

Memorandum

To: ISO Board of Governors
From: Karen Edson, Vice President, Policy and Client Services
Date: July 8, 2014
Re: **State, Regional and Federal Affairs update**

This memorandum does not require Board action.

STATE AFFAIRS

Regulatory Update:

USEPA Proposed Carbon Emission Guidelines for Existing Electric Generating Units:

On June 2, 2014, the U.S. Environmental Protection Agency (EPA), under President Obama's Climate Action Plan, proposed guidelines to reduce carbon pollution from electric generating units. EPA has developed these 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 to achieve those reductions. EPA requires each state to submit a plan by October 16, 2014. States are free to use different approaches in creating their plans. State plans can include existing programs such as cap-and-trade, energy efficiency, renewable energy and emissions performance standards.

ISO staff is now participating in reviewing the proposed guidelines in collaboration with staff of the California Air Resources Board (CARB), the California Energy Commission (CEC) and the California Public Utilities Commission (CPUC). Analyses are still preliminary, but it appears that California programs have left us well positioned to comply with EPA's proposed target:

- EPA is proposing CO₂-only fossil power sector emissions rates (lb CO₂/MWh) for each state based on cost-effective emissions reductions available.

- Rate targets are set for 2030, with an interim average target set for 2020-29. Post-2030, states must maintain compliance with the 2030 target based on a rolling 3-year average.
- California's interim goal (2020-29) is 556 lbs CO₂/MWh and the final goal is 537 lbs CO₂/MWh by 2030, which represents a 23 percent reduction from current levels.

Comments on the proposed rule are due by October 16, 2014. The California parties will be reaching out to colleagues in the rest of the West to explore opportunities for regional collaboration.

Energy Storage Roadmap:

The CPUC, ISO, and CEC have recently agreed to partner on the development of an energy storage roadmap. This roadmap will identify policy, technology, and process changes needed to address challenges faced by the storage sector. It will identify the appropriate forum (e.g. CPUC, CEC, or ISO) where the issue should be addressed. It will also capture dependencies between challenges and suggest priorities for addressing them. The roadmap effort is not envisioned as the forum to solve every issue but rather offers a way to document the scope and scale of issues being encountered through existing mechanisms for bringing energy storage online in California.

We have contracted with a Norwegian firm, DNV GL, which is partnering with Olivine, Inc. to facilitate the development of this roadmap. A stakeholder workshop is planned for late summer to gather stakeholder input, with the publication of a final roadmap by the end of this year.

Legislative Update:

SB 1277 (Steinberg) Electricity; electrical restructuring: Independent System Operator

This bill, which was in the last Board update, would have required the ISO to obtain the formal concurrence of the CPUC before seeking FERC approval of a new auction or market-based mechanism for forward procurement of electricity or capacity products to implement the Joint Reliability Plan in California. The bill died in the Senate Appropriations Committee.

Other bills the ISO is closely following recently passed through policy committee hearings prior to the June 27, 2014 deadline. They include:

SB 1139 (Hueso) California Renewables Portfolio Standard Program:

This measure would mandate that retail sellers procure a proportionate share of a statewide total of 500 megawatts of electricity generated by baseload geothermal power plants constructed after January 1, 2015. In a new amendment, publicly-owned utilities are specifically exempted from the requirements of this bill. At the author's request, the ISO provided technical input on the measure in terms of the transmission constraints that exist in getting geothermal generation from the Imperial Irrigation District into the ISO's balancing authority area.

SB 1195 (Padilla) Electrical Restructuring:

This measure, which at the writing of the last Board report was still a spot bill, was amended into a clean-up bill to delete outdated provisions of the law regarding deregulation. Specifically, the bill abolishes the Electricity Oversight Board, although it leaves references to the Board in several sections of the Public Utilities Code.

SB 1414 (Wolk) Electricity: resource adequacy requirements:

This measure seeks to get more demand response into the market by requiring utilities to include the procurement of demand response in their resource adequacy plans. The ISO has been part of several stakeholder meetings on this bill and has encouraged that the bill explicitly state that demand response must meet or reduce an electrical corporation's resource adequacy obligations.

AB 2584 (Nestande) Electricity: wind energy co-metering:

This measure would allow the 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. At the author and sponsor's request, the ISO provided technical input on the impact of excess generation on the grid.

FEDERAL AFFAIRS

Administration:

White House progress report on climate action: On June 25, the White House issued a 15 page Climate Action Plan Progress Report, marking the one-year anniversary of President Obama's climate action plan. The report notes progress on a number of

initiatives, including new standards for energy efficiency, fast track permitting of renewable energy projects on public lands, and proposed standards for carbon emissions for new and existing power plants. The report estimates that these policies, when implemented, will reduce carbon emissions by nearly 3 billion tons between 2020 and 2025.

Congress:

FERC nominations clear Committee: On June 18, the Senate Energy and Natural Resources Committee voted to approve the nominations of Cheryl LaFleur and Norman Bay to serve as Commissioners on the Federal Energy Regulatory Commission. Ms. LaFleur was nominated to a second term that would extend through June 2019. Mr. Bay, who is currently FERC's Director of Enforcement, was nominated for a term that would extend through June 2018. The approvals followed a compromise agreement with the White House in which Acting Chair LaFleur will continue to serve in that position for nine months following Senate confirmation of her nomination to a second term. Mr. Bay will then take over as Chair. On June 24, Senate Majority Leader Harry Reid (D-NV) announced that he will bring the nominations to the Senate floor for a vote after July 6, when the Senate returns from its Fourth of July recess.

Republican leadership changes: On June 19, the House Republican Conference elected Congressman Kevin McCarthy (R-23rd District – Bakersfield) to serve as Majority Leader, replacing Congressman Eric Cantor (R-VA), who lost his primary election the previous week. The Majority Leader is responsible for working with committee leadership to set legislative priorities and establishing the floor schedule for legislation. Rep. McCarthy was first elected to Congress in 2006.

Cross-border infrastructure bill passes House: On June 24, the House approved legislation entitled the "North American Energy Infrastructure Act" (H.R. 3301) by a vote of 238 to 173. The bill would require the Secretary of Energy, FERC, or the Secretary of Commerce to approve cross-border electric transmission facilities, natural gas pipelines, or oil pipelines within 120 days of application, unless the agency finds the project to be against national security interests. The legislation would replace the existing process to obtain a presidential permit for construction of trans-border projects. The White House has issued a Statement of Administration Policy on the bill, expressing its strong opposition and threatening a veto. Most observers believe that the measure has little chance of passing in the Senate.

Bills Introduced:

H.R. 4813 Rahall (D-WV)/ McKinley (R-WV: Protection and Accountability Regulatory Act of 2014:

Blocks EPA from implementing proposed regulations on carbon pollution from new and existing power plants and prevents the EPA from issuing any limits on carbon for five years, unless Congress approves. It has been referred to the House Committee on Energy and Commerce. Similar bills blocking the EPA carbon rules until the Administration certifies that such rules will not hurt job growth or raise energy prices have been introduced in both the House and Senate.

H.R. 4916 (Schwartz (D-PA): Power Efficiency and Resiliency Act (“POWER Act”):

Provides tax incentives for combined heat and power and waste-heat-to-power projects equivalent to the investment tax credit currently available for solar and wind energy projects. It would also remove size and capacity restrictions on new combined heat and power installations. The bill has been referred to the House Committee on Ways and Means.

STRATEGIC ALLIANCES AND REGIONAL AFFAIRS

Energy imbalance market (EIM):

Tariff stakeholder process: On June 19, 2014, FERC conditionally accepted the ISO’s tariff amendment to incorporate EIM. The same day, FERC also conditionally approved PacifiCorp’s changes to its tariff. Both approvals position us well to continue preparation for the beginning of market simulations on July 8 and go-live on October 1.

EIM Implementation: Work is continuing between ISO and PacifiCorp on preparations for the October 1, 2104 EIM go-live. Much of the work now is focused on operations staff preparations at both PacifiCorp and the ISO.

NV Energy: NV Energy filed with their 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. With both the FERC and PUCN approval, NV Energy will go live in October 2015, 12 months after PacifiCorp. NV Energy has received a series of data requests from the PUCN, the Nevada Bureau of Consumer Protection and interveners. The initial project plan was completed with NV Energy on June 1, in accordance with the implementation agreement.

Transitional Committee process: The Board appointed eleven members to the EIM Transitional Committee at its May 29 meeting. The first Transitional Committee meeting is July 1, 2014. The Transitional Committee will meet approximately as often as the Board and its meetings and deliberations will be subject to the ISO's Open Meeting Policy. Stacey Crowley is serving as the designated ISO liaison to the committee, and will facilitate committee engagement with ISO Board and Management.

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.