

Memorandum

To: ISO Board of Governors

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

Tom Doughty, Vice President, Customer and State Affairs

Date: March 8, 2017

Re: **State, Regional and Federal Affairs update**

This memorandum does not require Board action.

STATE AFFAIRS

Regulatory Update

Once-Through Cooling – Deferral of Compliance Date for the Encina Power Station:

As reported to the Board in January, the Statewide Advisory Committee on Cooling Water Intake Structures (SACCWIS) convened on February 23 and unanimously (7-0) adopted a deferral report and the recommendation to request that the State Water Resources Control Board (SWRCB) defer the once-through cooling compliance date for the Encina Power Station (Encina) from December 31, 2017 to December 31, 2018. The report included an interim study conducted by the ISO indicating that reliability in the combined LA Basin and San Diego areas cannot be maintained if Encina is retired prior to the completion of the Carlsbad Energy Center Project (Carlsbad), which has been delayed to the summer of 2018. The report will be presented to the SWRCB on March 21 followed by a staff report released in May and a combined public hearing and adoption in August. If approved by the SWRCB, an amendment will be made to the once-through cooling compliance date on Encina by the Office of Administrative Law by early December, 2017.

Joint Agency Steering Committee – Peak Shift in Forecast:

On January 25, the California Energy Commission unanimously (5-0) voted to adopt the California Energy Demand Updated Forecast, 2017-2027. The forecast includes a scenario that reflects a later peak hour of demand caused by significant behind-the-meter solar penetration. When this peak shift is accounted for, the peak demand increases compared to forecasts without this adjustment. The CEC also explicitly noted

that the peak shift scenario analysis can be used by the ISO in the transmission planning process to review previously approved projects or procurement of existing resource adequacy resources to maintain local reliability but should not be used in identifying new needs triggering new transmission projects. More complete analyses will be developed when the CEC has developed hourly load forecasting models. The inclusion of a peak shift scenario by the CEC was the result of collaborative analyses and discussions led by the Joint Agency Steering Committee and included staff from the CEC, CPUC, California Air Resources Board and ISO.

Aliso Canyon update:

On February 1 and 2 the ISO attended two public meetings held by the Division of Oil, Gas, and Geothermal Resources (DOGGR) and the California Public Utilities Commission (CPUC), in accordance with Senate Bill 380. The meetings provided the public an opportunity to comment on the findings of the gas storage well safety review conducted at the Aliso Canyon storage facility and on the DOGGR's proposed minimum and maximum pressure limits for the Aliso Canyon storage facility. In a related but separate effort, the CPUC voted on February 9 to open a proceeding (Order Instituting Investigation) on whether it is feasible to reduce or eliminate the use of Aliso Canyon while still maintaining electric and gas reliability for the region. The ISO will be an active participant in this effort. The ISO continues to work with the other agencies (CPUC, CEC, LADWP) to implement and track mitigation measures identified through the summer and winter assessments from 2016. The agencies are currently evaluating and identifying additional measures that may be needed in 2017 given the uncertainty of the future use of the fields. On February 15, 2017 SoCalGas notified the CPUC of a plan to enhance the safety of its underground storage fields by converting them to use tubing flow only (or the temporary plugging and isolation of non-converted wells). This conversion plan was scheduled to commence on March 1, and will reduce the injection and withdrawal capacity of each gas storage field. The agencies are evaluating how this will impact summer and winter reliability for 2017.

Legislative Update

Legislature:

The 2017-2018 Regular Session is well underway. February 17 marked the last day for the Legislature to introduce bills. Staff is in the process of reviewing approximately 61 measures relevant to the ISO or the energy sector in general.

Key bills include:

AB 79 (Levine) Electricity Generation: coal-fired generation resources. This bill would require the CEC to ensure that by January 1, 2019, no more than 6 percent, by January

1, 2024, no more than 3 percent, and by January 1, 2026, no electricity consumed in the state will be generated from coal-fired generation resources.

AB 914 (Mullin) Transmission Planning: energy storage and demand response. This bill would require the CPUC, in its participation in the ISO's transmission planning process, to promote the consideration of the use of energy storage systems and demand response to address the state's transmission needs before the use of transmission wires.

AB 1405 (Mullin) Electricity: clean peak energy standard. This bill would require the CPUC to ensure that an unspecified percentage of the energy delivered to ratepayers during the peak load time period by load-serving entities comes from eligible renewable resources or energy storage systems.

SB 57 (Stern) Natural Gas Storage: moratorium. This bill would require the State Oil and Gas Supervisor to continue the injunction against Southern California Gas Co. from injecting any natural gas into the Aliso Canyon storage facility until the specified root cause analysis of the natural gas leak from the facility has been completed and released to the public.

SB 520 (Mitchell) Electricity: intervenor funding. This bill would mandate the ISO to provide compensation for consumer advocates, expert witness fees, and other costs of participation in ISO processes, FERC proceedings that effect California's environment and consumers, and certain proceedings at the CEC. If the collection of funds by the ISO is held invalid by order of any federal agency or court, the CPUC and CEC would be required to collect the amount needed to support payments to the eligible groups.

SB 584 (De Leon) RPS. This bill would revise the section of the California Renewable Portfolio Standard (RPS) that requires all local publicly owned electric utilities to procure 50 percent of their electricity from eligible renewable energy resources by December 31, 2030. Respectively, it would advance the 50 percent target to December 31, 2025 and also require 100 percent of electricity to be generated by eligible renewable energy resources by December 31, 2045.

SB 692 (Allen) Transmission: access charge. This bill would require the ISO to establish a transmission access charge billing determinant for the delivery of energy from the transmission system based on the metered transmission energy downflow. It would require the ISO to apply the specified billing determinant for all voltage categories of transmission facilities. The measure would also require the ISO to continue to use the volumetric per kilowatt-hour basis to calculate the billing determinant until stakeholders can provide input on alternatives.

STRATEGIC ALLIANCES AND REGIONAL AFFAIRS

Energy Imbalance Market:

On February 24, 2017, the Balancing Area of Northern California and the ISO signed an EIM implementation for SMUD's participation in EIM, beginning in April 2019. Planning is underway for the official kickoff meeting, which is scheduled for April 20.

On March 2, the ISO held the official project kickoff for Seattle City Light which executed its EIM implementation agreement in December 2016. Both Seattle and SMUD will begin participation in April 2019.

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 that have announced their study efforts, include the Mexican grid operator El Centro Nacional de Control de Energía (CENACE) Baja Norte, and LADWP.

The EIM Governing Body held a general session meeting in Las Vegas, NV on February 28-March 1. The Governing Body hosted the Regional Issues Forum and participated in a discussion on the re-evaluation on the role and efficacy of the Regional Issues Forum, and also received a briefing from the Body of State Regulators. Additionally, the ISO provided the EIM Governing Body briefings on forecasting and navigation of the ISO website with a focus on the western energy imbalance market webpages. The EIM Governing Body also held an informal reception between general sessions for all attendees. The next in-person general session meeting will be held on April 19 in Salt Lake City, UT.

The Body of State Regulators, led by Commissioner Ann Rendahl as chair and Commissioner Doug Little as vice-chair, held an in-person meeting on March 1 in Las Vegas, NV. During the meeting, Commissioner Rendahl discussed administrative items and the Staff Advisory Committee's recommendations on the Regional Issue Forum re-evaluation. The ISO presented the Q4 2016 western energy imbalance market benefits report and the proposed ISO led stakeholder process on the RIF re-evaluation. The next meeting is a public teleconference that is scheduled for March 27.

The Regional Issues Forum in-person meeting was hosted by the EIM Governing Body and was thus included in the Governing Body meeting on February 28 in Las Vegas, NV. This event allowed all five members of the EIM Governing Body to participate in a discussion with stakeholders on the reevaluation of the forum that is required in the Charter for the Energy Imbalance Market Governance. Additionally, the liaisons facilitated a discussion with stakeholders on the policy initiative roadmap and the frequency of flexible ramping test failure in the EIM. The next in-person meeting has not yet been scheduled.

FEDERAL AFFAIRS

Administration:

NIST issues draft cybersecurity practice guide: On February 16, the National Institute of Standards and Technology released draft “Cybersecurity Practice Guide: Situational Awareness for Electric utilities.” The draft outlines mechanisms that the electric industry needs to detect and remediate cybersecurity vulnerabilities and share results of investigations with other energy companies. Comments are due by April 17.

Congress:

Pruitt confirmed to lead EPA: As widely reported, the U.S. Senate on February 17 voted to approve the nomination of Oklahoma Attorney General Scott Pruitt to be Administrator of the U.S. Environmental Protection Agency by a vote of 52 to 46.

No action on DOE or Interior nominations: Full Senate votes on the nominations of former Texas Governor Rick Perry to be Secretary of Energy and Montana Congressman Ryan Zinke to be Secretary of the Department of Interior have not yet been scheduled. Both nominations have cleared their respective Senate committees.

House hearing on grid modernization: The Energy Subcommittee of the House Energy and Commerce Committee held a hearing on February 15 to explore the topic of “Modernizing Energy and Electricity Delivery Systems: Challenges and Opportunities to Promote Infrastructure Improvement and Expansion.” The first panel, which included representatives of International Brotherhood of Electrical Workers, EPRI, the GridWise Alliance and General Electric Corporation, explored the need to modernize the electric grid and develop solutions to strengthen security, improve efficiency, and reduce costs. Most individuals on the panel spoke about the need for a modernized grid that integrates distributed resources, improvements in sensors that enable increased information, and better communications to facilitate management and optimization of the grid. They also emphasized that technology, policy, regulation, and business models must all advance together in order to realize an integrated energy network. Witnesses also spoke about impediments such as a shortage of technical talent in the workforce and the grid's vulnerability to cybersecurity threats.