existing temporary market measures, and they approved the element proposing to extend the use of the maximum natural gas burn constraint to the EIM. They also voted to support the elements of the energy storage and distributed energy resources phase 2 initiative introducing new demand response performance evaluation methods and clarifying station power treatment for storage resources, and they approved the element proposing to include additional gas price indices for the net benefits test. They endorsed the proposed amendments regarding the Regional Issues Forum to the Charter for Energy Imbalance Market Governance for submittal to the Board through its consent agenda. They received briefings from ISO staff on a number of other EIM related items including EIM greenhouse gas enhancements, an update on the policy outlook and a presentation on the new western EIM website. The next in-person general session meeting will be held on September 6 in Seattle, Washington.

The Body of State Regulators (BOSR), led by Commissioner Ann Rendahl as chair and Commissioner Doug Little as vice-chair, held a conference call on June 26. During the call the BOSR discussed administrative items and the Staff Advisory Committee's recommendations on the ESDER Phase 2 and Aliso Canyon Phase 3 policy initiatives. The ISO provided an update on the consolidated EIM initiative issue paper and timeline. The next meeting is a public teleconference that is scheduled for August 21.

The RIF sector liaisons completed revisions to their proposal and operating guidelines drafted by the liaisons as part of the Charter for Energy Imbalance Market Governance's mandated re-evaluation process and was presented to the EIM Governing Body at its July 13 meeting. The liaisons have scheduled the next in-person meeting in Seattle on September 7.

FEDERAL AFFAIRS

Administration

On June 6, the Senate Energy and Natural Resources Committee approved the nominations of Neil Chatterjee and Robert Powelson, both Republicans, to be Commissioners at FERC. On June 29, President Trump announced his intention to nominate Richard Glick, Democratic General Counsel for the Committee, to a full five-year term on the Commission, filling the slot of Commissioner Colette Honorable, who stepped down effective June 30. Glick's nomination must be approved by the Committee before going to the full Senate for approval. Timing of Senate action on all three pending nominations is uncertain but could happen prior to the August congressional recess.

Congress

Congressman Jimmy Gomez (D-34th District – Los Angeles), who was elected in a June 6 special election to succeed former Representative Xavier Becerra, was sworn into the House of Representatives on July 11, 2017. His swearing-in brings the total number of Democrats in the House to 194. Mr. Gomez was previously in the California State Assembly.

Legislative Action:

On June 14, the House approved H.R. 1873, the "Electric Reliability and Forest Protection Act," by a vote of 300-118. The bill, sponsored by Congressman Doug LaMalfa (R-1st District – Richvale), would amend the Federal Land Policy and Management Act of 1976 to provide a streamlined process for the removal of hazardous trees near electricity infrastructure on Bureau of Land Management and U.S. Forest Service lands. The bill was amended on the floor to prohibit any resulting loss of funds for wildfire suppression activities.

On June 22, the House Energy and Commerce Committee's Energy and Power Subcommittee approved a draft "Hydropower Policy Modernization Act." The draft bill, sponsored by Representative Cathy McMorris Rodgers (R-WA), would modify the definition of renewable energy under the Energy Policy Act of 2005 to include

hydropower and would designate FERC as the lead agency for federal authorizations of hydropower projects.

On June 29, Senate Energy and Natural Resources Committee chair Lisa Murkowski (R-AK) has reintroduced, with minor changes, the bipartisan energy bill she and ranking member Maria Cantwell (D-WA) sponsored last year. That bill passed the Senate with bipartisan support but was not taken up in the House. Among numerous other provisions, the bill includes language to promote grid cybersecurity, and to support research and development of storage and other innovative energy technologies. It also would establish a Working Group on Energy Markets within the Department of Energy. Senate Majority Leader Mitch McConnell (R-KY) has taken the procedural steps necessary for the bill, S. 1460, to bypass committee consideration and go directly to the floor for a vote. Senator Murkowski has said that she will push for floor time to be scheduled as soon as possible.