

Memorandum

To: ISO Board of Governors

From: Stacey Crowley, Vice President, Regional and Federal Affairs

Tom Doughty, Vice President, Customer and State Affairs

Date: April 24, 2017

Re: State, Regional and Federal Affairs update

This memorandum does not require Board action.

STATE AFFAIRS

Regulatory Update

Joint Agency Workshop - Slow Response Local Capacity Resource Study

The ISO and the California Public Utilities Commission (CPUC) hosted the second joint workshop on Slow Response Local Capacity Resources on April 3 at the CPUC, focusing on demand response resources in the ISO's market and their current capabilities. The ISO presented a detailed overview of these resources' characteristics and how the ISO's market optimization software uses this information to commit and dispatch them. This discussion established a foundation for changes that would be needed at the ISO or in demand response programs in order to use demand response for reliability in the local capacity areas. The ISO and the CPUC held an initial workshop on October 3 to explore availability requirements for slow response resources that are energy limited and cannot be dispatched within 20 minutes post-contingency, such as some demand response resources. The ISO and CPUC expect to hold a third workshop outlining the reliability needs of the system and how demand response programs should be structured to meet those needs.

The joint agency workshops fulfill a requirement of the May 13, 2016 ISO Executive Appeals Committee decision regarding a proposed change in the Reliability Requirements Business Practice Manual directing the ISO to "seek to conduct a joint workshop with the CPUC to address how demand response resources can help the ISO effectively address NERC, WECC and ISO reliability standards applicable to local areas."

2017 Integrated Energy Policy Joint Agency Workshops

The ISO is collaborating with the California Energy Commission (CEC) and the CPUC on three joint workshops in the CEC's Integrated Energy Policy Report docket:

- Risk of Early Retirement of Gas-Fired Electric Generation – scheduled for April 24 at the CEC in Sacramento, this workshop will facilitate a discussion of the economic and contractual challenges putting some of California's existing power plants that may be needed for local and system reliability at risk of early retirement. The workshop will also address the roles of the ISO and state agencies in addressing the issue. Topics will include existing generation contracting, resource adequacy and flexibility, defining local capacity areas and determining regional reliability needs, and ancillary services. Generation owners and representatives of the investor owned utilities will participate in a roundtable discussion on potential solutions.
- Operational Issues Associated with Integrating Renewables – scheduled for May 11 at the CEC in Sacramento, this workshop will include an overview by the ISO, a presentation by the Natural Resources Defense Council on regional solutions, and a panel discussion of solutions in three topical areas: Flexible Load – DR and Storage, Excess Electricity, and Flexible Capacity.
- Energy Reliability in Southern California – scheduled for May 22 at the South Coast Air Quality Management District in Diamond Bar, this workshop will provide a forum for updates on reliability issues associated with the closure of the San Onofre Nuclear Generating Station, phase out of once-through cooling, and possible reliability issues associated with the Aliso Canyon Natural Gas Storage Facility. It will also include a panel discussion with participants from FERC, environmental justice advocates, the Porter Ranch Neighborhood Council, Los Angeles County, chambers of commerce, ratepayer advocates and environmental non-governmental organizations.

Legislative Update

The Legislature reconvened from spring recess on April 17, and April 28 marks the last day for policy committees to report bills to fiscal committees. Currently, ISO staff is tracking approximately 70 measures pertinent to the ISO or the energy sector in general.

Key legislation includes:

AB 79 (Assemblyman Levine): Requires the California Air Resources Board (CARB), in consultation with the ISO, to calculate the hourly greenhouse gas emissions from unspecified sources of power by no later than January 1, 2020.

AB 914 (Assemblyman Mullin): Requires the CPUC to ensure that transmission owners consider non-wires alternatives that could substitute for transmission investments, evaluate both wires and non-wires alternatives for proposed new infrastructure investments in the transmission planning process, and include non-wires alternatives for consideration if they are the most cost effective solution or provide net benefits compared to traditional transmission investments.

AB 920 (Assemblywoman Aguiar-Curry): Requires that not less than 20 percent of the electricity procured through renewable energy resources after June 1, 2010, be renewable baseline generation and meet all specified product content requirements. Renewable baseload generation is defined as an eligible renewable energy resource capable of generating electricity at a capacity factor greater than 60 percent on an average annual basis.

SB 57 (Senator Stern): Requires the State Oil and Gas Supervisor to continue the injunction against Southern California Gas Co. from injecting any natural gas into the Aliso Canyon storage facility until the specified root cause analysis of the natural gas leak from the facility has been completed and released to the public. Recent amendments allow the Governor to order injections to avoid or respond to an emergency situation.

SB 64 (Senator Wieckowski): Requires the ISO, by January 1, 2019, to consult with the CPUC, CEC, the California Air Resources Board, and the public in the review and revision of its operations to minimize any logistical impediments to day-ahead scheduling of intermittent generation from renewable energy resources between the ISO and other balancing area authorities that could address oversupply of renewable energy resources when they are inexpensive and abundant. The measure does not authorize the ISO to change its governance, transform into a regional organization, or avoid compliance with federal laws.

SB 338 (Senator Skinner and Assemblyman Mullin): Requires the CPUC and the CEC, in consultation with the ISO, to establish policies or procedures to ensure that electrical service providers meet net-load peak, energy and reliability needs while minimizing the use of fossil fuels and utilizing low-carbon technologies and grid management strategies.

SB 356 (Senator Skinner): Requires the ISO to make demand, pricing, and trading information available electronically to the public, including: 1) day-ahead and spot-market; 2) data on the amount of overgeneration and on generation constraints, by location; 3) assumptions in forecasting energy needs; 4) historical and forecasted demand, statewide and by subregions; and 5) capacity and ancillary service needs of the statewide and regional grid throughout the year.

SB 520 (Senator Mitchell): Requires the ISO to establish a mechanism to provide compensation for specified advocates' expert witness fees and other costs of participation in any: 1) formal or informal processes, committees, or boards relied upon by the ISO; 2) any activity at FERC relating to policies, rules, tariffs, or practices affecting the ISO; 3) any activity related to any proposal at FERC that affects the rates charged by an electrical corporation or local publicly owned utility in California; 4) proceedings at CEC related to transmission planning and integrated energy policy reports; and 5) judicial review of any determination or tariff proposal made by the ISO or any decision by the FERC affecting the ISO. If the collection of funds by the ISO on transmission owning utilities is held invalid by order of any federal agency or court, the CPUC and CEC are mandated to collect amounts needed to support payments to eligible groups.

SB 692 (Senator Allen, Senator Wiener & Assemblyman Berman): Requires the ISO to undertake a stakeholder initiative to consider modification to the transmission access charge billing determinants. The measure further mandates the ISO to make consistent the basis for applying transmission cost allocation to distribution utilities and load serving entities (LSEs) in a manner that fully compensates utilities and LSEs for local generation (within the distribution grid), unless the ISO makes a finding that differential bases are in the best interest of all California end-use customers and further achieves California's environmental goals. Additionally, it requires the ISO to submit to FERC proposed modifications of the billing determination by June 30, 2018 and to fully implement any FERC approved modifications within one year of FERC approval.

SB 584 (Senator de León): Revises the section of the California Renewable Portfolio Standard that requires all local publicly owned electric utilities to procure 50 percent of their electricity from eligible renewable energy resources by December 31, 2030. Respectively, it would advance the 50 percent target to December 31, 2025 and also require 100 percent of electricity to be generated by eligible renewable energy resources by December 31, 2045.

STRATEGIC ALLIANCES AND REGIONAL AFFAIRS

Energy Imbalance Market:

Following the signing of the Implementation Agreement with the Balancing Area of Northern California (BANC) in late February, the project kickoff meeting for SMUD's participation in the Energy Imbalance Market occurred on April 20. SMUD will go operational with EIM in April 2019, at the same time as Seattle City Light.

As part of its regional outreach, the ISO is engaged with several western entities that are studying the EIM benefits and costs for their specific balancing areas. Entities studying EIM participation include the Mexican grid operator El Centro Nacional de Control de Energía (CENACE) Baja Norte, Salt River Project, Los Angeles Department of Water and Power, Tucson Electric, and Northwestern Energy in Montana.

The EIM Governing Body held an executive session meeting on March 27 and a general session meeting in Salt Lake City, UT on April 19. The Governing Body reappointed Kristine Schmidt for another three year term, endorsed proposed amendments to the Charter for Energy Imbalance Market Governance for submittal to the Board, and elected Douglas Howe as chair and Valerie Fong as vice-chair, effective July 1, 2017. The meeting included an update from the Regional Issues Forum (RIF) on the draft re-evaluation paper that they developed, an update from the Body of State Regulators, western EIM readiness presentations by the ISO and Portland General Electric, a briefing from the ISO on supply conditions, and a policy outlook update. The next in-person general session meeting will be held on July 13 in Folsom, CA.

The Body of State Regulators (BOSR), led by Commissioner Ann Rendahl as chair and Commissioner Doug Little as vice-chair, held conference calls on March 27 and April 10. During the March 27 call the BOSR discussed administrative items and received a briefing from Todd Miller of Bonneville Power Administration (BPA) on the Coordinated Transmission Agreement between BPA and the ISO and a discussion on market benefits. During the call on April 10, the BOSR discussed the Staff Advisory Committee's recommendations on the proposed amendments to the Charter for Energy Imbalance Market Governance proposed by ISO Management. The next meeting is a public teleconference that is scheduled for May 22.

The RIF sector liaisons hosted a stakeholder conference call on April 7 to discuss the draft re-evaluation paper developed by the group. The paper, posted on the RIF webpage, was drafted by the liaisons as part of the Charter for Energy Imbalance Market Governance's mandated re-evaluation process and was presented to the EIM Governing Body at its April 19 meeting. The liaisons have requested stakeholder comments on the paper by May 3 and plan on publishing the comments matrix on May 15.

Regional Markets:

The Joint Committee on Regional Electric Power Coordination (CREPC) and WIRAB meeting was held in Boise, ID on April 12-14, where regulators from throughout the west participated in discussions on issues surrounding electric power coordination. The ISO presented an update on the EIM and regional energy market activity, California resource adequacy counting, and advanced reliability services from utility-scale solar. Other presenters included SPP, MWTG, and BPA with discussions on spring operating conditions, expanding regional coordination, planning reserve margins, and governance structures. The next CREPC/WIRAB meeting will be held in San Diego in October.

The seven members of the Mountain West Transmission Group (MWTG) participated in a forum hosted by the Colorado PUC in Denver in late March. The meeting contained presentations on the pros and cons of markets, presentations from the MWTG members and SPP, and ended with two roundtable discussions with stakeholders from a variety of backgrounds.

ISO staff and management continue to provide outreach and education on matters of regional interest, including the western Energy Imbalance Market, renewable integration onto the grid, and opportunities to further regional collaboration, at various western energy forums.

FEDERAL AFFAIRS**Administration****2018 Budget Outline:**

On March 16, the White House issued its Fiscal Year 2018 budget outline for domestic discretionary programs, including federal agencies. The outline proposes significant cuts to energy and environmental programs, including a 31% cut to the Environmental Protection Agency (EPA), a 12% cut to the Department of the Interior, and a 6% cut to the Department of Energy (DOE). The proposal lacks detail and would provide flexibility for agency leadership to determine where specific cuts would be made. Among programs zeroed out, as expected, was EPA's Clean Power Plan initiative. The proposal also eliminates funding for DOE's Advanced Research Projects – Energy program, state energy assistance grants, and the DOE loan guarantee program.

The budget blueprint proposes \$1.5 billion for the Department of Homeland Security (DHS) to protect federal networks and critical infrastructure such as electric utilities from cyberattacks.

The next budget milestone will be the Trump Administration's unveiling of a more detailed budget document, with allocation levels for specific budgetary accounts, in May. The final budget numbers for domestic and other programs will be determined by congressional action. The 2018 Fiscal Year will begin on October 1, 2017.

Congress

Companion cybersecurity bills introduced:

On March 10, Senators John Cornyn (R-TX), Patrick Leahy (D-VT), and Ted Cruz (R-TX) introduced the "National Cybersecurity Preparedness Consortium Act," which would authorize DHS to work with universities to prepare for and respond to national, state and local cybersecurity risks and help states and communities to develop cybersecurity information sharing programs. The bill also includes provisions for training critical infrastructure operators. Representative Joaquin Castro (D-TX) has introduced a companion bill in the House. A similar measure passed the House during the 114th Congress but died in the Senate.

9th Circuit bills introduced:

Bills that would split the U.S. Court of Appeals for the 9th Circuit and create a new federal Court of Appeals for the 14th Circuit in the Mountain West have been introduced in the Senate by Senators Jeff Flake (R-AZ) and John McCain (R-AZ) and in the House by Congressman Mike Simpson (R-ID). Proponents of the bills (S. 276 and H.R. 196) have argued that the court, whose jurisdiction spans from the Arctic Circle to southern Arizona and the Pacific islands, is unwieldy and inefficient. Opponents assert that splitting the court, which is now based in San Francisco, would be unduly costly. The House Judiciary Committee's subcommittee on Courts, Intellectual Property and the Internet held a hearing on the House bill on March 17.

Judiciary

Judge Gorsuch sworn in:

Neil M. Gorsuch, a judge of the U.S. Court of Appeals for the 10th Circuit, was sworn in as an associate justice of the Supreme Court on April 10, following an April 7 Senate vote of 54 to 45 for confirmation. The action gives the Supreme Court a full complement of 9 justices. The court will hear final oral arguments for the current term, which ends in June, on April 17. The next term will begin in October, 2017.

States weigh in on Clean Power Plan:

A coalition of 17 state Attorneys General, including California's new Attorney General Xavier Becerra, has written to the U.S. Court of Appeals for the D.C. Circuit urging the

court not to pause its consideration of the legality of the Obama Administration's Clean Power Plan. President Trump signed an Executive Order preventing EPA from implementing the proposed carbon emissions regulations on March 28. The court heard oral arguments on the plan in September but has not ruled on the matter at this writing. There is no specific timeline for a court decision.