

Memorandum

To: ISO Board of Governors
From: Karen Edson, Vice President, Policy and Client Services
Date: March 19, 2015
Re: **State, Regional and Federal Affairs update**

This memorandum does not require Board action.

STATE AFFAIRS

Regulatory update

Carlsbad Energy Center:

On March 6, 2015, CPUC Administrative Law Judge Yackin issued a proposed decision denying, without prejudice, SDG&E's application for approval of the Carlsbad Power Purchase Tolling Agreement (PPTA) pending a determination regarding the results of SDG&E's all-source Request for Offers (RFO). SDG&E may renew the application in the event the RFO fails to produce more than the minimum required amount of preferred resources and energy storage.

The proposed decision acknowledges that denying the PPTA creates the risk of a reliability gap, but states that "the fundamental issue...is whether the benefit of a competitive procurement process and its potential for procuring additional preferred resources beyond the minimum required by D.14-04-003 outweighs the risk of delaying Encina's timely retirement and/or creating a reliability gap upon its retirement." The proposed decision "conclude[d] that it does."

SDG&E anticipates identifying a preliminary shortlist of offers in response to its all source RFO by mid-May 2015 and plans to file an application for approval of its RFO results during the first quarter of 2016. A re-filing of the Carlsbad application, or a revised application for a smaller project, may be re-submitted by SDG&E in the event that the entire Track 4 procurement authority has not been met by resources selected through the all-source RFO. The proposed decision also denies all pending motions and closes this proceeding.

The ISO will be filing comments on the proposed decision by March 26, and reply comments by March 31. A commissioner could still file an alternate proposed decision, which would delay the process for a 30 day comment period. Absent a commissioner-

proposed alternate, the March 6 proposed decision may be heard, at the earliest, at the Commission's April 9 business meeting.

Legislative update

Legislation:

February 27, 2015 was the last day to introduce bills. Staff is in the process of reviewing the approximately sixty measures relevant to the ISO or the energy sector in general.

Key bills include:

SB 350 (Senate President Pro Tem De León): This "50-50-50" measure increases the RPS to an amount equal 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 286 (Senator Hertzberg): This measure would require the California Public Utilities Commission to adopt and implement an additional 3-year phase-in period for expanding direct transactions so that by the end of the 3-year period all nonresidential end-use customers may acquire electric service from other providers in each electrical corporation's distribution service territory.

SB 180 (Senator Jackson): This measure would require the California Public Utilities Commission to engage in a rulemaking proceeding in consultation with the State Energy Commission and the State Air Resources Board to establish a greenhouse gas emission performance standard for all primary and secondary generation of load-serving entities.

SB 32 (Senator Pavley): This measure would extend from 2020 to 2050 the requirement under the California Global Warming Act of 2006 that the State Air Resources Board approve a statewide greenhouse gas emission limit and would establish a new emissions level equivalent to 80 percent below the 1990 level. It would also authorize the state board to adopt interim greenhouse gas emissions level targets to be achieved by 2030 and 2040.

AB 645 (Assemblyman Williams): This measure would increase the RPS to the amount of electricity generated per year from eligible renewable energy resources from 33 percent in 2020 to at least 50 percent by 2030.

AB 197 (Assemblyman Garcia): This measure would mandate all retail sellers of electricity, including investor-owned electrical corporations and local publicly owned electric utilities, to procure 50 percent of electricity products from eligible renewable resources by December 31, 2030.

STRATEGIC ALLIANCES AND REGIONAL AFFAIRS

Puget Sound Energy joining the energy imbalance market (EIM):

Puget Sound Energy (PSE) announced on March 5 that it will join the EIM and plan to go operational in October, 2016. This important and mutually beneficial development represents the culmination of work with the PSE team that started in late 2013. PSE will pursue a “dual path” approach, meaning they will continue to work with the NWPP but are joining the EIM to bring immediate benefits to its customers.

Northwest Power Pool (NWPP):

Regarding the Security Constrained Economic Dispatch RFP, the NWPP executive team chose to not accept either of the bids submitted (by the ISO and the Southwest Power Pool). Although both were deemed “technically acceptable”, the NWPP said that each had major challenges that the NWPP will continue to work through outside the RFP process. NWPP continues to be engaged with the ISO and is planning on future meetings with the ISO team.

EIM Transitional Committee:

The EIM Transitional Committee met on March 5 in Portland, OR and received briefings from several ISO representatives on EIM topics, including an update on EIM operations, regulatory status of EIM filings, a briefing from the Department of Market Monitoring, and an update on the work of Peak RC on the Enhancement Curtailment Calculator tool. Elliott Mainzer, Administrator of Bonneville Power Administration, provided a briefing on the work of the Northwest Power Pool request for proposals and the continued collaboration with the ISO and PacifiCorp on EIM operations.

The committee plans to post a straw proposal on governance on March 19, 2015. On March 31, the stakeholder working group of the EIM Transitional Committee will present the straw proposal to stakeholders at a meeting at the ISO (also available via web conference). Stakeholder comments are due on April 16.

The market design working group of the EIM Transitional Committee actively participated in the EIM year 1 enhancements stakeholder process and believes the ISO Management proposals are reasonable.

The EIM Transitional Committee has continued to provide outreach and receive feedback from regional stakeholders on governance issues through a variety of forums. Chair Wagner continues to provide briefings to the Board and get feedback as they move through the process. The next EIM Transitional Committee meeting will be April 30 at the ISO.

Year 1 EIM enhancements stakeholder process:

The Board will hear Management's recommendations on the first phase of the year 1 enhancements at this month's meeting. Many participants and transmission owners in the West are interested in phase 2, which will go to the Board for decision later this year and will include, among other topics, exploring development of a transmission usage fee.

NV Energy:

On March 6, NV Energy submitted to FERC a filing to modify its OATT tariff, in support of the October, 2015 EIM implementation.

Regional outreach:

Our regional outreach continues with an expanding list of interested parties, including the recent announcement of Puget Sound Energy's intent to join the EIM. Presentations to regional groups continue to provide information and beneficial discussion on EIM issues. Ongoing discussions continue with other interested balancing authority areas and state regulators, as appropriate.

FEDERAL AFFAIRS

President Obama issues cybersecurity executive order:

On February 13, President Obama signed an executive order urging federal agencies and private companies to share cybersecurity threat information. The order urges development of "information sharing and analysis organizations" to act as central clearinghouses for companies and the government to share data across specific geographic areas. The White House has also announced that it will form a Cyber threat Intelligence Integration Center to coordinate federal intelligence, law enforcement, and diplomatic and military actions to assess, mitigate and recover from cyber attacks. Senate Majority Leader Mitch McConnell (R-KY) has included cybersecurity among legislative topics that could represent an area of common ground between the Administration and Congress this year.

House Committee releases energy legislation plan:

On February 9, House Energy and Commerce Committee Chairman Fred Upton (R-MI) released a plan for the Committee that incorporates work on broad energy policy goals. Entitled "The Architecture of Abundance: A Legislative Framework," the document focuses on modernizing energy infrastructure, bolstering energy efficiency and expanding the domestic energy workforce. It commits to addressing permitting

challenges for domestic and cross-border pipelines and transmission lines, protecting critical energy infrastructure with improved emergency coordination and information sharing, and taking steps to ensure robust and transparent energy markets. Chairman Upton announced that the Committee will release a series of legislative discussion drafts in the next few months. He also said that the draft bills would not include contentious language such as efforts to stop or delay EPA regulations.

Legislation:

H.R. 1009, “Wildfire Prevention Act of 2015,” introduced by Congressman Raul Ruiz (D-36th District – Palm Desert) and others. The bill would expand use of federal disaster relief funding to help states, communities and tribal governments pay for wildfire prevention and mitigation projects. The bill has been referred to the House Transportation and Infrastructure Committee’s Subcommittee on Economic Development, Public Buildings and Emergency Management.

S. 268, “Rebuild America Act of 2015,” introduced by Senator Bernie Sanders (I-VT). The bill calls for targeted investments in roads, bridges, transit systems and other infrastructure projects, including the electric grid, over the next five years. The bill is silent on the source of the proposed \$1 trillion in funding for eligible projects, but specifies that a total of \$50 billion would go to grid modernization investments. It has been referred to the Senate committee on Banking, Housing and Urban Affairs.

S. 414, “California Desert Conservation and Recreation Protection Act,” introduced by California Senators Dianne Feinstein and Barbara Boxer. The bill would provide for conservation, enhanced recreation opportunities, and renewable energy development in the California Desert Conservation Area. Electric transmission lines for energy development projects would be required to use existing rights of way. The bill, which has been introduced four times since 2010, has been referred to the Senate Committee on Energy and Natural Resources.

Court of Appeals will take up power plant rules:

On January 27, the U.S. Court of Appeals for the D.C. Circuit announced that it will hear oral arguments on April 16 for several cases that challenge EPA’s proposed greenhouse gas rules for new, modified and existing power plants. The cases challenge EPA’s jurisdiction over power plants under Section 111 of the Clean Air Act (*State of West Virginia, et al. v. EPA, 14-1146*) and seek to prohibit EPA from regulating carbon emissions from existing power plants (*Murray Energy Corp. v. EPA, 14-1112 and 14-1151*). The appeals court could possibly rule on these cases before EPA issues its final greenhouse gas rules in mid-summer.