

Memorandum

To: ISO Board of Governors
From: Karen Edson, Vice President, Policy and Client Services
Date: October 28, 2015
Re: **State, regional and federal affairs update**

This memorandum does not require Board action.

STATE AFFAIRS

Regulatory update

ISO Stakeholder Symposium:

The October 22-23 ISO Stakeholder Symposium drew over 900 industry executives, policymakers and innovators to discuss opportunities in the shifting energy landscape to fight climate change, promote reliable and efficient power grids, and invest in new technology. In addition to featuring western states' energy leaders, the symposium also hosted two international panels of energy executives and policymakers who shared lessons learned from the European renewable experience.

In alignment with this year's theme, "Leading the Way to 50 Percent," keynote speakers and panel discussions concentrated on measures to deepen carbon reductions, while maintaining reliability and managing upward pressures on costs.

Renewable Energy Transmission Initiative (RETI) 2.0:

The ISO has partnered with the California Energy Commission (CEC) and California Public Utilities Commission (CPUC), to deploy the Renewable Energy Transmission Initiative (RETI) 2.0. The objective of RETI 2.0 is to establish the relative potential of renewable locations in California and the West to achieve the state's goal of 50 percent of electricity from renewable power generation by 2030. The initiative was officially launched on September 10, 2015, with a public workshop. Since that time, the ISO and State agencies have collaborated on a structure for engaging stakeholders in the RETI process. In a November 2 public workshop, stakeholders will be presented with a consistent model for the organization, methodology and timeline of a set of working groups.

RETI 2.0 will enable input from stakeholders and serve as an input to the 2017-2018 Transmission Planning Process. In addition to helping California meet its environmental goals, this project is also an opportunity for the western United States to set an example for the rest of the country, and perhaps the world, on how regional planning can lead to deeper reductions in greenhouse gas emissions.

Legislative update

Senate Bill 350 (Senator Kevin de León):

On October 7, Governor Jerry Brown signed SB 350 into law. This measure increases California's RPS to at least 50 percent by December 31, 2030 and doubles energy efficiency in buildings by January 1, 2030. The third pillar of the bill, aimed at reducing petroleum use in motor vehicles by 50 percent by 2030, was removed during Assembly consideration.

SB 350 also provides the process for the ISO to transform into a regional organization and requires the following steps:

1. The ISO will undertake at least one study analyzing the impact of regional expansion on California jobs and the economy, grid reliability, benefits to ratepayers and the environment, impacts on disadvantaged communities, emissions of greenhouse gases and other air pollutants, and integration of renewable energy resources.
2. The ISO will develop governance modifications to facilitate the transformation of the ISO into a regional entity.
3. The CPUC will hold a workshop that includes the CEC and California Air Resources Board (CARB) to review the ISO's proposed governance and study results.
4. The Governor will submit the revised ISO governance and studies to the legislature for legislative consideration no later than December 31, 2017.
5. The Legislature must enact ISO governance modifications through statute.

Legislature:

The Legislature has adjourned the first year of the 2015-2016 session and will reconvene on January 4, 2016.

Four measures that were summarized in the last report are now two-year bills, meaning they did not meet the necessary legislative deadlines to pass this year, but will be eligible for consideration next year. They include:

SB 32 (Pavley): This bill would require CARB to limit greenhouse gas emissions to 40 percent below 1990 levels by 2030. A previous version of the bill called for an 80 percent reduction by 2050.

SB 155 (Hertzberg): This bill would authorize the ISO to enter into a multistate entity or regional organization if that entry is approved by its governing board at a duly noticed public meeting.

AB 33 (Quirk): This measure would require the CPUC, as part of a new or existing proceeding, to determine what role large scale energy storage could play as part of the state's overall strategy for procuring a diverse portfolio of resources.

AB 1330 (Bloom): This bill would require the CPUC, in consultation with the CEC, electrical corporations, local publicly owned electric utilities, and community choice aggregators to establish, by June 30, 2018, an annual procurement goal for demand response designed to lower peak demand, with a timetable for achieving that percentage.

STRATEGIC ALLIANCES AND REGIONAL AFFAIRS

EIM implementation:

EIM parallel operations with NV Energy commenced on September 1, 2015 following the completion of the market simulation. The ISO and NV Energy confirmed completion of the EIM readiness criteria as of September 30, and filed a certificate of readiness with the Federal Energy Regulatory Commission on October 1. The ISO also published a market quality report and the final readiness criteria status report on October 1. Parallel operations with NV Energy will continue until October 31. This is the final "testing" stage to ensure grid systems meet the required readiness criteria in advance of the transactions becoming financially binding on November 1, 2015. The ISO and NV Energy are on track to move forward with implementation pending FERC action in this and related proceedings. The ISO continues to await Commission action on necessary orders to proceed with integration of NV Energy into the energy imbalance market. Upon receipt of the orders, the ISO will evaluate the Commission's actions and take necessary actions to comply with its instructions. At this time, we continue to plan for integration of NV Energy and fall release by November 1, 2015.

Work with both Arizona Public Service Company and Puget Sound Energy is well underway in preparation for their participation in EIM beginning October 1, 2016. The ISO is providing EIM briefings and legal support to both as they conduct their individual stakeholder processes to modify their open access transmission tariffs to comply with the energy imbalance market.

Both Idaho Power and Portland General Electric recently announced their plans to withdraw from the Northwest Power Pool's Market Assessment and Coordination effort (NWPP MC initiative) and to instead pursue participation in the energy imbalance market. Portland is near the end of their study process and seeks a Fall, 2017 participation in EIM. Idaho Power is initiating a cost/benefit study with a target decision date of Q1, 2016.

On October 5, the Balancing Authority of Northern California (BANC) filed a motion to intervene and comments in which they withdrew from the NWPP MC initiative's next phase efforts to implement a Centrally Cleared Energy Dispatch (CCED) market. In the motion they cited transmission access and cost challenges, withdrawal of other participants, and cost of continued development as reasons for withdrawing.

EIM Governance implementation:

The EIM Transitional Committee met on October 21 and received briefings on current EIM operations, NV Energy go-live preparations, updates from EIM entities Puget Sound Energy and Arizona Public Service, and updates on EIM governance implementation and PacifiCorp integration.

The ISO is in the early stages of implementing the EIM governance proposal following approval at the September 17, 2015 Board meeting. We are developing bylaw revisions and a new charter with the goal of bringing the proposed language to the Board at its December 2015 meeting. We have also engaged with an executive search firm to begin the process of developing a process and schedule for candidate selection.

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 at meetings such as the Western Interstate Energy Board. Discussions continue with other interested balancing authority areas and state regulators, as appropriate.

The ISO, in partnership with PacifiCorp, will be offering the second in a series of trainings to state utility commissioners and staff from states in which PacifiCorp operates. This second session will provide more detail around ISO market systems that will be reviewed during the upcoming stakeholder initiatives, as described in the memorandum to the Board at its September 17 general session in a briefing on PacifiCorp integration. This training will occur on November 20 in the Northwest.

FEDERAL AFFAIRS

Administration:

IRS approves community solar tax credit: On September 1, the Internal Revenue Service issued a private letter ruling granting a renewable energy tax credit of 30% to a homeowner who purchased an interest in a community-shared, offsite solar generating system. The private letter ruling in this case represents the first time the agency has publicly approved the applicability of the residential investment tax credit to an owner of solar panels in a shared, offsite array. While the private letter ruling specifically applies

only to the particular case in point, observers believe that it may be useful in establishing a precedent for similarly situated taxpayers.

Congress:

Senate Democrats issue draft omnibus energy bill: On September 22, Senate Democrats led by Energy and Natural Resources Committee ranking member Maria Cantwell (D-WA), Minority Leader Harry Reid (D-NV) and others issued a broad energy bill entitled the “American Energy Innovation Act of 2015.” The bill includes titles on consumer protection, modernizing electric infrastructure, cutting pollution and waste, investing in research and development, and developing clean energy resources. It includes provisions requiring the Government Accountability Office to study and report to Congress on the outcomes of capacity markets in RTOs and ISOs with regard to price impacts and effects on both new and existing electrical generation systems. It also includes a provision requiring the formation of a government agency working group on energy markets to study and report to Congress on the regulatory framework for energy markets. It is uncertain whether this bill will be taken up on the Senate floor.

House energy bill advances: On September 30, the House Energy and Commerce Committee approved HR 8, the “North American Energy Security and Infrastructure Act,” by a vote of 30-22. A new chairman’s amendment provided the base text for purposes of committee consideration. It included modifications to language on capacity markets that initially required FERC to determine whether ISO/RTO capacity markets meet specific requirements for resource procurement and replacing it with a reliability and performance analysis and report by FERC on procurement criteria. Prospects for consideration by the full House are uncertain at this writing.

Short-term Continuing Resolution approved: Also on September 30, the House and Senate passed a Continuing Resolution to fund the federal government through December 11, 2015, averting a government shutdown on October 1. In addition to providing level funding for all federal agencies for the period, the resolution provided emergency funding to fight wildfires.

House leadership transition: As widely reported, Speaker of the House John Boehner (R-OH) announced on September 25 that he would resign from Congress effective October 30. California Representative Kevin McCarthy (R-23rd District – Bakersfield), who was viewed as the favored candidate to become Speaker, announced on October 8 that he would withdraw from the race for Speaker and would instead remain in his position as House Majority Leader. The vote on the Republican nominee for Speaker, which had been set for October 8, has been postponed. Congressman Boehner has said he will remain as Speaker until the House is able to elect his successor.