



Memorandum

To: ISO Board of Governors

From: Roger Collanton, Vice President, General Counsel, Chief Compliance Officer, and Corporate Secretary

Date: December 5, 2018

Re: Regulatory update

This memorandum does not require Board action.

Highlights

- *FERC extended all but one of the seven temporary provisions to address the limited operability of the Aliso Canyon natural gas storage facility*
- *FERC accepted the ISO's proposal to provide reliability coordinator service*
- *FERC denied CXA La Paloma's resource adequacy complaint*
- *FERC accepted the ISO's tariff amendment to change the funding of congestion revenue rights*
- *ISO filed a tariff amendment to account for the unexpected loss of generation and the use of remedial action schemes in its markets*

Federal Energy Regulatory Commission and related Court of Appeals matters

- **FERC order extending certain tariff measures to address potential gas limitations at the Aliso Canyon gas storage facility (ER18-2520)**

On November 26, 2018, FERC accepted the extension of all but one of the seven of the previously FERC-approved measures to address the effects of the limited operability of the Aliso Canyon natural gas storage facility on the ISO market and system operations. FERC rejected the extension of application of certain gas costs scalars that would have allowed scheduling coordinators to bid in commitment costs at a higher level to incorporate increased costs due to gas constraints in the southern part of the system. FERC accepted six other measure, which include the ability to enforce a minimum gas burn constraint in the southern part of the system and the ability to use a more up-to-

date gas price index in the day-ahead market. These measures will remain in effect until December 31, 2019.

- **Joint protest to Dynegy Oakland's reliability must-run agreement (ER19-231)**

On November 20, 2018, the ISO along with Pacific Gas & Electric Company filed a joint protest of Dynegy Oakland's RMR agreement. Dynegy seeks to recover certain costs relating to its RMR rate schedules. The ISO and PG&E protested the filing on the grounds that Dynegy Oakland has failed to provide adequate support to establish that the proposed rate schedule is just and reasonable.

- **Order denying CXA La Paloma, LLC's complaint (EL18-177)**

On November 19, 2018, FERC denied CXA La Paloma, LLC's complaint alleging that the California resource adequacy program is unjust, unreasonable, and unduly discriminatory. La Paloma's complaint alleged that the CPUC has discriminated against existing generation and fossil fuel resources through the administration of its long-term procurement process, and that the CPUC is favoring demand response and renewable resources. La Paloma requested that FERC direct the ISO to implement a mandatory centralized capacity market that includes flexibility requirements. The ISO responded that FERC should dismiss the complaint because La Paloma falls short of meeting its burden under Section 206 of the Federal Power Act of demonstrating that the ISO tariff is unjust, unreasonable, unduly discriminatory, or preferential. The ISO successfully argued that La Paloma's claims are unsubstantiated and inaccurate, and articulated its success in maintaining system reliability for over a decade through current practices.

- **Tariff amendment to implement generator contingency and remedial action schemes (ER19-354)**

On November 16, 2018, the ISO filed a tariff amendment to account for the unexpected loss of generation and the use of remedial action schemes in its market. Remedial action schemes are also known as special protection systems or direct transfer trips and are designed to automatically disconnect generators or load in the event of a contingency that would otherwise cause system overloads. The ISO proposes to account for generator contingencies in the marginal cost of congestion to appropriately price each generator's contribution to congestion in the market. The ISO requested an effective date of March 1, 2019.

- **Order accepting the ISO's amendment to allow the ISO to provide reliability coordinator service (ER18-2366)**

On November 14, 2018, FERC accepted the ISO's August 31, 2018, tariff amendment that allows the ISO to provide reliability coordinator service to transmission operators within the ISO's balancing authority area and to other balancing authorities in the Western Interconnection, including transmission operators within those balancing authority areas. FERC approved the ISO's proposed terms, rates, and conditions to

provide reliability coordinator service. The tariff provisions related to the execution of reliability coordinator service agreements became effective November 15, 2018, and that the balance of the proposed provisions will go into effect July 1, 2019.

- **Order accepting the ISO's tariff amendment to implement congestion revenue rights efficiency rules (ER19-26)**

On November 9, 2018, FERC accepted the ISO's modified version of its proposal to eliminate guaranteed full funding of congestion revenue rights. FERC rejected the ISO's first proposal in its September 20, 2018 order finding that it was not consistent with FERC-precedence. Consistent with FERC's findings, the new proposal now approved by FERC provides congestion revenue right holders the ability to net prevailing and counterflow congestion revenue rights against each other for purposes of determining partial funding of such rights. The modified tariff language is effective January 1, 2019.

- **Petition for approval of disposition of penalty assessments proceeds and non-refundable interconnection financial security (ER19-308)**

On November 8, 2018, pursuant to Section 37 of its tariff, the ISO filed a petition seeking approval of how the ISO intends to distribute the proceeds of penalties collected for violations to the Rules of Conduct for the 2017 calendar year. Additionally, the ISO is seeking FERC-approval of how the ISO intends to distribute the non-refundable study depositions for projects interconnecting to SCE's distribution system for the 2017 calendar year.

- **Deficiency issued to the ISO's tariff amendment to implement interconnection process enhancements for 2018 (ER18-2498)**

On November 21, 2018, FERC issued a deficiency letter requesting additional information to the ISO's September 27, 2018, tariff amendment to improve its generator interconnection process. The ISO's proposed tariff revisions arose out of the 2018 interconnection process enhancements stakeholder initiative. The ISO's response is due no later than December 21, 2018.

- **Deficiency issued to the ISO's filing in compliance with FERC Order No. 844 (ER18-2398)**

On November 9, 2018, FERC issued a deficiency letter to the ISO's filing in compliance with FERC Order No. 844, the final rule on uplift cost allocations and transparency in markets operated by regional transmission operators and independent system operators. As directed by FERC, the ISO revised its tariff to publish three new monthly reports: (1) a zonal uplift report; (2) a resource-specific uplift report; and (3) an operator-initiated commitment report. The ISO proposed to publish these reports after the month of January 2019.

Non-Conforming Regulatory Agreements

- **Order accepting amendments to market efficiency enhancement agreement between the ISO and SMUD (ER18-2429)**

On November 14, 2018, FERC issued a delegated letter order accepting both of the ISO's amendments to the market efficiency enhancement agreement between the ISO and the Sacramento Municipal Utility District (SMUD). The first amendment incorporates Sutter Energy Center into the market efficiency enhancement agreement portfolio. The first amendment to the agreement became effective September 15, 2018. Concurrently, the ISO submitted a second amendment to the market efficiency operating agreement that removes Sutter Energy Center from the market efficiency enhancement agreement, which became effective November 29, 2018.

Informational reports filed

- **Negotiated default energy bids, major maintenance adders, and custom operations and maintenance adders (ER06-615)**

On November 7, 2018, the ISO submitted to FERC informational filings containing the rates or formulas used to calculate negotiated default energy bids, major maintenance adders, and custom operations and maintenance adders that the ISO implemented, modified, or terminated in the month October 2018.

- **Exceptional dispatch reports (ER08-1178 and EL08-88)**

On November 15 and November 30, 2018, the ISO submitted to FERC exceptional dispatch informational reports on: (1) the price impact of exceptional dispatches as ordered by FERC in its September 2, 2009, order; and (2) an analysis of the degree of mitigation as required by tariff section 34.11.4. These reports covered the months of August and September 2018. Additionally, on November 16, 2018, the ISO submitted a report describing its efforts to reduce the frequency of exceptional dispatches and the status of the ISO's operational product enhancements that would reduce reliance on exceptional dispatches for the period of July to October 2018. An exceptional dispatch is a dispatch or a commitment issued by the ISO to a resource outside the operation of the ISO market to address operational needs that the ISO market cannot address.

- **Market disruption reports (ER06-615 and ER07-1257)**

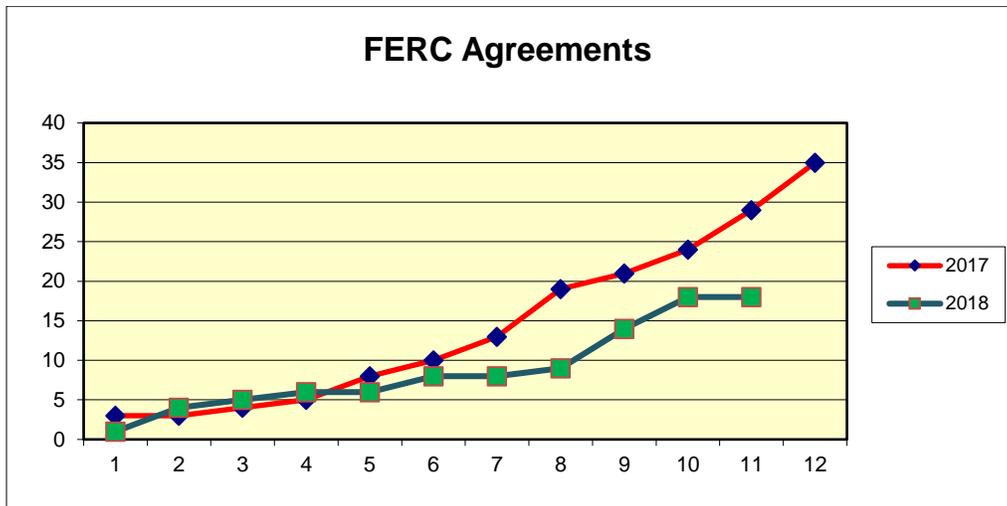
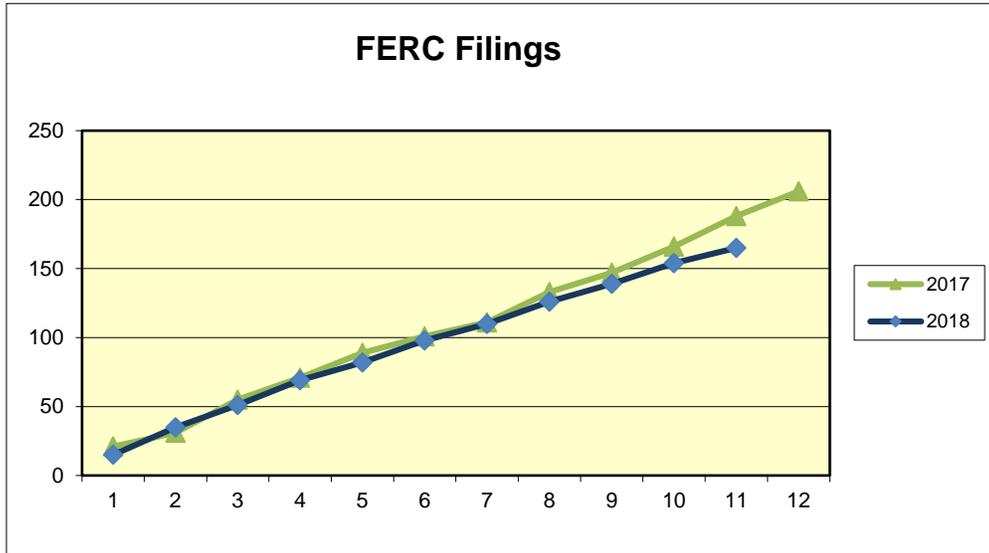
On November 15, 2018, the ISO submitted to FERC its monthly market disruption reports for the period of September 16 through October 15, 2018. A market disruption is an action or event that causes a failure of the ISO market related to system operation issues or system emergencies.

California Public Utilities Commission and other State Matters

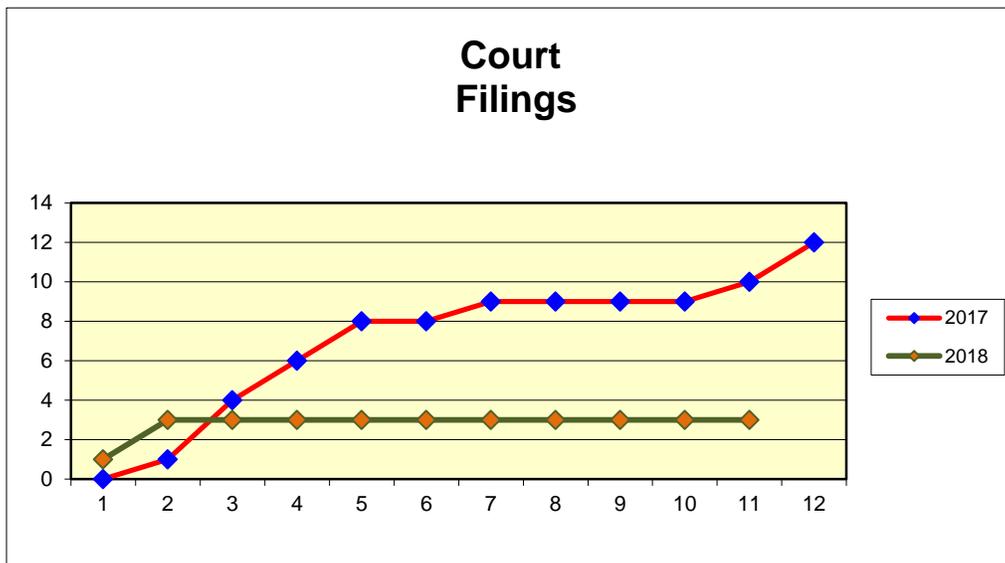
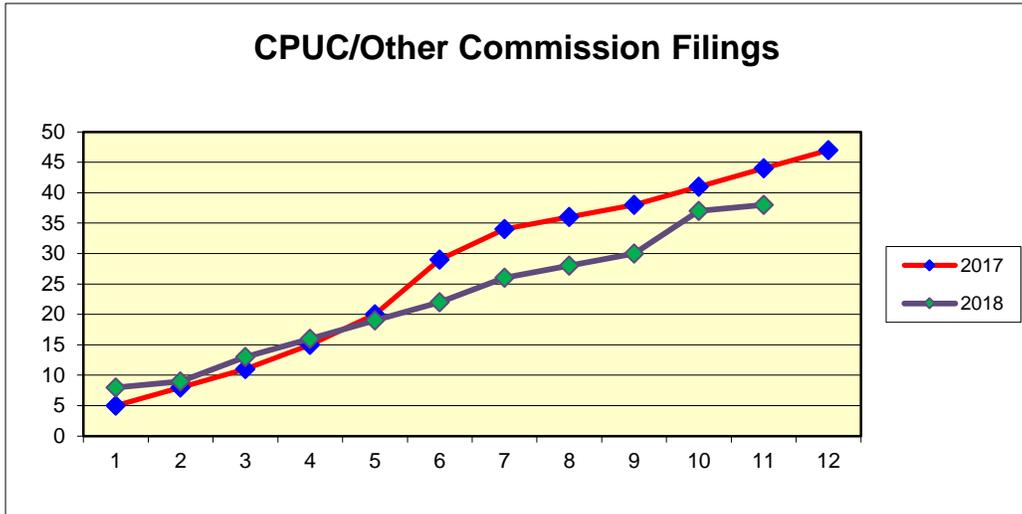
- **Comments on the proposed decision resolving remaining application issues for 2018-2022 demand response portfolios and declining to authorize additional demand response mechanism pilot solicitations (A.17-01-012; A.17-01-018; and A.17-01-019)**

On November 14, 2018, the ISO filed comments to the CPUC's proposed decision resolving remaining application issues for 2018-2022 demand response portfolios and declining to authorize additional demand response mechanism pilot solicitations. In particular, the ISO's comments pertaining to clarification that the ISO may use reliability demand response resources anytime within a warning stage event. In response, the ISO stated that it would seek to modify Section 34.7(13) of the ISO tariff to allow the ISO to make reliability demand response resources eligible for dispatch after issuing notice of a warning stage event.

Regulatory Filings Through
November 2018



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November 2018



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