

# Memorandum

**To:** ISO Board of Governors

**From:** Karen Edson, Vice President, Policy and Client Services

**Date:** March 12, 2014

**Re:** Legislative and State Regulatory update

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*This memorandum does not require Board action.*

## STATE AFFAIRS

### Regulatory update:

California drought: Current drought conditions in California will adversely impact electric energy production at hydroelectric generation facilities. Data gathered to date indicate California watersheds supplying hydroelectric facilities generally forecast well less than half of the energy normally available during average water years. Hydroelectric resources make up about 22 percent of the installed capacity for the ISO balancing area. While the drought is offset somewhat by an increase in solar generation, the reduced availability of hydroelectric energy, in combination with the loss of energy from SONGS, will result in greater reliance on gas-fired generation. This may translate to an upward pressure on wholesale prices and an increase in greenhouse gas emissions.

FERC has announced a willingness to expeditiously consider waivers relative to required water releases, such as for fish life or recreation, to enable more strategic timing of water releases for power production and other downstream uses.

The California Energy Commission is coordinating information gathering and hydroelectric status updates to the Governor's Drought Task Force. The ISO, California Public Utilities Commission and California Department of Water Resources are participating through the Energy Commission. Data requests have been sent to the hydroelectric facility owners and operators for monthly updates relative to drought impacts on hydro facilities. While current forecasts show significant impact to most hydroelectric facilities of the state, most of the state currently expects to have adequate alternative resources of electric energy (i.e., gas-fired and imports).

## Legislative update

Legislation introduced: February 21, 2014 marked the deadline to introduce bills for the second year of the two-year session. We are combing through the 2,016 bills that were introduced to identify the ones we need to track. ISO staff is in the process of analyzing select measures, and we will keep the Board apprised of developing legislation.

Many of the bills we are tracking thus far are “spot bills”, meaning they are placeholders for legislation that will be developed at a later time. That includes legislation by Senator Padilla that at this point makes non-substantive amendments to code sections pertaining to the ISO.

Below is more information on other key bills we have identified:

- **SB 1078 (Jackson) Electricity: Independent System Operator.** Existing law directs the ISO to manage the transmission grid and related energy markets in a manner that is consistent with the availability of existing electrical generating resources necessary to meet the needs of the state’s electricity consumers. This measure directs the ISO to maximize the utilization of existing electrical resources, including all cost-effective demand-side and renewable energy resources that are connected to the distribution or transmission grid, as are necessary for reliable operation of the grid.
- **AB 407 (V. Perez) Renewable energy resources: Salton Sea** would require the California Energy Commission, in consultation with the California Public Utilities Commission and the ISO, to convene a stakeholder group to identify impediments and recommended steps that should be taken to properly maintain, develop, integrate, and transmit electricity generated by renewable energy resources located in and around the Salton Sea and the Geysers Geothermal Field.
- **AB 2200 (Pérez) California Cyber Security Commission** creates the California Cyber Security Commission whose duty it would be to establish cyber-attack response strategies. The bill also defines the membership of the Commission. While it does not include a member of the ISO, Speaker John Pérez’s office did ask us to participate in a meeting that his staff chaired on cyber and physical security. The meeting was held on March 4 and it included the participation of the municipal community and investor owned utilities. The Speaker’s representative was interested in learning about mandatory cyber security standards, privacy, communication protocols and employee training. They are glean information from the electric sector’s experiences and expertise so they can create a measure that will meet the needs of California.
- **AB 2597 (Ting) Energy: electric vehicles: grid impact** would require the California Energy Commission, by December 1, 2015, to submit a report to the Legislature on the feasibility, potential benefits, and electrical grid impacts of

using electric vehicles as an energy storage device for meeting load demands placed on the electrical grid.

## **FEDERAL AFFAIRS**

### **Administration:**

President Obama nominates Norman Bay for FERC Chairman: On January 30, President Obama announced the nomination of FERC Office of Market Enforcement Director Norman Bay to become the Chairman, succeeding Jon Wellinghoff, who left the agency in December. The nomination requires Senate confirmation. If confirmed, Bay's term will extend through June, 2018.

NIST issues Cybersecurity Framework: The National Institute of Standards and Technology issued its "Framework for Improving Critical Infrastructure" on February 12. The Framework is a set of voluntary "best practices" for critical infrastructure that was developed based on stakeholder input under the President's Cybersecurity Executive Order of February, 2013. The Department of Homeland Security will be responsible for promoting the voluntary best practices. The Institute has also issued a Cybersecurity Roadmap discussing potential next steps and areas for development and collaboration.

### **Congress:**

Senate Committee transitions: On February 6, the Senate approved the nomination of Senator Max Baucus (D-MT), Chairman of the Senate Finance Committee, as the next U.S. Ambassador to China. The resulting vacancy as Finance Committee Chair has been filled by Senate Energy and Natural Resources Committee Chairman Ron Wyden (D-OR). Senator Mary Landrieu (D-LA) has moved to become Chair of the Energy and Natural Resources Committee, which has jurisdiction over matters related to national energy policy.

Senators request physical security assurances: On February 7, Senators Feinstein, Wyden, Reid (D-NV) and Franken (D-MN) sent a letter to FERC and the North American Electric Reliability Council (NERC) urging consideration of mandatory minimum security standards for electricity substations. The letter cites the physical attack on the Metcalf substation as a "wake-up call" about risks to grid security. While it acknowledges that many utilities have taken appropriate measures to respond to the issue, the letter asks FERC and NERC to provide assurances that any entities with a significant role in bulk power system operations are taking appropriate steps to protect against and respond to physical attacks on the grid. It also asks for consideration of whether additional minimum standards are needed to ensure reliable grid operations. Responses are expected in March.

### Legislation introduced:

- EPA Regulations: On February 4, Senator James Inhofe (R-OK) introduced legislation that would allow states to permanently waive EPA regulations on electric generating plants for reliability purposes. The bill, entitled the “Electricity Reliability and Affordability Act of 2014” (S. 1988) has been referred to the Senate Committee on Environment and Public Works.
- FOIA Reform: On February 26, Congressman Darrell Issa (R-49<sup>th</sup> District – Vista), who chairs the House Committee on Oversight and Government Reform, introduced H.R. 1211, which would reform the federal Freedom of Information Act (FOIA) process, requiring federal agencies to treat FOIA requests with a presumption of openness and to justify withholding of information. The bill passed the full House on February 26 as part of a House leadership initiative to increase government agency transparency. The utility industry has expressed concerns about the bill’s potential impact on FERC’s ability to protect sensitive infrastructure information. Chances that the Senate will take up the bill are judged to be low.

### California delegation transition:

On January 30, Congressman Henry Waxman (D-33<sup>rd</sup> District – Los Angeles) announced that he will retire at the end of this congressional session. Congressman Waxman is currently serving his 20<sup>th</sup> term in Congress and is the Ranking Member on the House Energy and Commerce Committee, which has jurisdiction over a broad portfolio of matters ranging from telecommunications and health care to energy and environment.

On February 18, Congresswoman Gloria Negrete-McLeod (D-35<sup>th</sup> District – Montclair) announced that she will not run for a second term, but will instead seek a seat on the San Bernardino County Board of Supervisors.

## **STRATEGIC ALLIANCES AND REGIONAL AFFAIRS**

### **Energy imbalance market (EIM):**

Tariff stakeholder process: The Board’s November approval of the EIM market design provided Management with the authority to move forward with filing the energy imbalance market tariff language at FERC. The draft language was released on November 12, 2013 and the ISO has conducted additional stakeholder meetings and provided opportunities for comment on the draft language. The tariff amendment was filed February 28, 2014.

Transitional Committee process: Following the Board’s approval of the EIM governance proposal at its December meeting, the ISO has assisted stakeholders in the formation of the stakeholder sectors. Each of the seven established sectors has gone through a process of nominating at least two people for consideration by the ISO Board to be

seated on the Transitional Committee. The list of nominees, including each nominee's resume and statement of interest, is posted on the ISO website. Between now and April 15, each sector will develop a ranking methodology and will rank the nominees. The seven ranked lists will be submitted to the ISO Board for consideration. Next, the Board will discuss the nominees, consider the qualities proposed in the governance proposal -- including geographic diversity -- and develop a slate of eight candidates. That slate of eight, in addition to the nominee from PacifiCorp as an EIM entity, along with any other nominee from an EIM entity that signed an implementation agreement to join the EIM, will be considered for approval at the Board's May meeting. Interest in the Transitional Committee process remains high and reflects a region-wide interest.

PacifiCorp: Work is continuing between ISO and PacifiCorp on preparations for the October 1, 2104 go-live date of the EIM. Much of the work now is focused on preparations and development of scenarios for the July 8 start of EIM market simulation.

NV Energy: Following NV Energy's announcement that it plans to seek approval from its Public Utilities Commission (PUCN) to join the EIM, ISO staff have been coordinating the completion of the joint study, where preliminary results showed benefits to both balancing authorities. NV Energy and ISO staff provided briefings to PUCN staff and commissioners in January and February.

Engagement with other potential EIM entities: Ongoing discussions continue with other interested balancing authority areas to explore EIM within their territories.

### **Regional outreach:**

Where appropriate and necessary, outreach to regional stakeholders continues resulting in interest in the energy imbalance market as well as other ISO planning and process tools. We continue to see considerable support through the EIM tariff and governance stakeholder processes. The ISO participates in regional and national discussions, including recent participation at National Association of Regulated Utility Commission meetings and the Western Interstate Energy Board.