



Memorandum

To: ISO Board of Governors

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

Date: December 10, 2015

Re: **State, regional and federal affairs update**

This memorandum does not require Board action.

STATE AFFAIRS

Regulatory update

California Public Utility Commission (CPUC) decisions:

- ***Demand Response***

The Commission voted on November 19 in favor of Commissioner Florio's *Alternate Decision Addressing the Valuation of Load Modifying Demand Response and Demand Response Cost-effectiveness Protocols* (DR Decision). The Commission's approval of the DR Decision achieves long-sought ISO objectives and affirms the Commission's resolve to see demand response deliver value through integration into the ISO market. Through this DR Decision, the Commission ruled that dispatchable demand response not integrated into the ISO market by January 1, 2018 will no longer have value. This means utilities will no longer receive offsetting Resource Adequacy and Long-Term Procurement Plan (LTPP) value for their dispatchable demand response programs unless those programs are integrated into the ISO market as supply resources. This decision strongly aligned with ISO positions and employed significant points of view and arguments made by the ISO in its pleadings.

- ***Southern California Edison Request for Offers (RFO)***

The Commission voted on November 19 to approve Southern California Edison's (SCE) procurement of 1,883 MW of capacity including 1,382 MW of gas-fired capacity and 264 MW of energy storage. The approved procurement total also includes 124 MW of energy efficiency contracts, 75 MW of demand response contracts and nearly 38 MW of renewable distributed generation contracts. The

Commission denied approval of 70 MW of demand response contracts that relied on natural gas-fired generation, indicating they did not meet the definition of preferred resources. The procurement is the result of two Commission decisions in the 2012 LTPP proceeding: a Track 1 decision on February 13, 2013 that ordered SCE to procure between 1,400 MW and 1,800 MW of capacity due in large part to the expected retirement of once-through cooling generation facilities, and a Track 4 decision on March 13, 2014 that ordered SCE to procure an additional 500 MW to 700 MW by 2021 to meet local capacity needs stemming from the June 7, 2013 San Onofre Nuclear Generating Station retirement.

- **Flex Alert**

The Commission voted on November 19 to approve the future of Flex Alert beyond 2015, in a decision finding that *“the California Independent System Operator (CAISO) shall administer and fund the Flex Alert program beginning in 2016. The CAISO will not continue the paid media program that is currently funded by ratepayers of the investor-owned utilities. The CAISO will maintain the Flex Alert brand in order to ensure that the Flex Alert program is an effective tool to maintain grid reliability. The CAISO shall maintain the ability to revise, modify, expand or discontinue Flex Alert activities as necessary to ensure reliable operation of the transmission grid.”*¹

The presiding CPUC Administrative Law Judge commended the ISO for its readiness to engage with the IOUs and for taking responsibility of Flex Alert beginning in 2016. The judge also expressed appreciation for the ISO’s efforts to reevaluate the paid media component of the program and for the ISO’s and IOUs’ collaborative efforts in pursuit of this result. The decision agrees with all three of the ISO’s transfer conditions and states that “This Commission need no longer participate in the program’s operation, and the ratepayers of the IOUs need no longer fund the program.”

Joint California Energy Commission (CEC) and CPUC Joint LTPP Workshop on Bulk Energy Storage

ISO staff participated in this workshop hosted by CEC on November 20. The goal of the workshop was to investigate issues concerning bulk energy storage including the barriers for new projects to become commercially operational. Representatives at the dais were CPUC President Michael Picker, CEC Chair Bob Weisenmiller, ISO President and CEO Steve Berberich, and CPUC Commissioner Carla Peterman. Mark Rothleder and Shucheng Liu were accompanied by Arne Olson from E3 for a presentation on the role of energy storage as a renewable integration solution under a 50 percent RPS and a summary of the ISO bulk energy storage case completed as part of the 2014 LTPP. This was followed by panel discussions on existing large-scale energy storage projects (PG&E Helms Pumped Storage, LADWP Castaic Pumped Storage, and San Diego Water Authority Lake Hodges Pumped Storage Facility) and potential large-scale energy storage projects (Eagle Crest Eagle

¹ <http://docs.cpuc.ca.gov/SearchRes.aspx?docformat=ALL&docid=155558211>

Mountain Pumped Storage, Burbank Water and Power Pathfinder Compressed Air Energy Storage, EDF Swan Lake North Pumped Storage, and Advanced Rail Energy Storage). Federal Energy Regulatory Commission staff provided an overview of the licensing process for hydropower facilities and CPUC staff provided an overview of the LTPP proceeding and existing storage targets

Renewable Energy Transmission Initiative (RETI) 2.0

The ISO has partnered with the CEC and CPUC to deploy the Renewable Energy Transmission Initiative (RETI) 2.0. The objective of RETI 2.0 is to establish the relative potential of renewable locations in California and the West to achieve the state's goal of 50 percent of electricity from renewable power generation by 2030. The initiative was officially launched on September 10, 2015, with a public workshop. Since that time, the ISO and state agencies have collaborated on a structure for engaging stakeholders in the RETI process. In a November 2 public workshop, stakeholders were presented with a consistent model for the organization, methodology and timeline of a set of working groups:

- The Environmental and Land Use Technical Group will be led by the CEC in close coordination with the Renewable Energy Action Team agencies, local governments, Tribes, and other agencies with relevant environmental and land use expertise. This group will assist the RETI 2.0 participants in assessing environmental and land use considerations related to possible locations for renewable energy development.
- The Transmission Technical Input Group will assemble relevant in-state and west-wide transmission capability and upgrade cost information to inform resource development conversations on the reasonably-needed transmission system implications and to assist in developing potential corridor scenarios.
- The Plenary Group will focus on planning assumptions, utilizing data from CEC, CPUC, and ISO, to support the overall goals of RETI 2.0 process; discuss qualitatively what the state should be looking for in selecting resource areas; consider resource potential and environmental and land use information to assist with identifying lower conflict areas for potential development; and construct and discuss combinations of renewable energy resource areas and associated transmission improvements that can help achieve California's 2030 climate and renewable energy goals.

Legislative update

Legislature:

The Legislature is currently in recess and will reconvene for the second year of the two-year session on January 4, 2016.

Due to term limits, both Assembly Speaker Toni Atkins and Assembly Republican Leader Kristin Olsen will term out in 2016. Democrats have chosen Anthony Rendon of Los Angeles as the next Speaker and Republicans have chosen Chad Mayes of Yucca Valley as the next minority leader. Mayes will take over when session begins on

January 4, and Rendon will take over on a date to be decided after an official floor vote in January.

Senators Kevin de León and Jean Fuller will continue their leadership positions as President Pro Tem and Senate Republican Leader, respectively.

Senator Sharon Runner has taken over for Senator Fuller as Vice Chair of the Rules Committee, and additional committee assignments and chairmanships are expected when the legislature returns in January.

STRATEGIC ALLIANCES AND REGIONAL AFFAIRS

EIM implementation:

NV Energy commenced full participation in EIM on December 1, 2015. This follows extensive joint preparation work by NV Energy and the ISO. The remaining FERC orders were received on November 19. They provided the necessary support to proceed on December 1 and also will require some additional actions to comply with the orders.

Portland General Electric and the ISO executed an implementation agreement that was filed at FERC on November 20. Portland General Electric is scheduled to begin EIM implementation in October, 2017.

EIM project implementation work with Arizona Public Service (APS) and Puget Sound Energy (PSE) is underway in preparation for their participation in EIM beginning October 1, 2016. The ISO is providing EIM briefings and legal support to the stakeholder processes led by APS and PSE that support changes to their open access transmission tariff for EIM.

We continue our outreach to other possible EIM participants in the West, and are working with three other entities that have EIM cost/benefit analyses underway.

EIM governance implementation:

The EIM Transitional Committee met via teleconference on November 19 and received briefings on recent FERC orders allowing NV Energy to begin participation in EIM, as well as updates on EIM governance implementation. At this meeting, the Committee voted to find the draft ISO Bylaw revisions, EIM governing body charter and selection policy consistent with their governance proposal, which allows the Board to consider these documents at this December meeting. They also voted to appoint Kevin Lynch of Iberdrola Renewables as their representative to the nominating committee for the EIM governing body selection.

Work has begun to gather the sectors which, should the Board vote to approve the related governance documents, would continue to meet and designate their representatives to the nominating committee to start their work in early 2016. Conversations with sectors are underway to begin development of the Regional Issues Forum, as proposed by the EIM Transitional Committee's governance proposal. The goal is to hold the first meeting in Q1 2016.

Regional outreach:

The ISO continues its outreach around the region as part of the ongoing effort to provide information and seek stakeholder feedback on the EIM and other regional activities. This includes presentations at key regional industry and public forums, as well as briefings to western regulatory and policy leaders. Discussions continue with other interested balancing authority areas and state regulators, as appropriate. On November 20 the ISO, in partnership with PacifiCorp, held a second training session for state utility commissioners and staff from states in which PacifiCorp operates. This second session provided information on items such as transmission access charge options, transmission planning and resource adequacy.

FEDERAL AFFAIRS

Congress:

- Federal government activities are currently funded through a Continuing Resolution that extends until December 11, leaving final resolution of agency funding levels for Fiscal Year 2016 to be completed prior to year-end adjournment. The spending bill will be in the form of an omnibus measure that includes all 12 of the individual appropriations bills. Still under consideration are a number of policy riders that could be attached to the omnibus, including provisions aimed at preventing implementation of the Obama Administration's Clean Power Plan and other energy and environmental initiatives.
- On November 9, House Majority Leader Kevin McCarthy (R-23rd District – Bakersfield) released the 2016 House calendar, with a significantly shortened schedule due to Democrat and Republican party conventions in July and political campaigns running up to the November elections. The schedule calls for the House to be in recess from July 15 through Labor Day and through the entire month of October. The post-election schedule is still fluid. The Senate has announced a similar schedule on a tentative basis.
- House and Senate conferees are meeting to craft a final version of H.R. 22, the bill reauthorizing federal highway and transit programs. The House-passed version of the bill includes an amendment adding electric grid security provisions to the highway bill proposed by Congressman Fred Upton (R-MI), who chairs the Energy and Commerce Committee. These provisions include:
 - Establishing a process for the Department of Energy (DOE), the North American Electric Reliability Corporation (NERC), or NERC Regional Entities to exercise emergency authority for up to 15 days at a time in the event of imminent threats or an adverse grid event;
 - Ensuring that entities that comply with a federal emergency order to generate or transmit power are not subject to federal, state or local environmental penalties or sanctions associated with Federal Power Act violations; and

- Requiring DOE, FERC, NERC and electric infrastructure operators to develop a plan for storing spare large power transformers and emergency mobile substations to maintain critical grid functions.

The House and Senate have named conferees on the bill. Senator Barbara Boxer (D-CA) is one of the 13 Senate conferees, and Jeff Denham (R-10th District – Modesto) and Grace Napolitano (D-32nd District – El Monte) are among the 28 House conferees. The bill, which was viewed as one of the few must-pass measures on the congressional agenda this year, was passed by both House and Senate on December 4, and sent to the President for signature.