



Memorandum

To: ISO Board of Governors

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

Date: July 18, 2018

Re: Regulatory Update

This memorandum does not require Board action.

Highlights

- *FERC accepted the ISO's tariff amendment to improve the efficiency of its congestion revenue rights auction*
- *ISO filed an amendment to the transmission control agreement to add Citizens Sycamore-Penasquitos Transmission LLC as a participating transmission owner*
- *FERC partially accepted the ISO's tariff amendment to modify its commitment cost rules*
- *ISO filed an amendment to update and clarify existing tariff provisions*
- *ISO filed a petition for limited tariff waiver requesting that demand response resources be exempt from the ISO's RAIM penalties*
- *ISO filed a tariff amendment to modify its pro forma to comply with FERC Order No. 842 – primary frequency response*

Federal Energy Regulatory Commission and related Court of Appeals matters

- **FERC accepted the ISO's tariff amendment to implement congestion revenue rights auction efficiency (ER18-1344)**

On June 29, 2018, FERC issued an order accepting the ISO's tariff amendment to improve the efficiency of the ISO's congestion revenue rights (CRR) auctions. FERC transmission owners are to submit an annual plan by July 1 each year of any known transmission outages that could affect power flows in the day-ahead market in order to improve the accuracy of the network model the ISO uses for the annual CRR allocation

and auction. The ISO will also limit the CRR source and sink pairs that market participants can purchase in the CRR auctions, beginning with the 2019 annual and monthly auctions. These enhancements are effective July 1, 2018.

- **FERC partially accepted the commitment cost enhancements phase 3 tariff amendment (ER18-1169)**

On June 21, 2018, FERC issued an order partially accepting, subject to condition, and partially rejecting, the ISO's proposed tariff revisions relating to the ISO's tariff amendment to modify its commitment cost rules. On March 23, 2018, the ISO filed a tariff amendment to: (1) include opportunity cost adders commitment costs and energy bid costs for eligible resources; (2) limit the registered cost methodology to resources with fewer than 12 months of locational market pricing data that seek opportunity cost adders; (3) provide scheduling coordinators the flexibility to submit their preferred unit operating characteristics for use in ISO markets for parameters, rather than the unit's design capability; (4) permit eligible resources to renegotiate outdated or erroneous negotiated values used for commitment cost and generated energy bids; and (5) clarify the definition of use-limited resources. FERC rejected the ISO's proposal to require scheduling coordinators to register market values in the master file for certain resource characteristics, and the ISO is not able to replace physical characteristics with design capability values. Additionally, FERC rejected other provisions of the ISO's filing, as these were not severable from the master file proposal. These include the removal of ramp rates as a component of daily bids, limitations to the maximum number of starts per day, and the replacement of references to physical characteristics with design capabilities related to a resource's participation in the ISO market. The ISO will submit a compliance filing by July 21, 2018, per the order.

- **Amendment to clarify certain tariff provisions (ER18-1787)**

On June 14, 2018, the ISO filed a tariff amendment with FERC to clarify and update certain provisions. The amendment addresses miscellaneous administrative issues the ISO identified in its tariff in relation to FERC Order No. 764, that require clarification. The ISO improves its tariff, at more than 2,700 pages, with clarifying changes from time-to-time. The changes proposed in a clarification amendment do not amend or revise existing policy and procedures. The ISO requested an effective date of November 1, 2018.

- **Petition for limited tariff waiver exempt certain demand response resources from RAIM (ER18-1699)**

On May 30, 2018, the ISO filed a petition for limited tariff waiver requesting that 42 demand response resources be exempt from the non-availability charges and incentive payments under the ISO's resource adequacy availability incentive mechanism (RAAIM) from April 1, 2017, to April 30, 2018. RAIM is the ISO's mechanism for evaluating and incenting performance for resource adequacy capacity. Resources providing resource adequacy capacity with a maximum resource capacity below 1 MW are exempt from RAIM. The ISO incorrectly applied the exemption to 42 resources and has not applied

RAAIM to these resources since it implemented RAAIM on April 1, 2017. The ISO requested an order by July 30, 2018.

- **Compliance with FERC Order No. 842 primary frequency response – revise *pro forma* generator interconnection agreements (ER18-1616)**

On May 15, 2018, the ISO submitted a filing in compliance with FERC Order No. 842 – *Primary Frequency Response*. The ISO amended its *pro forma* generator interconnection agreements to incorporate FERC’s scripted *pro forma* language. FERC Order No. 842 requires newly interconnecting generators to install, maintain, and operate equipment capable of providing primary frequency response. FERC Order No. 842 became effective on May 15, 2018.

Non-Conforming Regulatory Agreements

- **Amendment to revise transmission control agreement to add Citizens Sycamore-Penasquitos Transmission, LLC as a participating transmission owner (ER18-1822)**

On June 22, 2018, the ISO filed revisions to the transmission control agreement to add Citizens Sycamore-Penasquitos Transmission, LLC as a participating transmission owner. The ISO requested an effective date of August 31, 2018.

- **FERC accepted the second amendment to the adjacent balancing authority operating agreement with Arizona Public Service Company (ER18-1098)**

On May 9, 2018, FERC issued an order accepting the second amendment to the adjacent balancing authority operating agreement (ABAOA) between the ISO and Arizona Public Service Company, effective May 15, 2018. The amendment to the ABAOA implements a new interconnection point between the ISO and APS’ balancing authority area bound at the Delaney 500 kV Switchyard.

Informational reports filed

- **EIM transition period informational reports for new EIM entities (ER15-2565)**

FERC, in its October 29, 2015 order directed the ISO and DMM to file monthly informational reports on the transition period for new EIM entities during its first six months of participation in the EIM. During this six-month transition period, the ISO does not apply penalty factors, and instead calculates energy prices based on the last economic price signal. The ISO and DMM have filed the following reports: (1) on June 13, 2018, the ISO filed its first informational report for Powerex Corp. for April 2018; (2) on June 19, 2018, the ISO filed its first informational report for Idaho Power Company

for April 2018; (3) on June 19, 2018, DMM filed its report for Portland General Electric covering March 2018; (4) on June 26, 2018, the ISO filed a report for Powerex Corp. for May 2018; and (5) on July 2, 2018, the ISO filed a report for Idaho Power Company for May 2018.

- **EIM available balancing capacity informational report (ER15-861)**

On June 11, 2018, the ISO submitted an informational report to FERC on the ISO's adoption of the available balancing capacity functionality for the second quarter of 2017 (April 1 to June 30, 2017). The available balancing capacity functionality allows the energy imbalance market to recognize and account for capacity that is not otherwise bid into the market that the energy imbalance market entity identifies as available to maintain reliable operations in its own balancing authority area. The ISO implemented the available balancing capacity enhancement on March 23, 2016. The quarterly informational reports are to provide information on the performance of the available balancing capacity functionality, and to provide the same information the ISO provides in its monthly informational reports submitted during an energy imbalance market entity's first six-month transition period.

- **Quarterly informational report: status of reliability must-run and capacity procurement mechanism stakeholder process (ER18-461)**

On June 1, 2018, the ISO submitted its first quarterly informational report to FERC providing an update on the status of the ISO's reliability must-run and capacity procurement mechanism stakeholder process. On January 12, 2018, the ISO filed a tariff revision addressing the issue of risk of retirement capacity procurement designations on an earlier timeline for an upcoming resource adequacy compliance year. On April 12, 2018, FERC issued an order rejecting the ISO's tariff amendment, and ordered the ISO to submit quarterly informational reports, beginning June 1, 2018, describing the progress of the reliability must-run and capacity procurement mechanism stakeholder process until it is complete.

- **Informational filing: recent maximum import capability calculations (AD10-2)**

On May 24, 2018, the ISO submitted an informational filing with FERC to provide information on recent maximum import capability calculations. The information provided is to assist FERC in assessing sellers' market-based rate authority.

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

On May 15, May 30, June 15, and July 2, 2018, the ISO submitted exceptional dispatch informational reports on: (1) the price impact of exceptional dispatches as ordered by FERC in its September 2, 2009, order (Chart 1 Data); and (2) an analysis of the degree of mitigation as required by tariff section 34.11.4 (Chart 2 Data). These reports covered February, March, April, and May 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.

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

On May 7, supplemented on May 15, June 7, and July 9, 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 months of April, May, and June 2018.

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

On May 15 and June 15, 2018, the ISO submitted to FERC its monthly market disruption reports for the period of March 16 through May 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

- **Informal comments on CPUC update to scenarios framework (I.17-02-002)**

On June 28, 2018, the ISO served informal comments on all parties regarding the CPUC Division Staff's update to the scenarios framework. The scenarios framework outlines the scope of the studies related to the Aliso Canyon natural gas storage facility. The CPUC plans to conduct three types of studies in the course of the investigation: (1) a hydraulic modeling analysis; (2) a production cost modeling analysis; and (3) an economic modeling analysis.

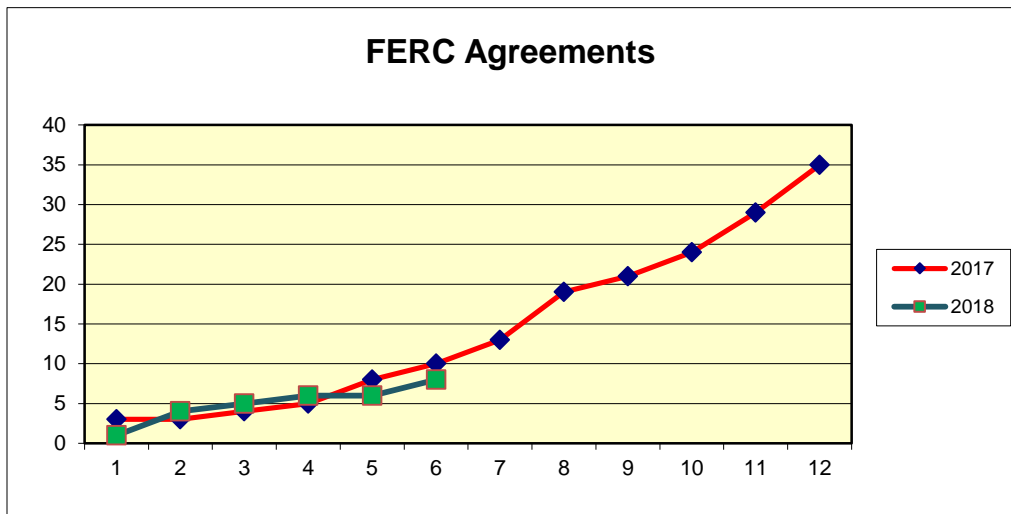
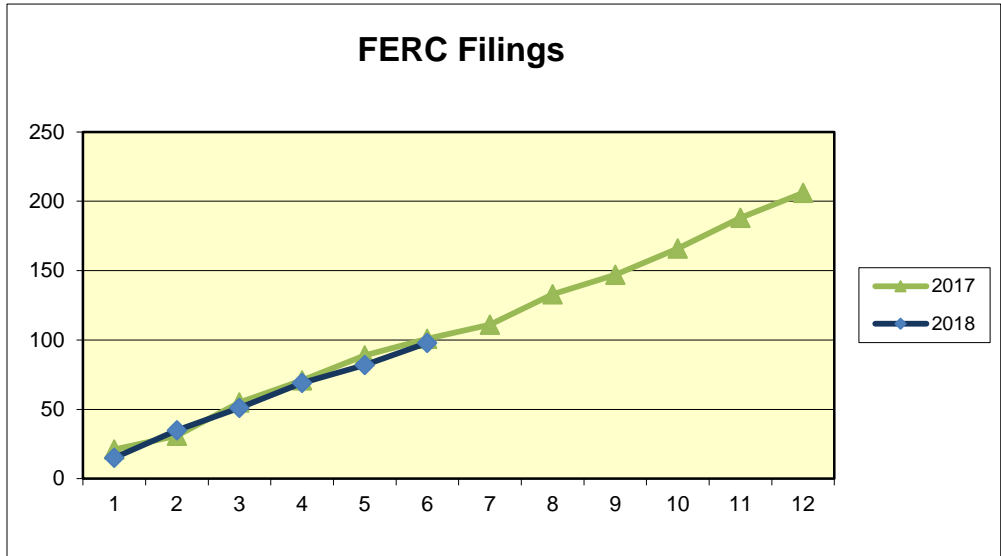
- **Resource adequacy program proposed decision and comments (R.17-09-020)**

On May 22, 2018, the CPUC issued a proposed decision adopting local capacity obligations for 2019 and refining the resource adequacy program. On June 1, 2018, the CPUC issued a proposed decision adopting flexible capacity requirements for 2019. The ISO submitted opening comments and reply comments on June 11 and June 18, 2018, respectively. The ISO's comments addressed the following issues: (1) potential procurement of the Ormond Beach Generating Station and Ellwood Generating Station for local resource adequacy needs; (2) concerns raised regarding the ISO's local capacity technical study; (3) multi-year resource adequacy requirements; (4) qualifying capacity for combined demand response and storage resources; (5) the process for adopting available availability assessment hours; (6) reallocation of collective deficiency costs; and (7) necessary clarifications to effective load carrying capacity values to be used for the ISO's study purposes.

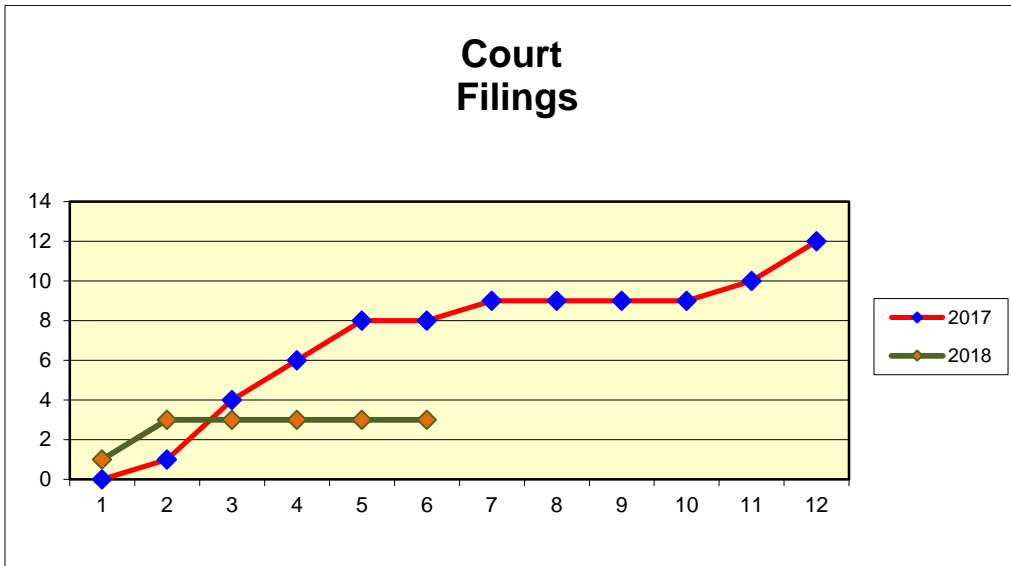
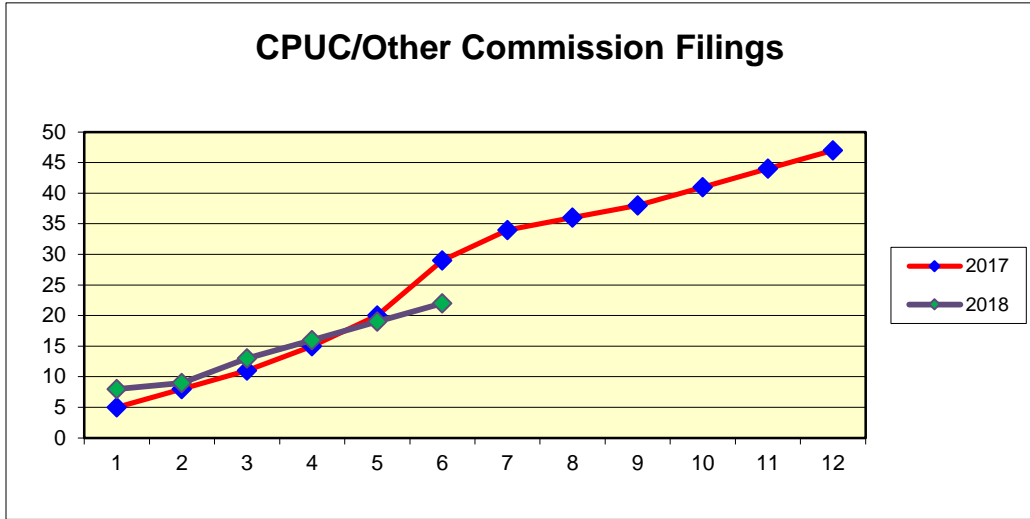
- **Final flexible capacity needs assessment and local capacity technical analysis final report and study results for 2019 (R.17-09-020)**

On May 15, 2018, the ISO submitted its final local capacity technical analysis for 2019 to the CPUC, and on May 21, 2018, the ISO submitted its final 2019 flexible capacity needs assessment to the CPUC in the resource adequacy program proceeding. The local capacity technical analysis identifies a local capacity need to retain the Ellwood generating station and one of the generating units at Ormond Beach. On May 18, 2018, the ISO filed comments with the CPUC in response to comments on the draft local capacity technical analysis to help clarify the final local capacity technical analysis results.

Regulatory Filings Through
June 2018



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