

Memorandum

To: ISO Board of Governors

From: Karen Edson, Vice President, Policy & Client Services

Date: October 25, 2012

Re: Legislative and State Regulatory Update

This memorandum does not require Board action.

STATE AFFAIRS

Legislature

The legislature is currently on recess but will start the first year of the next two-year session on December 3.

Prior to the September 30 deadline to sign or veto bills, Governor Brown signed all net energy metering and feed-in tariff legislation mentioned in the last Board report, which were still pending action at that time. AB 2165 (Hill), requires utilities to procure 500 MW of fuel cell energy through net metering. AB 2514 (Bradford) requires the Public Utilities Commission to study the benefits and cost impacts of net energy metering. SB 594 (Wolk) allows net metering customers with multiple meters to aggregate their electrical load if they are located on adjacent or contiguous properties. Finally, SB 1122 (Rubio) requires statewide procurement of up to 250 MW of renewable energy from biomass or biogas technologies.

Little Hoover Commission

At an October 5 public meeting, the Little Hoover Commission discussed recommendations about energy cost and governance. The Commission is hoping to release draft recommendations in November. Public comments will be considered prior to the issuance of the final recommendations, which should be released before the end of the year. The Little Hoover Commission's work on this initiative will provide background and recommendations to the Governor and the Legislature about policy issues.

Regulatory Update

Gas and Electric Interface:

For the last two years following the gas pipeline explosion in San Bruno, the ISO has actively improved gas and electric operations coordination. We now have what may be considered a best-practice procedure addressing real-time and near real-time operations. As the North American Electric Reliability Council and the Federal Energy Regulatory Commission explore the interdependencies of gas and electric infrastructures, that coordination time horizon may extend into near- and even long-term planning. The ISO continues to participate in efforts by FERC, NERC, and WECC to further develop appropriate assessments and standards for the gas-electric interface.

Long-Term Procurement Plan:

On October 9, parties filed comments in response to questions derived from the California Public Utilities Commission's September 7 Joint Long-Term Procurement Plan/Storage Order Instituting Rulemaking Workshop. On October 12, parties filed reply briefs on Track I issues on new resources in Big Creek/Ventura and Los Angeles areas. In collaboration with the California Energy Commission and the State Water Resources Control Board, the ISO presented results of the once-through cooling studies, which used the local capacity requirement study methodology. The ISO estimates that the range of local capacity needs in the Los Angeles Basin is 2,370-3,741 MW (depending on location) and 430 MW in the Big Creek/Ventura area by 2021. In consideration of the five to seven year lead times, the ISO urged the CPUC to direct resource procurement in these areas.

The CPUC will host a public workshop on October 16 to review and refine the energy storage use cases.

Resource Adequacy:

The 2013 resource adequacy proceeding ended in June with the CPUC's favorable final decision, which adopted the local capacity requirements based on the ISO analysis and also recognized the need for flexible capacity. The CPUC will launch an effort to finalize a framework for filling flexible capacity needs and intends to adopt a framework for implementation in the 2014 resource adequacy compliance year. The CPUC asked parties to work together to clearly define flexibility in terms of specific operational characteristics that can be incorporated into the existing resource adequacy and long-term procurement processes.

Moving the process forward, the CPUC held a workshop on August 13, 2012 to begin outlining a flexible capacity framework, including what flexible capacity is and how it will be translated into an annual resource adequacy requirement. From this effort, the ISO is collaborating to develop an interim flexible capacity proposal under the existing annual, bi-lateral resource adequacy paradigm for resource adequacy compliance years 2014-2017. A

multi-year capacity mechanism is anticipated to be developed and implemented for 2018 and beyond. The proposal under development by the ISO and other collaborating parties will be vetted both during the CPUC's resource adequacy proceeding and as an ISO stakeholder initiative. The CPUC is expected to issue a decision on a flexible capacity requirement by or before June 2013 to ensure its integration into the 2014 resource adequacy compliance year.

FEDERAL AFFAIRS

Congress

House and Senate members returned to Washington on September 10 for a brief post-August-recess session of eight legislative days, marking the earliest congressional recess since 1960. The most significant item on the congressional agenda before adjournment was passage of a 6-month continuing resolution for Fiscal Year 2013, providing funding for federal government programs through March 27, 2013. The House passed the bill on September 13 and the Senate followed suit on September 19. The measure as approved was free of policy riders and included a 0.6% across-the-board increase for all agencies as well as additional funding for wildfire suppression programs. President Obama signed the bill into law on September 28.

House and Senate members are scheduled to return to Washington for a post-election lame duck session on November 13. Wind energy advocates are pushing for a vote to extend the expiring production tax credit for wind during the lame duck session. The other energy issue that could be on the congressional schedule is an energy efficiency package that the Senate passed unanimously before adjourning in September. Fate of cybersecurity legislation remains uncertain.

Legislation:

On September 21, Congressman Brian Bilbray (R-50th District – San Diego) introduced a bill (H.R. 6503) to promote development of renewable energy on federal lands that have been identified by the Secretary of the Interior to have low value for other purposes. The bill has been referred to the House Committee on Energy and Commerce.

Also on September 21, Congressman Rick Berg (R-ND) introduced a bill that would prohibit the U.S. Environmental Protection Agency from finalizing proposed greenhouse gas regulations under the Clean Air Act if a state regulatory authority finds that implementation of the rules would lead to an increase of 3 percent or more in the price of electricity for end-use customers. The bill has been referred to the House Energy and Natural Resources Committee.

On September 26, Congressmen John Tierney (D-MA) and Ed Markey (D-MA) introduced legislation (H.R. 6554) that would prevent the Nuclear Regulatory Commission from relicensing a nuclear plant until the facility has ten years or less remaining on its operating permit. The bill has been referred to the House Energy and Commerce Committee.

Administration

At the September 20 Open Meeting, FERC Chairman Jon Wellinghoff announced the creation of a new division in the agency that will focus on reducing physical and cyber threats to the nation's electric grid. The new Office of Energy Infrastructure Security will work to develop recommendations for identifying, communicating and mitigating threats and vulnerabilities, assist and collaborate with other government agencies, and provide outreach to the private sector. Chairman Wellinghoff stressed that legislation or executive action will still be necessary to ensure adequate safeguards for utilities and other critical assets. The White House has said that it is considering issuing an Executive Order on cybersecurity because Congress has been unable to pass meaningful legislation in this area.