

Memorandum

To: ISO Board of Governors
From: Karen Edson, Vice President, Policy and Client Services
Date: July 9, 2015
Re: **State, regional and federal affairs update**

This memorandum does not require Board action.

STATE AFFAIRS

Regulatory update

Carlsbad Energy Center Proceeding (Application of SDG&E for Power Purchase Tolling Agreement):

On May 21, the California Public Utilities Commission (CPUC) approved President Picker's Alternate Proposed Decision in this proceeding by a vote of 4-1.

The Alternate Proposed Decision conditionally approves the power purchase tolling agreement for a 500 MW thermal plant, and requires the resulting 100 MW of residual procurement authority to consist of preferred resources or energy storage. This would bring the total authorized procurement of preferred resources for SDG&E to 300 MW.

The ISO had filed comments on April 27 supporting the alternate proposed decision, urging expeditious submission and review of SDG&E's Request for Offers for 300 MW of preferred resources, and requesting the CPUC to be prepared to act swiftly to ensure that these resources are available to meet the identified long-term reliability issues.

ISO-CPUC Coordinating Committee:

ISO and CPUC staff are collaborating on a new Coordinating Committee, which has been meeting monthly since April. Comprised of five directors from each of the two organizations, this group is tasked with fostering closer collaboration to:

- increase our abilities to achieve complementary and shared policy goals;
- provide a forum for discussing technically complex topics and addressing any divergence in our factual understanding;
- identify interdependencies between our regulatory/stakeholder processes and collaborate on efficient and timely sequencing; and

- support staff resource prioritization to maximize efficiency.

An overarching goal of the committee is to maximize understanding and coordination on interrelated policy matters that advance California's energy and environmental policy goals. In its standing meetings and regular interactions, the committee:

- identifies interrelated or dependent policy activities where collaboration or alignment is needed;
- establishes clear expectations between the CPUC and ISO regarding the timing and flows of information, study results, and other interdependencies between initiatives and proceedings;
- maximizes collaboration in the development of key assumptions and study approaches; and
- engages in committee members' proceedings and initiatives in a coordinated manner.

Coordination with CPUC on linkages between Transmission Plan and California Environmental Quality Act (CEQA):

ISO and CPUC staff are working to improve the alignment between the ISO's transmission process and the CEQA review process. The CEQA process is conducted by the CPUC on transmission projects that have been approved by the ISO. The organizations are seeking to improve the touch points between the transmission planning and CEQA processes so that assumptions, definitions and handoffs are more clear, thus helping projects move expeditiously through the review process.

Legislative update

Legislation:

June 5 was the last day for the legislature to pass bills out of their house of origin. Some of the bills we are tracking did not pass this deadline, including:

SB 180 (Jackson): The bill would have required the CPUC, by June 30, 2017, through a rulemaking proceeding and in consultation with the California Energy Commission (CEC) and the California Air Resources Board (CARB), to establish a greenhouse gas emission performance standard for all nonpeaking and peaking generation. It would have provided that the standard not put reliability of the electrical grid at risk or hamper further deployment of renewable generation resources or reductions of greenhouse gases emissions.

AB 674 (Mullin): This bill would have established a definition of a "clean distributed energy resource," and exempted those customers who use a clean distributed energy resource from nonbypassable charges for electricity generated on site.

Other bills that we are following that are still advancing through the legislative process include:

SB 32 (Pavley): This bill would require CARB to limit greenhouse gas emissions to 40 percent below 1990 levels by 2030, and 80 percent below 1990 levels by 2050.

SB 286 (Hertzberg): This measure increases the statewide limit by 8,000 GWh on direct access for nonresidential customers of electric investor-owned utilities. All of the new direct access transactions must be from Renewable Portfolio Standard (RPS) eligible resources.

SB 350 (De León): This “50-50-50” proposal increases the RPS to at least 50 percent by December 31, 2030; reduces petroleum use in motor vehicles and the transportation sector by 50 percent by January 1, 2030; and doubles energy efficiency in buildings by January 1, 2030.

SB 539 (Hueso): This measure deletes a provision of existing law that authorizes the CPUC, upon a complaint by a geothermal energy producer, to prohibit an investor-owned utility from curtailing the generation, production, or transmission of electricity from a geothermal power plant operated by an investor owned utility, if the CPUC deems that such curtailment is not in the public interest.

AB 33 (Quirk): This measure establishes the Energy Sector Emissions Reduction Advisory Council to make recommendations to CARB in advance of its next scoping plan update on technically feasible strategies to achieve the required reductions in emissions of greenhouse gases from the electricity sector in a manner that is cost-effective and maintains reliability. Recommendations should include strategies to integrate increasing amounts of renewable energy into the electricity grid while minimizing over-generation. The Council would consist of the Chair of the CEC, President of the CPUC, President of the ISO, Chair of the State Water Resources Control Board, and the Chair of CARB.

AB 197 (Garcia): This measure revises the RPS procurement process by requiring that the statewide greenhouse gas emission limit established by AB 32, as well as capacity and reliability services to ensure grid reliability, be taken into account when procuring renewable resources.

AB 645 (Williams): This measure would increase the renewable portfolio standard from 33 percent in 2020 to at least 50 percent by 2030.

AB 1330 (Bloom): This bill establishes an annual energy efficiency resource standard for every retail seller of electricity and every gas utility, and requires the CEC to convene a stakeholder process to determine how the energy savings goals are measured and reported. It also requires the CPUC to establish an annual percentage of peak demand reductions that shall be achieved by retail sellers of electricity through event-based demand response.

Informational Hearing:

On June 23, Karen Edson, Vice President of Policy and Client Services, and Neil Millar, Executive Director of Infrastructure Development, participated in an informational hearing on the role of the Salton Sea in meeting California's climate and renewable energy targets. The Select Committee on Renewable Energy Development and Restoration of the Salton Sea, chaired by Assemblyman Eduardo Garcia (D-Coachella), held the hearing.

Confirmation Hearing:

On June 24, ISO Board Chair Richard Maullin had his confirmation hearing before the Senate Rules Committee. The Committee voted unanimously to confirm him. Next, the full Senate will vote on his confirmation.

STRATEGIC ALLIANCES AND REGIONAL AFFAIRS

PacifiCorp/ISO Integration study:

Initial work is underway with third party load serving entities and transmission owners in PacifiCorp's area to help them understand the impacts and benefits of PacifiCorp integration as a participating transmission owner.

Arizona Public Service joining the energy imbalance market (EIM):

Following execution of the APS implementation agreement on May 15, the ISO Board appointed APS General Manager Brad Albert to the EIM Transitional Committee. The APS implementation agreement was filed with FERC on May 28 and project kickoff meetings with APS have already occurred.

EIM Transitional Committee:

The draft final governance proposal was posted to the ISO website on June 22 and was presented at the Transitional Committee meeting on June 25 in Reno, NV. Stakeholders were encouraged to submit comments by July 9, 2015.

At its June 25 meeting, the committee also received briefings on EIM operations and ongoing work with the current three entities who will be joining EIM, NV Energy, Puget Sound Energy and Arizona Public Service. The committee is scheduled to hold a teleconference meeting on July 20 and an in-person meeting in Folsom, CA, on August 25, where they plan to consider the final governance proposal.

EIM implementation:

NV Energy implementation continues on schedule for October 1, 2015. We have achieved connectivity between ISO and NV Energy systems and begun "day-in-the-life" simulation exercises.

Initial project work is underway with both Puget Sound Energy and Arizona Public Service to prepare for their October, 2016 participation in EIM. Puget Sound Energy and APS are both planning their stakeholder processes for changes to their tariff that will begin later this summer.

Regional outreach:

The Northwest Power Pool Market Assessment and Coordination Committee held a public meeting on June 24 to explain their phase 4 and 5 efforts, including a new concept, the Central Clearing Economic Dispatch. It will be a simplified 15-minute energy market but will not model physical flows. Targeted implementation is October, 2017. We continue to work with the Northwest Power Pool to better understand the Central Clearing Economic Dispatch and how the ISO can assist.

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. Discussions continue with other interested balancing authority areas and state regulators, as appropriate.

FEDERAL AFFAIRS

Congress:

Senate Committee working on draft energy bill:

The Senate Committee on Energy and Natural Resources, chaired by Senator Lisa Murkowski (R-AK), held a series of hearings in May and June related to development of an omnibus energy bill. At least 114 draft proposals are under consideration. Topics addressed include cybersecurity, advanced storage, electric grid reliability and capacity resources, as well as exports, national laboratories, manufacturing and loan programs. Senator Murkowski and ranking committee member Maria Cantwell (D-WA) are negotiating over what will be included in a bipartisan energy package. Senator Murkowski has said that she hopes to introduce a final package of bills for consideration before the August congressional recess.

Bills that have been introduced for possible inclusion thus far include the following of possible interest to the ISO (all have been referred to the Senate Committee on Energy and Natural Resources):

S. 1201 (Shaheen-- D-NH), to advance the integration of clean distributed energy into electric grids;

S. 1202 (Shaheen), amending PURPA to assist states in adopting updated interconnection procedures and standards for combined heat and power and waste heat to power technologies;

S. 1207 (Hirono -- D-HI), directing the Department of Energy to establish a grant program for transformation of the electric grid by 2030;

S. 1213 (King -- I-ME), amending the Federal Power Act and PURPA to facilitate the free market for distributed energy resources;

S. 1217 (Murkowski), establishing an Interagency Rapid Response Team for Transmission and an Office of Transmission Ombudsperson within the Federal Energy Regulatory Commission to expedite and improve the permitting process for electric transmission on federal and non-federal lands;

S. 1218 (Murkowski), establishing a coordinating committee within the Department of Energy and the Department of Interior focused on the nexus between energy and water;

S. 1219 (Murkowski), amending the Public Utility Regulatory Policies Act (PURPA) of 1978 to provide for safe and reliable interconnection of distributed resources and examining the effects of net metering;

S. 1220 (Murkowski), to improve the cross-border distribution of energy through adoption of several recommendations in the Administration's Quadrennial Energy Review:

S. 1221 (Murkowski), amending the Federal Power Act to require periodic reporting by regional reliability organizations on electric system reliability and submission of reliability impact statements for rules affecting bulk power system operation;

S. 1222 (Murkowski), amending the Federal Power Act to provide for reports related to electric capacity resources of transmission organizations and amendment of certain tariffs to address procurement of capacity resources;

S. 1232 (Wyden – D-OR), amending the Energy Independence and Security Act of 2007 to modify provisions related to smart grid modernization;

S. 1233 (Wyden), amending PURPA to expand the electric rate-setting authority of States; and

S. 1243 (Cantwell), aimed at modernizing the electric grid by bolstering the reliability, affordability, diversity, efficiency, security and resilience of energy supplies through advanced grid technologies.

House legislation of interest:

H.R. 1270 (Representative Cory Gardner – D-CO), amending the Energy Policy Act of 2005 to reauthorize hydroelectric production incentives and hydroelectric efficiency improvement incentives;

H.R. 2271 (Representative Jerry McNerney – D-9th District – Stockton), amending the Federal Power Act to promote critical infrastructure security;

H.R. 2244 (McNerney), establishing a strategic transformer reserve program within the Department of Energy;

H.R. 2245 (McNerney), requiring the Federal Trade Commission to consider including Smart Grid capability on Energy Guide labels; and

H.R. 2358 (Representative Ryan Zinke – R-ME), amending the Federal Land Policy and Management Act of 1976 to enhance the reliability of the electric grid and reduce the threat of wildfires by facilitating vegetation management on federal lands.

House and Senate take up anti-Clean Power Plan initiatives:

On June 25, the House of Representatives voted 247-180 to allow states to delay or opt out of compliance with the Administration's Clean Power Plan, which would regulate carbon emissions from new and existing power plants. The legislation, H. 2042, was sponsored by House Energy and Power Subcommittee chairman Ed Whitfield (R-KY). A bill in the Senate sponsored by Senator Shelly Moore Capito (R-WV), S. 1324, would immediately stop all EPA power plant carbon emissions regulations and establish specific requirements to be met before any new regulations could be implemented. These requirements include demonstration that the standards promulgated have been achieved for one continuous year by a specified number of fossil-fired plants, not including any demonstration projects. Both House and Senate have also included riders limiting EPA's ability to proceed with carbon regulations in agency funding bills for 2016. The White House has threatened to veto bills containing such language if they advance to the President's desk.

Cybersecurity language fails to advance in defense authorization:

On June 11, the Senate failed to clear a procedural hurdle that would have added provisions of Senator Dianne Feinstein's (D-CA) Cybersecurity Information Sharing Act of 2015 (S. 754) as an amendment to the Fiscal Year 2016 National Defense Authorization Act. The Feinstein bill would provide liability protections to companies that voluntarily reveal information on cyber threats or vulnerabilities to government or industry entities. The House passed similar data sharing bills (H.R. 1731 and H.R. 1560) in April. Senate Majority Leader Mitch McConnell has identified cybersecurity information sharing as a top legislative priority in this Congress and has promised to take up the bill as a stand-alone measure soon.

Senator Cantwell previews wildfire management reforms:

On June 15, Senator Cantwell released a white paper describing a wildfire management bill that she expects to release this summer. The bill would increase investments in wildfire prevention; authorize large, catastrophic fires to be paid for with disaster funding rather than funding for forest stewardship programs; and discourage development of housing in areas prone to wildfires. Senator Cantwell is expected to introduce the bill after the July 4 recess.

Federal Court Actions:

Court dismisses challenge to Clean Power Plan:

The U.S. Court of Appeals for the District of Columbia Circuit on June 9 dismissed the first legal challenge to EPA's Clean Power Plan regulations for existing power plants on the basis that the court should not rule on the legality of regulations before they are finalized. The proposed regulations are scheduled to be issued in final form by EPA sometime this summer.