

Memorandum

To: ISO Board of Governors
From: Karen Edson, Vice President, Policy and Client Services
Date: July 3, 2013
Re: Legislative and State Regulatory Update

This memorandum does not require Board action.

STATE AFFAIRS

Regulatory Update

Demand response roadmap:

On June 13, the ISO published a draft ISO Demand Response and Energy Efficiency Roadmap. The roadmap outlines a set of activities to increase demand response and energy efficiency that reduces or offsets needs for additional transmission or generation. The roadmap organizes activities on four paths including load shaping, resource sufficiency, operations and monitoring. We presented the key points of the roadmap at the CEC Integrated Energy Policy Report demand response workshop on June 17 in a panel session with representatives from the CPUC and SMUD. We are in discussions with the CPUC and CEC to expand this to a cross-agency roadmap and work together on its implementation. We plan to publish a revision in Q3. The document is posted on our website: <http://www.caiso.com/Documents/Draft-ISODemandResponseandEnergyEfficiencyRoadmap.pdf>.

Proposed ruling for energy storage targets:

On June 10, CPUC Commissioner Peterman issued a ruling outlining a proposal for the planning, procurement, and evaluation of energy storage, including its emerging role within the electric system. The ruling also included proposed combined investor owned utility procurement targets of approximately 1.3 GW by 2020 for viable and cost-effective energy storage systems from emerging technologies. While the ISO does not support technology-specific procurement targets, the ISO will support this ruling by

working with the IOUs to develop technology characteristics needed for market participation and planning. An all-party meeting was held on June 25. The ISO will file comments on the ruling by July 3.

Resource Adequacy (RA) Flexible Capacity Initiative:

On May 28, CPUC ALJ Gamson issued a favorable proposed decision that, if approved, will: 1) adopt the ISO's 2014 local capacity requirement study results; 2) establish an interim flexible capacity framework for 2015-2017; and 3) impose reporting requirements over the next year in advance of the 2014 implementation of a flexible capacity requirement to help determine the flexible capacity need for 2015-2017(although it will not adopt a flexible capacity requirement for the 2014 resource adequacy year).

It is critical that the ISO complete the stakeholder process by December 2013 to allow the ISO and market participants to complete all the necessary implementation processes in time for the 2015 resource adequacy compliance year. The ISO held a stakeholder meeting on June 19 to review the revised straw proposal for flexible resource adequacy criteria and must offer obligation. Two additional stakeholder meetings and a follow-up stakeholder conference call are scheduled to consider stakeholder concerns and address comments in finalizing the proposal for Board review and decision by the end of the year.

Tehachapi Renewable Transmission Project

On June 11, CPUC ALJ Vieth and Commission President Peevey issued a proposed decision and alternative proposed decision, respectively.

The proposed decision denied the City of Chino Hills' petition to modify D.09-12-044 to underground Segment 8A of the Tehachapi Renewable Transmission Project. ALJ Vieth stated that while construction to underground Segment 8A could be completed in a timely manner, the cost of undergrounding the segment is prohibitive and should not be borne by ratepayers at large for the benefit of a few. The proposed decision released the stay and authorized SCE to resume work to complete the segment.

The alternative proposed decision granted the City of Chino Hills' petition for modification and ordered the undergrounding of Segment 8A. Commissioner Peevey stated that the planned above-ground construction of the segment ignores community values and places an unfair and unreasonable burden on the residents of Chino Hills. The alternative proposed decision determined that constructing an underground alternative based on a single circuit, two cables per phase design using cross linked polyethylene cable, could be built at a reasonable cost in a timely manner, and is in the public interest.

San Diego Gas & Electric Pio Pico Power Purchase Tolling Agreement:

SDG&E revived its contract with the proposed gas-fired 305 MW Pio Pico Energy Center, to be located in Otay Mesa, California. SDG&E signed a power-purchase agreement with the developer of Pio Pico, Apex Power Group, and intends to submit the contract to the CPUC in short order. While the CPUC rejected a similar contract between SDG&E and Pio Pico in March 2013, SDG&E believes that the contract should be reconsidered in light of the permanent closure of SONGS.

Huntington Beach Synchronous Condenser Operation

The CPUC approval of the JPMorgan-SCE capacity sale and tolling agreement became non-appealable on June 13, and JP Morgan has given consent for commercial operation for the Huntington Beach synchronous condensers. The plant owner, AES, has advised that their lender has also given consent. This clears all conditions for operations, and the reliability must-run contract can go fully into to effect. Operational testing is complete and the synchronous condensers are available for commercial operations.

Legislative Update

Board Confirmations:

Board Chair Bob Foster's confirmation hearing before the Senate Rules Committee was held on May 15. Senators Lara and Padilla gave opening remarks at the hearing in favor of his confirmation and Mr. Foster also received support from a myriad of groups. The committee unanimously approved his confirmation and passed it to the Senate as a whole for approval. On June 6, Mr. Foster was confirmed with a 37-0 vote of the body (two Senators were not present for the vote and there is one vacancy in the Senate).

Legislative Briefings

On June 3, the ISO coordinated a joint presentation on summer preparedness with the CEC, CPUC and CARB that was held in the Governor's office and provided to members of the legislature and their staff. Steve Berberich from the ISO, Robert Weisenmiller from the CEC, Mark Farron from the CPUC, and Mary Nichols from the CARB participated in a roundtable discussion at the conclusion of the presentation.

Informational Hearings:

The ISO has been asked to participate in three legislative hearings this summer. The first was held on June 17 before the Assembly Utilities and Commerce Committee, entitled "Local Electric Reliability and Once-Through Cooling." We coordinated a joint presentation with the CEC and the SWRCB. Steve Berberich represented the ISO at this hearing. The second hearing was held on June 27 before the Senate Select

Committee on California's Energy Independence in relation to the renewable energy potential for the Salton Sea. The third will be held on July 10 before the Senate Energy, Utilities and Communication Committee in relation to SCE's decision to retire SONGS.

Legislation:

The deadline for legislation to pass out of the house of origin was May 31. All legislation that did not pass by this deadline is now considered a two-year bill unless it receives a rule waiver. Legislation that did pass by this deadline is currently in the process of being heard in second house policy committees. Below is an update on a list of key legislation that has met legislative deadlines and has moved to the second house or has been amended by the author.

Passed:

- AB 66 (Muratsuchi) would require the CPUC to collect information on the frequency and duration of electrical service interruptions from electrical corporations and to use that information to require remediation. We are currently working on clarifying amendments.
http://www.leginfo.ca.gov/pub/13-14/bill/asm/ab_0051-0100/ab_66_bill_20130611_amended_sen_v96.pdf
- AB 1257 (Bocanegra) would require the CEC to assess, every four years, strategies to maximize the benefits of natural gas and to provide this information in a report to the legislature. Amendments have been proposed and we are in the process of discussing them with the author's office.
http://www.leginfo.ca.gov/pub/13-14/bill/asm/ab_1251-1300/ab_1257_bill_20130506_amended_asm_v98.pdf
- SB 699 (Hill) would require an electrical corporation to annually report to the CPUC capital expenditures included in the distribution category of its ratebase for each project.
http://www.leginfo.ca.gov/pub/13-14/bill/sen/sb_0651-0700/sb_699_bill_20130508_amended_sen_v97.pdf
- SB 760 (Wright) would prohibit air districts from destroying retired electrical generating facility equipment unless certain requirements are met.
http://www.leginfo.ca.gov/pub/13-14/bill/sen/sb_0751-0800/sb_760_bill_20130520_amended_sen_v96.pdf
- AB 1295 (Hernandez) would require an electrical corporation to offer customers the ability to subscribe to a community renewable option and allow a customer's bill to reflect their subscription to such an option in the form of a bill credit.
http://www.leginfo.ca.gov/pub/13-14/bill/asm/ab_12511300/ab_1295_bill_20130529_amended_asm_v94.pdf

- SB 43 (Wolk) would establish the Shared Renewable Self Generating Program that would allow customers to purchase an interest in a shared renewable energy facility and to receive a bill credit as an offset to their electricity use. http://www.leginfo.ca.gov/pub/13-14/bill/sen/sb_0001-0050/sb_43_bill_20130528_amended_sen_v94.pdf
- AB 1014 (Williams) would create a new renewable energy program by requiring the CPUC to authorize electrical corporations to provide their customers the option of participating in such a program. http://www.leginfo.ca.gov/pub/13-14/bill/asm/ab_1001-1050/ab_1014_bill_20130508_amended_asm_v95.pdf

Two-year bills:

- AB 177 (V. Manuel Perez) did not pass by the house of origin deadline but has been amended recently. The bill would now require the ISO, when managing the transmission grid and energy market, to do so consistent with achieving a continuous reduction in emissions of greenhouse gases to achieve the state policy goal for 2050 adopted by the CARB. The bill would also raise the RPS goal of 33% to 51% by 2030. The ISO is in the process of reviewing the recent amendments. http://www.leginfo.ca.gov/pub/13-14/bill/asm/ab_0151-0200/ab_177_bill_20130605_amended_asm_v96.pdf

FEDERAL AFFAIRS

Presidential Memoranda:

Presidential Memorandum on Infrastructure: On May 17, President Obama issued a memorandum instructing federal agencies to cut aggregate timelines for infrastructure projects in half. The memorandum applies to electrical transmission, pipeline, water, and energy projects. It directs a steering committee made up of federal agency executives to streamline review and permitting processes, improve community and environmental aspects of projects, and facilitate coordination and information sharing among key stakeholders.

Presidential Memorandum on Transmission Development: On June 7, President Obama signed a Memorandum directing federal agencies to develop an integrated pre-application process to help streamline transmission line permits and to help identify and address environmental and other issues before the application process begins. The Memorandum also directs agencies to optimize the use of energy corridors on federal lands that are most suitable for transmission projects.

Administration Transition:

On May 21, Dr. Ernest Moniz was sworn in as Secretary of Energy by Deputy Secretary Daniel Poneman. Dr. Moniz, a nuclear physicist, previously directed both the Energy Initiative and the Laboratory for Energy and the Environment at the Massachusetts Institute of Technology. He was Undersecretary of Energy in the Clinton Administration.

On May 28, Federal Energy Regulatory Commission Chair Jon Wellinghoff announced that he will resign from the agency as soon as a new commissioner is confirmed to replace him. Chairman Wellinghoff has been at FERC since January, 2009. His term expires on June 30, 2013, but he can remain at the agency until Congress adjourns at the end of the year if no replacement is confirmed before that time.

Senate confirmation of presidential nominees Gina McCarthy to head the Environmental Protection Agency and Allison Macfarlane to chair the Nuclear Regulatory Commission is still pending. It is likely that votes on these nominations will be delayed until after the July 4 congressional recess.

Congress:

Emergency generation bill passes House: On May 23, the House approved by voice vote the “Resolving Environmental and Grid Reliability Conflicts Act of 2013” (H.R. 271). The bill would shield generators from environmental lawsuits when operating a facility under an emergency order from the Secretary of Energy to ensure reliability of service. Bill sponsor Pete Olson (R-TX) is working to find a Senate sponsor for the language.

House passes public power exemption: On June 12, the House unanimously approved H.R. 1038, the “Public Power Risk Management Act.” The bill, which was sponsored by Congressman Doug LaMalfa (R-1st District – Redding), exempts counterparties executing operations-related swaps with public utilities from “special entity” status mandated under the Dodd-Frank Wall Street Reform and Consumer Protection Act. The original Dodd-Frank language would mandate that they meet strict requirements for derivatives trading in a number of areas including capital, margin, and business conduct. This has discouraged counterparties other than banks from undertaking financially-settled swap transactions with public utilities and has increased their costs of hedging.

House to take up cybersecurity bill: House leadership has agreed to provide floor time in July for the “National Cybersecurity and Critical Infrastructure Protection Act” now being circulated in draft form by Congressman Michael McCaul (R-TX), who chairs the

House Homeland Security Committee. The bill would essentially codify various initiatives that are already underway or under development, including the President's February 19 Executive Order on Cybersecurity, NERC's Electric Sector Information Sharing and Analysis Center, and the Electric Sector Coordinating Council. The Senate has not yet acted on cybersecurity legislation, but the Senate Appropriations Committee took up the President's funding request of \$13 billion to address cybersecurity threats on June 20, during consideration of 12 spending bills for Fiscal Year 2014.