

# Memorandum

**To:** ISO Board of Governors

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

**Date:** December 10, 2014

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

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*This memorandum does not require Board action.*

## STATE AFFAIRS

### Regulatory Update:

US EPA Proposed Carbon Emission Guidelines for Existing Electric Generating Units: On June 2, 2014, under President Obama's Climate Action Plan, the U.S. Environmental Protection Agency (EPA) proposed a rule designed to reduce carbon pollution from existing electric generating units. EPA developed the guidelines using authority under section 111(d) of the Clean Air Act, which directs EPA to determine carbon reduction levels based on the "best system of emission reductions" and then to work with states to develop plans for achieving those reductions. States are free to use different approaches in creating their plans, and can include existing programs such as cap-and-trade, energy efficiency, renewable energy and emissions performance standards to help achieve compliance.

ISO staff reviewed the proposed guidelines and developed comments in collaboration with staff of the California Air Resources Board (CARB), the California Energy Commission (CEC) and the California Public Utilities Commission (CPUC). The comments were submitted to EPA by CARB on November 24. California programs have left us well positioned to comply with EPA's proposed targets. California's interim goal (2020-29) is 556 lbs. CO<sub>2</sub>/MWh and the final goal is 537 lbs. CO<sub>2</sub>/MWh by 2030, which represents a 23 percent reduction from current levels.

The comments submitted to EPA expressed strong support for the proposed rule and included suggestions in several key areas, including the following:

- Recommended EPA allow for regional planning modularity for multi-state implementation and enforceability. For example, states may begin with a single-state plan and develop regional plans in a modular fashion under which states might agree to common plan elements.

- Urged EPA to ensure proper crediting of renewable energy and energy efficiency programs that cross state lines:
  - For renewable energy, suggested that EPA recognize multi-state tracking systems such as the Western Renewable Energy Generation Information System (WREGIS) and codify that renewable energy tracked using renewable energy credits (RECs) is credited to the state receiving the RECs unless a multi-state modular agreement is in place.
  - For energy efficiency, it is not clear in the proposed rule whether the importing or exporting state can fairly claim credit of programs that reduce generation from higher carbon facilities. The California parties' comments suggest that EPA should support modular multi-state plans that allow states to fairly claim credit.
- Reinforced California's requested modifications in earlier comments on EPA 111(b) proposed standards for new, modified or reconstructed electric generating units. Specifically, the California parties' requested that EPA set distinct standards for natural gas-fired power plants based on their operational profiles to ensure low emissions from peaker, flexible, and baseload plants while maintaining sufficient flexibility to integrate zero-emission renewable generation.
- Suggested EPA should support a wide range of potential measures that could allow states like California, which recently implemented the region's first energy imbalance market (EIM) as an option available to other balancing authorities in the West, to track carbon reduction stemming from more efficient utilization of the electric grid.

EPA expects to promulgate the final 111(d) guidelines by June 1, 2015, and state implementation plans must be submitted by June 30, 2016. The 111(d) compliance period begins in 2020.

### **Legislative Update:**

State Legislature: As a result of the November 4 election, Democrats no longer have a supermajority in the State Senate and Assembly. However, there was no change to the majority control of the two houses. In the Assembly, where all 80 seats went before voters, there are now 52 Democrats and 28 Republicans. In the Senate, Republicans picked up two seats, for a total of 14 Republicans and 25 Democrats, with one vacant seat remaining. New members officially took office when the 2015-2016 legislative session began on December 1.

Leadership: In the last report, it was mentioned that on October 15, Senator Kevin de León (D-Los Angeles) was sworn in as the President Pro Tempore of the Senate, replacing termed out Senator Darrell Steinberg (D-Sacramento). Pro Tem De León serves as the Chair of the Senate Rules Committee and makes appointments to various policy committees in the Senate.

Committee Assignments: On December 3, the State Assembly announced committee chairs: notably, Assemblymember Anthony Rendon (D-Lakewood), Chair of Utilities and Commerce; Assemblymember Das Williams (D- Santa Barbara), Chair of Natural Resources; and Assemblymember Mark Levine (D-San Rafael), Chair of Water, Parks, and Wildlife. Senate committee assignments are expected to be announced in early January.

The legislature reconvenes from holiday break on January 5, 2015 for the first year of the two-year session.

## **STRATEGIC ALLIANCES AND REGIONAL AFFAIRS**

### **Energy Imbalance Market (EIM):**

EIM Implementation: Full operation of EIM began successfully on November 1. Initial operation resulted in some price excursions due to various issues that had an impact on the amount of capacity available in the EIM. It is important to note that during these excursions there was minimal impact to prices in the rest of the market and there was no impact to reliability. Through continuous interface with PacifiCorp, the ISO developed processes, procedures, and tools to improve and stabilize market operations. Further, the ISO filed a request with FERC for a 90-day waiver of a specific pricing provision that will waive use of the \$1000 price during certain times of shortages. This 90-day provision, together with other lessons learned, will become part of the Year 1 EIM Enhancement stakeholder process now underway that will result in recommendations to the Board in March 2015 to facilitate NV Energy implementation on October 1, 2015.

Tariff stakeholder process: The first stakeholder meeting of the Year 1 EIM Enhancements was held on November 17. Several topics, including the 90-day pricing provision discussed above, will be staged for a Board decision in March, 2015, and some topics will be grouped into the second phase for recommendation to the Board later in 2015.

NV Energy: Project implementation for NV Energy is underway and the first major milestone has been reached with the initial export of NV Energy's network model to the ISO. Finalization of the model remains a schedule concern and is being watched closely. NV Energy's stakeholder process is underway for tariff modifications required in their open access tariff. The final stakeholder meeting will be held in Las Vegas on December 2. NV Energy plans to file their tariff changes at FERC in early March to support the October, 2015 implementation.

Transitional Committee: The Transitional Committee met in San Francisco on November 20. ISO Management provided a briefing on the status of EIM deployment, a review of the benefits tracking methodology and a summary of the waiver request filing with FERC discussed above. Management also provided a briefing on the Market Surveillance Committee, focusing on issues relevant to the committee's interest in governance concepts. The committee is planning to develop an issue paper that will broadly define the spectrum of governance models to which they will seek stakeholder feedback before developing a governance straw proposal. Their next meeting will be a teleconference on December 19,

followed by an in-person meeting in Phoenix, Arizona on January 12, 2015. Upon discussion and approval, the committee will post a revised tentative schedule for the stakeholder process on the Transitional Committee webpage. Chair Wagner will continue to provide briefings to the Board and get feedback as they move through the process.

NWPP Market Operator RFP: The Northwest Power Pool (NWPP) continues their work to develop an EIM for the Northwest. The NWPP refers to it as SCED (security constrained economic dispatch) to distinguish it from the ISO EIM. The bid spec was released on October 31 and November 7 and the ISO is preparing a response which is due to the NWPP on December 19.

Regional outreach: Our EIM outreach continues with an expanding list of interested parties. In coordination with PacifiCorp, presentations to regional groups continue to provide information and beneficial discussion on EIM issues. Ongoing discussions continue with other interested balancing authority areas and state regulators, as appropriate.

## **FEDERAL AFFAIRS**

Federal midterm elections: Republicans won control of the Senate by a margin of 54 to 46 (counting two Independents who caucus with the Democrats). In the House, Republicans extended their majority by ten seats, leading Democrats by a margin of 244 to 191. The 114th Congress will convene on January 5, 2015.

Congressman John Boehner (R-OH) will remain as Speaker of the House, and Kevin McCarthy (R-23rd District – Bakersfield) will continue as House Majority Leader in the new Congress. Congressman McCarthy has served in the No. 2 spot in House Republican leadership since August, when former Majority Leader Eric Cantor resigned the post after losing a primary challenge. Representative Nancy Pelosi (D-12th District – San Francisco) will continue to serve as House Minority Leader. In the Senate, Mitch McConnell (R-KY) will take over as Majority Leader from Harry Reid (D-NV) in January.

Congressional committee and subcommittee chairmanships will be officially determined in January. However, Senator Lisa Murkowski (R-AK) is expected to chair the Senate Energy and Natural Resources Committee, replacing current chair Mary Landrieu (D-LA). Senator James Inhofe (R-OK) is expected to replace Senator Barbara Boxer (D-CA) as the chair of the Senate Environment and Public Works Committee, where he is expected to focus on oversight of the Administration's Clean Power Plan and EPA regulations such as Section 111(d). In the House, Congressman Fred Upton (R-MI) will likely remain chair of the House Energy and Commerce Committee.

California election results: In California, all House incumbents running for reelection were returned to office. House races for seats being vacated by retiring members included the 11th District (Concord), where Democrat Mark Desaulnier will replace the retiring Democrat George Miller; the 25th District (Santa Clarita), where Republican Steve Knight will replace the retiring Howard "Buck" McKeon; the 31st District (Rancho Cucamonga), where Democrat Pete Aguilar will take the seat being vacated by Republican Gary Miller; the 33rd

District (Los Angeles), where Democrat Ted Lieu will replace retiring Democrat Henry Waxman; the 35th District (Montclair), where Democrat Norma Torres will replace the retiring Democrat Gloria Negrete McLeod; and the 45th District (Irvine), where Republican Mimi Walters will replace the retiring Republican John Campbell.

“Lame duck” Congress in session: Both the House and Senate have reconvened for the post-election “lame duck” session, where significant attention will be focused on crafting a funding bill to support government programs through the September 30 end of the fiscal year. The current continuing resolution expires on December 11.

Colette Honorable confirmation hearing: The Senate Energy and Natural Resources Committee held a confirmation hearing on December 4 for FERC nominee Colette Honorable. Honorable, the Chair of the Arkansas Public Utility Commission and former Chair of the National Association of Regulatory Utility Commissioners (NARUC), has been nominated to serve the remainder of the term vacated by Commissioner John Norris, which extends through June of 2017. A final Senate vote on the confirmation has not yet been scheduled.