

Memorandum

To: ISO Board of Governors

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

Tom Doughty, Vice President, Customer and State Affairs

Date: September 12, 2017

Re: State, Regional and Federal Affairs update

This memorandum does not require Board action.

STATE AFFAIRS

Regulatory update

Aliso Canyon update:

The long-term use of the Aliso Canyon natural gas storage facility is being addressed in a California Public Utilities Commission (CPUC) Order Instituting Investigation (I.17-02-002) proceeding which was opened on February 9, 2017. In Phase 1, the Commission is undertaking an effort to develop the appropriate analyses and scenarios to evaluate the impact of reducing or eliminating the use of Aliso. In Phase 2, the Commission will evaluate the impacts of reducing or eliminating the use of Aliso using the scenarios and models adopted in Phase 1. The results of the models will inform the Commission's decision on the appropriate use of the storage field.

On July 24, California ISO (ISO) staff submitted informal comments on the CPUC Energy Division's proposed scenarios framework. ISO staff also participated in the first Phase 1 workshop on August 1. Key ISO recommendations included the following:

- Incorporate results of the ISO's power flow modeling into the production cost modeling analysis.
- Carefully consider different solar conditions and effects on hourly rate of gas needed in the analysis.
- Develop electricity demand forecasts utilizing the California Energy Commission's (CEC) hourly profiles that will be available in early 2018.
- Consider impacts throughout the integrated Southern California electric grid, not just the LA Basin.

The CPUC Energy Division plans to issue revised assumptions and scenarios in preparation for a second Phase 1 workshop in October. Phase 1 will be resolved by the issuance of an Assigned Commissioner's Ruling providing guidance on the scenarios and assumptions that will be evaluated in Phase 2 in 2018.

Integrated Resource Plan:

On May 16, CPUC Energy Division staff released "Proposal for Implementing Integrated Resource Planning at the CPUC" (Staff Proposal), which outlines how integrated resource planning (IRP) as required under SB 350 will be used to meet California's greenhouse gas (GHG) emissions reduction targets for the electric sector, consistent with the statewide goal of achieving a 40 percent reduction in GHG emissions below 1990 levels by 2030, while maintaining reliability, minimizing bill impacts, and prioritizing air quality benefits in disadvantaged communities. CPUC staff ran an optimization model to identify the best mix of supply- and demand-side resources versus individual procurements and mandates.

The IRP process would have two major products over the next two years: (1) the Reference System Plan to be developed in 2017, and (2) the Preferred System Plan to be developed in 2018. Preliminary results for the Reference System Plan were released on July 19 and included three core cases reflecting a 50 percent renewable portfolio standard and two cases reflecting electric sector emissions targets of 42 and 30 million metric tons of carbon dioxide equivalent. Revised results for the Reference System Plan are expected in mid-September. By the end of 2017, CPUC staff will develop and operationalize a model to generate a variety of portfolios under future scenarios over a 20-year planning horizon (2018-2038) that achieves SB 350 goals. CPUC staff will then recommend a single optimal portfolio as the Reference System Plan and provide guidance to jurisdictional load serving entities (LSEs) on their individual filings.

In 2018, the LSEs will develop and file with the CPUC their own IRP plans and the CPUC will aggregate all of the individual LSE plans into a single Preferred System Plan. At least for the 2017-2018 cycle, CPUC staff expects the IRP will largely inform procurement decisions in resource-specific proceedings but may not specifically direct the individual resource procurement. CPUC staff is working with staff of the California Air Resources Board (CARB), the CEC, the ISO and via the Joint Agency Steering Committee to ensure process alignment.

Legislative update

The last day for the Legislature to pass bills is September 15, 2017. Interim recess begins on September 15, 2017 and the Legislature reconvenes on January 3,

2018. The last day for the Governor to act on legislation passed by the Legislature is October 15, 2017.

Key legislation:

AB 813 and AB 726 (Assemblyman Holden): Repeals existing law administering the transformation of the ISO into a regional organization, as adopted in SB 350, and replaces it with provisions to facilitate the transformation of the ISO into a regional organization if the newly created Commission on Regional Grid Transformation finds the ISO Board of Governors' specified changes to its governance structure meets certain criteria by December 31, 2018. The bill also requires certain entities to procure a certain amount of tax-advantaged renewable resources. *Status: Senate Rules Committee and Senate Floor, respectively.*

AB 79 (Assemblyman Levine and Senator Stern): Requires CARB, in consultation with California balancing authorities, to modify the methodology of calculating greenhouse gas emissions from unspecified sources of power by January 1, 2019, and to distinguish those emissions between sources in California and sources imported from other regions in the West. *Status: Passed the Senate. Ordered to the Assembly.*

SB 100 (Senator De Leon): Establishes a 60 percent Renewable Portfolio Standard by 2030 and requires the CPUC, CEC, and CARB to incorporate a planning goal of achieving 100 percent reliance on zero-carbon electric generating facilities by December 31, 2045. *Status: Assembly Utilities and Energy Committee.*

SB 338 (Senator Skinner and Assemblyman Mullin): Requires the CPUC and governing boards of local publicly owned electric utilities (POUs) to consider the role existing renewable generation, grid operational efficiencies, energy storage, and distributed energy resources to ensure LSEs meet energy and reliability needs during the hours encompassing the hour of peak demand, while reducing the need for new generation and transmission in achieving the state's energy goals at the least cost to ratepayers. *Status: Enrolled.*

SB 520 (Senator Mitchell): Requires the CPUC to develop and administer a program to provide compensation for advocate's fees, expert witness fees, and other costs of participation in processes and proceedings of the ISO regarding transmission planning, transmission access charge, energy markets and regionalization. The Intervenor Funding Program would be funded through a charge by the investor-owned utilities (IOUs) on the local distribution system. The program would sunset four years after it is implemented. *Status: Held on Suspense - 2 Year Bill.*

STRATEGIC ALLIANCES AND REGIONAL AFFAIRS

Energy Imbalance Market (EIM):

The next operational EIM entity, Portland General Electric (PGE), is progressing well toward their implementation on October 1. Parallel operations began on August 1, and executives from the ISO and PGE completed the readiness assessment that was submitted to FERC as an informational filing on August 30.

Following the PGE implementation, there will be two EIM implementations in spring 2018. Idaho Power and Powerex will enter the EIM in April, 2018 and are both on track with their implementation activities.

The second quarter 2017 EIM benefits report was released on August 1, demonstrating gross benefits of \$39.52M in the second quarter and over \$213 million since it began in November 2014. In addition, EIM's efficient dispatch displaced 28,700 metric tons of CO₂ and continues to reduce the need for flexible ramping reserves across the EIM footprint.

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, Northwestern Energy in Montana, and others.

The EIM Governing Body held a meeting in Seattle, Washington on September 6. In general session, they heard briefings from the ISO and Portland General Electric on PGE's western EIM readiness, a briefing from Powerex on its participation in the western EIM, and updates from the Regional Issues Forum (RIF) and the Body of State Regulators (BOSR). The Governing Body voted to approve the element of the generator contingency and remedial action scheme modeling policy initiative that allows EIM Entities the option to have the ISO model generator contingencies and remedial action schemes in their respective balancing areas. Additionally, they voted to provide verbal advisory input to the Board supporting Management's proposal to model generator contingencies and remedial action schemes in the real-time market. They received briefings from ISO staff on a number of other EIM-related items including an update on western EIM benefits and price formation. The next general session meeting is scheduled for October 10 in Folsom, California.

The BOSR, led by Commissioner Ann Rendahl as chair and Commissioner Doug Little as vice-chair, held a conference call on August 22. During the call the BOSR discussed

administrative items, its stakeholder feedback survey, and the Staff Advisory Committee's recommendations on the element of the generator contingency and remedial action scheme modeling policy initiative that falls within the EIM Governing Body's primary authority. The ISO provided an update on the consolidated EIM initiatives and timeline. The next meeting is a public teleconference that is scheduled for September 25.

The RIF sector liaisons held an in-person meeting on September 7 in Seattle, Washington. This meeting was the first with Cameron Yourkowski serving as the chair and Therese Hampton as vice-chair. The forum included stakeholder-led presentations on resource sufficiency, Renewable Energy Certificates and GHG treatment in the EIM, as well as a presentation by ISO's Department of Market Monitoring on resource pricing and fuel constraint management in the EIM. The liaisons have scheduled the next in-person meeting in Boise, Idaho on November 28.

FEDERAL AFFAIRS

Administration

Neil Chatterjee was sworn in as a Federal Energy Regulatory Commission (FERC) Commissioner on August 8 and Rob Powelson followed on August 10, restoring a quorum at the agency for the first time since the resignation of Chairman Norman Bay on February 3. Commissioner Chatterjee was previously an energy advisor to Senate Majority Leader Mitch McConnell (R-KY) and Commissioner Powelson was a Pennsylvania utility commissioner and the Chair of the National Association of Regulatory Utility Commissioners. On August 10, the White House named Chatterjee as Interim Chair, replacing Acting Chair Cheryl LaFleur until Kevin McIntyre, the Administration's designated Chair, is confirmed. The Senate Committee on Energy and Natural Resources held a confirmation for nominees McIntyre and Richard Glick on September 7. McIntyre is currently the co-head of the global energy practice at Jones Day, an international law firm. Glick is Democratic General Counsel for the Senate Committee on Energy and Natural Resources.

On August 22, the President's National Infrastructure Advisory Council issued a report entitled "*Securing Cyber Assets: Addressing Urgent Cyber Threats to Critical Infrastructure.*" The report contains a series of recommendations, including the establishment of separate, secure communications networks for the most critical cyber networks, identifying best-in-class scanning tools and assessment practices for critical networks, and providing limited-time incentives to encourage cyber infrastructure upgrades. It also recommends the development of an expert task force of government and the electricity, finance and communications industries.

On August 23, the Department of Energy released a “*Staff Report to the Secretary on Electricity Markets and Reliability.*” The report, which was requested in April, by Energy Secretary Rick Perry, reviews issues related to the impacts of policy decisions on wholesale markets, the adequacy of markets to compensate attributes that contribute to grid reliability and resilience, and the effects of regulatory burdens, policy mandates and tax and subsidy initiatives on the retirement of baseload plants. It concludes that inexpensive natural gas and highly efficient gas-fired technologies, low demand growth, dispatch of variable energy resources, and regulatory costs have all influenced the economics of baseload plants. The report concludes with policy recommendations and suggestions for further research.