

Memorandum

To: ISO Board of Governors
From: Karen Edson, Vice President, Policy and Client Services
Date: September 11, 2014
Re: **State, Regional and Federal Affairs Update**

This memorandum does not require Board action.

STATE AFFAIRS

Regulatory Update:

Demand response settlement:

Multiple parties, including the ISO, have reached a settlement on demand response issues. The settlement resolves issues of greatest interest to the ISO, namely valuation and ISO integration costs and barriers. The settlement agreement was filed on August 4 but will not be effective until approved by the California Public Utilities Commission, which may occur by year's-end.

Issues resolved include retaining current valuation of demand response through 2019, then shifting in 2020 to follow the bifurcation framework, in which demand response is either a supply resource that participates in the ISO market or a load modifying resource that reshapes the load curve. Under the settlement agreement, supply-side resources receive resource adequacy (RA) credit (i.e., as an RA resource) and are qualified to serve as supply-side RA for needs such as local and flexible requirements as well as operating reserves. Load-modifying demand response will reduce RA needs and will be incorporated into the California Energy Commission's Integrated Energy Policy Report forecasts.

Other non-RA value streams (e.g., greenhouse gas reductions and avoided transmission and distribution) will be vetted further through a working group. The parties have also committed to identify and reduce costs and barriers to "operationalize" and fully integrate demand response into the ISO market. These integration and demand response operational issues are being resolved through a constructive, working group process, rather than through further testimony and litigation. The settling parties

have agreed to launch the working groups to capture valuable time and demonstrate progress in anticipation of the CPUC's approval of the settlement agreement.

Long Term Procurement Plans:

The ISO's studies of flexibility and reliability requirements have surfaced concerns that warrant additional evaluation before decisions are made in the ongoing Long Term Procurement Plan proceeding. The studies assumed an unlimited capability to curtail renewable resources and the corresponding results show a significant amount of renewable resource curtailment. This may be masking a greater need for flexible capacity and obscuring the potential benefits and tradeoffs of alternative solutions.

The ISO has suggested that many alternatives are possible and additional studies are warranted to better define the flexibility shortfalls and corresponding appropriately balanced solution options. Two additional studies have been proposed, one with an assumption that very limited or no curtailments of renewables are allowed, and one with moderate curtailments assumed. The ISO has filed testimony in this regard with the CPUC.

Legislative update:

The legislature went on final recess on August 31, 2014. The Governor now has until September 30 to sign or veto bills. November 30 will mark the official end of the current two-year session, and the legislature will reconvene on January 3, 2015 for the start of the new session.

The following bills that we have been following closely are currently awaiting signature by the Governor:

SB 38 (Padilla) Electrical restructuring.

SB 38 is a clean-up bill that deletes obsolete provisions of law that were codified during electric restructuring. The measure removes some references to the Electricity Oversight Board from various sections of the Public Utilities Code, but leaves intact the sections that cover the formation and functions of the Board. SB 1195 (Padilla), which was covered in the last report, went further than SB 38 in eliminating the Electricity Oversight Board; however, the language in that bill was struck and replaced with unrelated subject matter.

SB 699 (Hill) Public utilities: electrical corporations.

This bill requires the CPUC, in a new proceeding, or new phase of an existing proceeding, to commence on or before July 1, 2015, to consider adopting rules to address security threats to the distribution systems of electrical corporations.

SB 1090 (Fuller) Electricity: rates: default time-of-use pricing.

This bill requires the PUC to consider evidence addressing the extent of hardship to customers living in hot, inland areas, and to residential customers living in areas with hot summer weather before requiring or authorizing an electrical corporation to employ default time-of-use pricing rates for residential customers.

SB 1414 (Wolk) Electricity: demand response.

This bill requires utilities to build the procurement of demand response into their resource adequacy plans. In a recent amendment, the bill also requires the ISO to work with the CPUC and CEC to ensure that changes in demand caused by load modifying demand response are reflected in the CEC's Integrated Energy Policy Report forecast, as well as in planning proceedings and associated analyses. The agencies are also to encourage reflection of these changes in demand in the operation of the grid.

Other bills of interest

Other bills that we were tracking and had reported on did not make it to the Governor's desk; including SB 1139 (Hueso), which would have mandated retail sellers to procure a proportionate share of a statewide total of 500 megawatts of electricity generated by baseload geothermal power plants constructed after January 1, 2015; and AB 2584 (Nestande), which would have allowed a Marine Corps base in Barstow, California to exceed the one megawatt cap on net energy metering by running their 1.5 megawatt wind turbine at full capacity.

Board of Governors Confirmation:

On August 21, 2014 ISO Board members Ashutosh Bhagwat and Angelina Galiteva were unanimously confirmed by the Senate Rules committee. The following day, the Senate voted 33-0 to confirm them to another term on the Board.

FEDERAL AFFAIRS

Administration:

FERC transition: On July 15, the full Senate approved the nominations of Norman Bay and Cheryl LaFleur to serve as Commissioners at the Federal Energy Regulatory Commission. Ms. LaFleur was confirmed to a full 5-year term that expires in June, 2019. Mr. Bay will serve out the remainder of a term that expires in June, 2018. Both LaFleur and Bay are Democrats. On August 1, the White House officially named Ms. LaFleur to serve as FERC Chair until April 15, 2015 and also designated Mr. Bay to take over as Chair on April 16, 2015.

On August 7, Commissioner John Norris, a Democrat, announced his resignation from the agency, effective August 20, to take a position as minister-counselor with the U.S. Department of Agriculture in Rome, Italy. On August 28, the White House announced

its nomination of Colette Honorable, Chair of the Arkansas Public Service Commission and President of the National Association of Regulatory Utility Commissioners, to serve as FERC Commissioner in the slot vacated by Mr. Norris. The nomination must be approved by the Senate.

EPA issues final cooling water rule: On August 14, the U.S. Environmental Protection Agency published its final rule on Cooling Water Intake Structures in the *Federal Register*. The rule, which goes into effect on October 14, 2014, will affect more than 1000 existing power plants nationwide, although an estimated 40% have already been modified to ensure compliance. Power plants have the option of using any of seven different technologies designed to prevent fish from becoming entrapped in cooling equipment.

Congress:

Senate and House act on cybersecurity: On July 9, the Senate Select Committee on Intelligence approved Cyber Information Sharing legislation cosponsored by senators Dianne Feinstein (D-CA) and Saxby Chambliss (R-GA). The bill would increase sharing of classified and unclassified cyber threat information with private sector entities, enable the voluntary sharing of such information by individuals and companies, and put in place liability protections for entities that share the information appropriately. The bill has not yet been scheduled for a vote by the full Senate. On July 28, the House of Representatives approved H.R. 3696, the “National Cyber Security and Critical Infrastructure Protection Act,” which would establish a partnership between the Department of Homeland Security and the private sector to enable sharing of cyber threat information. If the full Senate acts on the Feinstein-Chambliss bill, it could potentially be conferenced with the House bill. The provisions of both bills have been encouraged by the electric utility industry.

Continuing resolution likely for 2015 funding: At this writing, the House has approved 7 of the 12 appropriations bills, including the Energy and Water Development bill, which provides funding for the Department of Energy, FERC, and related federal programs. The Senate has not passed any of the funding bills to date. With the end of the Fiscal Year looming, congressional leaders are raising the likelihood of a continuing resolution to keep the government running through the September 30 end of the Fiscal Year and the mid-term elections in November.

Bills Introduced:

S. 2717 (Senator Kirsten Gillibrand, D-NY): Cyber Information Sharing Tax Credit Act.

The bill would amend the Internal Revenue Code to provide a refundable credit for dues, payments for services and other costs associated with cybersecurity information sharing and analysis organizations. The bill would cover private sector activities to share information with organizations such as North American Electricity Reliability

Corporation and the Department of Homeland Security. The bill has been referred to the Committee on Finance.

H.R. 5271 (Congressman Chris Van Hollen, D-MD): Healthy Climate and Family Security Act.

The bill would cap greenhouse gas emissions at 80% of 2005 levels by 2050 and would require companies that extract or import oil, gas or coal for use as fuels to purchase carbon permits in an annual auction, beginning in 2015. All proceeds from permit sales and penalties would be returned to U.S. households in the form of a tax-free quarterly dividend. The bill has been referred to the committees on Energy and Commerce and Ways and Means.

H.R. 5301 (Congressman Peter Welch, D-VT):

The bill would amend the Public Utility Regulatory Policies Act (PURPA) to require electric utilities to use renewable energy for at least 25% of sales by 2025 and to demonstrate at least 15% savings from energy efficiency. The bill has been referred to the House Committee on Energy and Commerce.

STRATEGIC ALLIANCES AND REGIONAL AFFAIRS

Energy Imbalance Market (EIM):

Tariff stakeholder process: Compliance with the June 19 FERC order remains on track for an October 1, 2014 go-live. In addition, the recently filed amendment to the PacifiCorp EIM entity agreement received support from Bonneville, with minor comments from the Transmission Agency for Northern California that the ISO answered on September 3.

EIM Implementation: Work is continuing between ISO and PacifiCorp on preparations for the October 1, 2014 EIM go-live. Market simulation activities are underway with PacifiCorp and other scheduling coordinators. Much of the work now is focused on operations staff preparations at both PacifiCorp and the ISO. A full report on market simulation and other preparations will be presented at the Sep 18-19 Board meeting.

NV Energy: NV Energy filed with the Public Utilities Commission of Nevada (PUCN) on April 16 requesting approval to participate in the energy imbalance market. On the same day, the ISO filed the NVE/ISO implementation agreement with FERC. FERC accepted the implementation agreement on June 13, effective June 16. PUCN granted the order on August 27, effective August 29. With both the FERC and PUCN approval, NV Energy will go live in October 2015. An initial ISO-NVE executive meeting was held August 15, and weekly project review meetings are underway.

Transitional Committee: The eleven-member Transitional Committee has met three times since being appointed by the Board at its May 29 meeting. The Committee unanimously elected, and the Board confirmed, PUCN Commissioner Rebecca Wagner

to be the Chair of the Committee. The Committee has identified a tentative meeting schedule and meeting locations, which have been posted to the ISO website. The Committee has begun planning for its role as an advisory body to the Board on EIM matters and the development of a long term governance proposal for EIM. It will soon be providing a more detailed plan to the Board and the public, which will indicate a schedule for stakeholder engagement on the development of a governance proposal.

Regional outreach: In coordination with PacifiCorp, presentations to regional groups continue to provide information and beneficial discussion on EIM issues. The ISO has developed computer-based training which offers additional opportunity for education on EIM matters. Ongoing discussions continue with other interested balancing authority areas to explore EIM within their territories.