

Memorandum

To: ISO Board of Governors

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

Date: March 14, 2018

Re: Regulatory update

This memorandum does not require Board action.

Highlights

- *ISO filed a tariff amendment to issue risk of retirement capacity procurement designations on a shorter timeline*
- *ISO filed a tariff amendment to modify the methodology for the resource adequacy availability incentive mechanism*
- *ISO filed a petition for limited tariff waiver to request exemption of availability assessment hours for certain demand response resources*
- *ISO filed a petition for limited tariff waiver requesting exemption of the resource adequacy availability incentive mechanism penalty for out-of-time recertification applications of acquired resources*
- *FERC accepted ISO's tariff amendment to improve the interconnection process by extending "parking" and shortening the request window*
- *FERC accepted the ISO's tariff amendment to enhance functionality of the energy imbalance market and extend non-generator modeling functionality to other resources*
- *FERC accepted temporary use of the maximum gas constraint in Southern California and release of the two-day-ahead expected gas burn information on a temporary basis to address the limited operability of the Aliso Canyon natural gas storage facility*
- *FERC accepted the ISO's four western energy imbalance market agreements between Powerex and the data sharing agreement between the ISO and BC Hydro*
- *ISO filed readiness certification for western energy imbalance market participation for Powerex Corp. and Idaho Power Company*

Federal Energy Regulatory Commission and related Court of Appeals matters

- **Tariff amendment to implement 2018 expedited interconnection process enhancements (ER18-626)**

On March 9, 2018, FERC approved the ISO's tariff amendment to improve the interconnection process filed on January 9, 2018. First, the ISO proposed to extend the current "parking" period from one year to two years for interconnection requests still seeking a power purchase agreement before committing to full capacity deliverability status. Second, the ISO proposed shortening the interconnection request window by two weeks and lengthening the time for correction and validation, as this will provide transmission owners and interconnection customers an additional two weeks for validation and correction. The ISO requested an effective date of March 11, 2018.

- **Tariff waiver to delay implementation of reliability services initiative phase 1b and phase 2 (ER18-1)**

On March 1, 2018, FERC granted the ISO's petition for limited tariff waiver filed on February 4, 2018, to delay implementation to March 16, 2018, six tariff requirements related to the ISO's reliability services initiative, phase 1b and phase 2. These consist of: (1) streamlining the outage evaluation process for resource adequacy capacity; (2) adjustments to the timeline for the monthly resource adequacy process; (3) capping a load serving entity's monthly local resource adequacy requirement at its system requirement; (4) creating a deadline for local regulatory authorities that elect to allocate flexible capacity needs to inform the ISO of that election; (5) providing that capacity located in a local area but procured by a load serving entity as system capacity and now shown as listed local capacity has a system, rather than a local, substitution obligation; and (6) modifying and streamlining the resource adequacy reporting obligations for small load serving entities.

- **Petition for tariff waiver to process out-of-time acquired resources annual recertification (ER18-857)**

On February 14, 2018, the ISO filed a petition for limited tariff waiver requesting that certain scheduling coordinators be exempt from the resource adequacy availability incentive mechanism penalty for untimely submitting their annual recertification for acquired resource status. The ISO also requested that FERC waive any otherwise applicable resource adequacy availability mechanism availability charges or incentive payments for a unit that submits a valid recertification request by the extended deadline created through this waiver request. Acquired resources provide capacity under legacy contracts that pre-date the ISO's incentive/penalty program for resources providing resource adequacy capacity with incentive provisions in their pre-existing contractual arrangements. Scheduling coordinators must recertify their status annually or lose their exempt status. Nine scheduling coordinators for such resources did not submit a timely recertification for the 2018 compliance year based on apparent confusion regarding the deadline for such

submissions. The requested waiver will ensure these resources will not lose their exemption permanently even though nothing changed regarding their contractual status.

- **Availability assessment hours tariff waiver (ER18-838)**

On February 9, 2018, the ISO filed a petition for limited tariff waiver to exempt demand response resources that participated in the California Public Utility Commission's demand response auction mechanism from being obligated to offer into the ISO market consistent with the availability assessment hours provided in the ISO tariff from April 1 to October 1, 2018. The availability assessment hours are those hours in which resource adequacy hours are expected to be available, which implicates penalties and incentives under the resource adequacy availability incentive mechanism. If granted, the affected demand response resources would continue to be required to bid into the ISO market during the hours designated by the CPUC rather than those specified in the ISO tariff. The ISO requests that FERC grant this petition prior to April 1, 2018 in order to give demand response providers certainty.

- **Tariff amendment to modify the resource adequacy availability incentive mechanism methodology (ER18-728)**

On January 29, 2018, the ISO filed a tariff amendment to modify the methodology used to evaluate the availability of resource adequacy resources and to calculate the resulting charges and payments under the resource adequacy availability incentive mechanism. The existing methodology over-weights the availability of flexible resource adequacy capacity, compared to generic resource adequacy capacity, and assesses performance in a manner that skews performance incentives and inadvertently incentivizes resources to act contrary to the best interests of maintaining grid reliability at a just and reasonable cost. The proposed revisions to the methodology will address the issues and measure resource availability more appropriately. The ISO requested an effective date of April 1, 2018.

- **Risk of retirement capacity procurement mechanism tariff amendment**

On January 12, 2018, the ISO filed a tariff amendment to issue risk of retirement capacity procurement mechanism designations on an earlier timeline for an upcoming resource adequacy compliance year. The ISO proposed two annual windows in which resources owners may request an issuance of a risk of retirement capacity procurement mechanism designation, and the ISO also proposed three separate types of risk of retirement capacity procurement mechanism designations. The ISO requested an effective date of April 13, 2018.

- **FERC order to the notice of Proposed Rulemaking – *grid reliability and resiliency pricing* (RM18-1)**

On January 8, 2018, FERC issued an order terminating the Department of Energy's Notice of Proposed Rulemaking and initiated a new proceeding to take a more holistic approach in seeking comments on *Grid Resilience in Regional Transmission Organizations and Independent System Operators*. The newly initiated proceeding

requested information as to how RTOs and ISOs assess threat to resiliency, and how the threats are mitigated. The ISO submitted its reply to FERC's questions on March 9, 2018, describing in detail the mechanisms it has in place that ensure the ISO balancing authority area remains reliable and resilient in the face of unexpected loss of supply resources.

- **Order accepting ISO's filing to temporarily re-implement previously approved and recently expired measures to address potential gas limitations**

On December 15, 2017, FERC issued an order accepting the ISO's tariff revisions to implement, on a temporary basis, with no modification, previously accepted tariff provisions that automatically expired on November 30, 2017, which relate to the limited operability of the Aliso Canyon natural gas storage facility. The ISO is now able to use the maximum gas constraint in Southern California and release the two-day-ahead expected gas burn information. FERC granted the ISO's request for expedited treatment, and the measures were reinstated on December 16, 2017.

- **FERC order accepting tariff amendment to enhance system functionality of the energy imbalance market (ER18-461)**

On December 15, 2017, the ISO filed a tariff amendment to enhance the energy imbalance market system functionality. Specifically, the ISO proposed to automate the manual process of "matching" import or export schedule changes to a non-participating resource within the applicable energy imbalance market balancing area and to automate changes to "mirror" system resources at intertie scheduling points between the ISO and an energy imbalance market balancing authority area; facilitate bilateral financial settlement of imbalance energy resulting from energy transfers between energy imbalance market balancing areas that are included in energy imbalance market base schedules; and allow the submission of generation distribution factors for aggregated non-participating resources. The ISO also proposed to extend the option to use the ISO's non-generator resource market modeling functionality to additional resource types. The proposed enhancements are to provide market-wide benefits and are important to support Idaho Power and Powerex joining the energy imbalance market in spring 2018. FERC issued an order on February 14, 2018, accepting the tariff revisions effective February 15, 2018.

Regulatory Agreements

- **Energy imbalance market readiness certification informational filing for Powerex Corp. and Idaho Power Company (ER15-861)**

On March 2, 2018, the ISO filed two separate readiness certifications for Powerex Corp. and Idaho Power Company to join the ISO's western energy imbalance market. As such, the ISO, Powerex Corp., and Idaho Power Company, certify to FERC that they have met all readiness criteria specified in section 29.2(b)(7) of the tariff and their readiness to proceed with Powerex Corp.'s and Idaho Power Company's participation in the western

energy imbalance market on April 4, 2018.

- **FERC order accepting the Powerex Canadian energy imbalance market entity agreements and BC Hydro data sharing agreement (ER18-251)**

On February 14, 2018, FERC issued an order accepting the following agreements, effective February 15, 2018: (1) Powerex Canadian energy imbalance market agreement; (2) Powerex Canadian energy imbalance market scheduling coordinator agreement; (3) Powerex energy imbalance market participating resource agreement; (4) Powerex energy imbalance market participating resource scheduling coordinator agreement; and (5) data sharing agreement between BC Hydro and the ISO. These agreements are paramount to the facilitation of Powerex Corp.'s participation in the western energy imbalance market, and will assist in the application of the market rules and tariff provisions to Powerex Corp., an entity with resources located in a balancing authority area outside of the United States.

- **Planning Coordinator agreement between the ISO and Silicon Valley Power (ER18-862)**

On February 15, 2018, the ISO filed a Planning Coordinator agreement among Silicon Valley Power (SVP) and the ISO. The ISO requested that the agreement be effective April 17, 2018. Once the agreement is accepted by FERC, the ISO will be the planning coordinator for the transmission facilities owned by SVP that are part of the bulk electric system located in the ISO's balancing authority area.

- **Update to technical information to the pseudo participating generator agreement between the ISO and CCFC Sutter Energy, LLC (ER18-474 and ER06-58)**

On December 19, 2017, the ISO filed an informational update to technical information contained in Schedule 1 to the Pseudo Participating Generator Agreement between the ISO and CCFC Sutter Energy, LLC. On February 7, 2018, FERC issued an order accepting the ISO's technical update to Schedule 1, effective February 22, 2018.

- **Middle Fork-Ralston physical scheduling plant agreement between the ISO and Placer County Water Agency (ER18-469)**

On December 18, 2017, the ISO filed the Middle Fork-Ralston physical scheduling plant agreement between Placer County Water Agency and the ISO. This agreement is to supersede an existing and similar physical scheduling plant agreement between the ISO and Pacific Gas & Electric Company that concerns the same three generating units as the Middle Fork-Ralston physical scheduling plant agreement. FERC issued an order on January 30, 2018, accepting the ISO's agreement, effective as of January 1, 2018. On February 13, 2018, the ISO filed a Notice of Cancellation with Pacific Gas & Electric Company for the superseded Middle Fork-Ralston Physical scheduling plant agreement, requesting an effective date of January 1, 2018.

Reports filed

- **Annual report: demand response (ER06-615)**

On January 16, 2018 the ISO filed its annual report evaluating demand response participation in the ISO market for 2017, pursuant to the Commission's June 25, 2007, order in the Market Redesign and Technology Upgrade proceeding, for the period January 1 through November 30, 2017.

- **Informational report on transition period for first six months of new western energy imbalance market participants (ER15-2565)**

When a transmission or power balance constraint is binding, the ISO calculates energy prices based on penalty factors pegged to the bid caps. During the first six month transition period of the start of a new participant in the western energy imbalance market, the ISO will not apply the penalty factors when a transmission or power-balance constraint is binding and will instead calculate energy price based on the last economic price signal. FERC required that the ISO and the DMM file monthly reports on the performance of these measures during the transition period. Portland General Electric entered the western energy imbalance market on October 1, 2017. The ISO and DMM have filed the following reports: (1) The DMM filed its informational report on December 13, 2017, for Portland General Electric for October, 2017; (2) on December 19, 2017, the ISO filed its informational report for Portland General Electric for November 2017; (3) on January 9, 2018, the DMM filed its informational report for Portland General Electric for November 2017; (4) on January 22, 2018, the ISO filed its informational report for Portland General Electric for December 2017; (5) on January 31, 2018, the DMM filed its informational report for Portland General Electric for December 2017; and (6) on February 26, 2018, the ISO filed its informational report for Portland General Electric for January 2018.

- **Pay for performance year one changes (ER15-554)**

On December 28, 2017, the ISO submitted to FERC an informational report regarding the performance of resources providing regulation up and regulation down under the ISO's Order 755 market design, for the period January 1, 2015, up through September 30, 2017.

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

On December 7, 2017, January 8, 2018, and February 7, 2018, the ISO submitted to FERC informational filings containing the rates or formulas used to calculate negotiated default energy bids, custom operations and maintenance adders, and major maintenance adders, that were implemented, modified or terminated in the months of November 2017, December 2017, and January 2018, respectively.

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

On December 15, 2017, January 16, 2018, and February 15, 2018, the ISO submitted to FERC monthly market disruption reports for the periods of October 16 to November 15, 2017, November 16 to December 15, 2017, and December 16, 2017 to January 15, 2018, respectively. A market disruption is an action or event that causes a failure of the ISO market that is related to system operation issues or system emergencies.

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

On December 15, 2017, January 2, 2018, January 16, 2018, January 30, 2018, and February 15, 2018, the ISO submitted exceptional dispatch informational reports on: (1) the price impact of exceptional dispatches as required by FERC in its September 2, 2009 order in this proceeding; and (2) an analysis of mitigation as required by tariff section 34.11.4. The reports covered September 2017, October 2017, November 2017, and December 2017. 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 cannot be addressed by the ISO market.

- **Informational report: Natural gas and electric coordination (EL14-22)**

On December 14, 2017, the ISO filed a report pursuant to FERC's December 2015 order, regarding the ISO's efforts to improve natural gas and electric coordination, in particular as a result of the gas storage constraints at the Aliso Canyon gas storage facility in southern California. The report also provides information on the time required for the ISO to publish day-ahead market results during 2017, the causes for any delays, and the steps the ISO is taking to mitigate any delays. Finally, this report identifies operational challenges related to gas-electric coordination issues – apart from the constraints at the Aliso Canyon natural gas storage facility – that affected natural gas fired generators in the ISO's balancing authority area during 2017, and discusses mitigation efforts explored by the ISO in connection with these challenges.

- **Informational report – AES Huntington Beach Generating Station, Units 3 and 4 – reliability must run agreement (ER13-351)**

On December 11, 2017, the ISO filed an informational report on hours of operation for AES Huntington Beach for the months of September, October, and November, 2016, pursuant to FERC's January 4, 2013 and May 1, 2014 orders. On January 10, 2018, the ISO filed the last and final information report on the hours of operation for AES Huntington Beach for the month of December 2017. The parties did not renew the reliability must-run agreement.

California Public Utilities Commission and other state matters

- **ISO Resource Adequacy Proposals for the 2019 and 2020 resource adequacy compliance years (R.17-09-020)**

On February 16, 2018, the ISO submitted proposed modifications to the CPUC's resource adequacy program as requested by the CPUC's scoping memo. The ISO stated that there is sufficient information for the CPUC to align its resource adequacy assessment hours with the ISO's availability assessment hours in track 1 of the resource adequacy proceeding.

- **Comments on Scoping Memo and Ruling for Resource Adequacy (R.17-09-020)**

On January 30, 2018, the ISO submitted comments to the CPUC in response to the scoping memo and ruling of the assigned commissioner and administrative law judge. The scoping memo separates the resource adequacy proceeding into three separate tracks with set timelines. The ISO recommended that the CPUC modify tracks 1 and 2 to allow for a comprehensive review of foundational resource adequacy issues.

- **Comments on Commissioner Picker's Proposed Decision on Track 3 Policy Issues (R.14-08-013)**

On January 8, 2018, the ISO submitted comments in response to Commissioner Picker's proposed decision on Track 3 Policy Issues, Sub-Trak 1 (growth scenarios) and Sub-Track 3 (distribution investment and deferral process). The ISO commented that it strongly supports the collaborative approach with the California Energy Commission to align distribution resources plans growth scenarios with the integrated energy policy report. The ISO offered its support to work closely with investor owned utilities in their capacity as participating transmission owners to disaggregate the distributed energy resource forecast.

- **Comments on investigation of the Public Utilities Commission of Nevada regarding the Energy Choice Initiative (17-10001)**

On December 8, 2017, January 3, 2018, and February 16, 2018, the ISO filed Comments, reply comments, and closing comments, respectively, with the Public Utilities Commission of Nevada regarding its investigation of issues of public importance regarding the pending Energy Choice Initiative and the possible restructuring of Nevada's electric industry. The ISO's opening comments focused on providing an overview of the ISO, the existing synergies between the ISO and Nevada electric systems, and the potential benefits and issues to be considered in establishing or joining a wholesale energy market. The ISO offered to assist Nevada to explore the potential benefits of wholesale market participation in advance of Nevada's Energy Choice Initiative November 2018 vote.

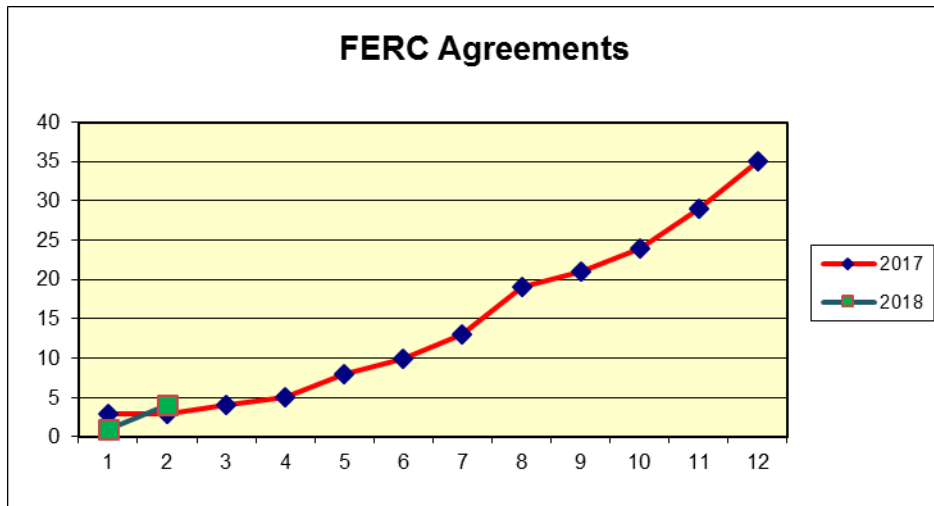
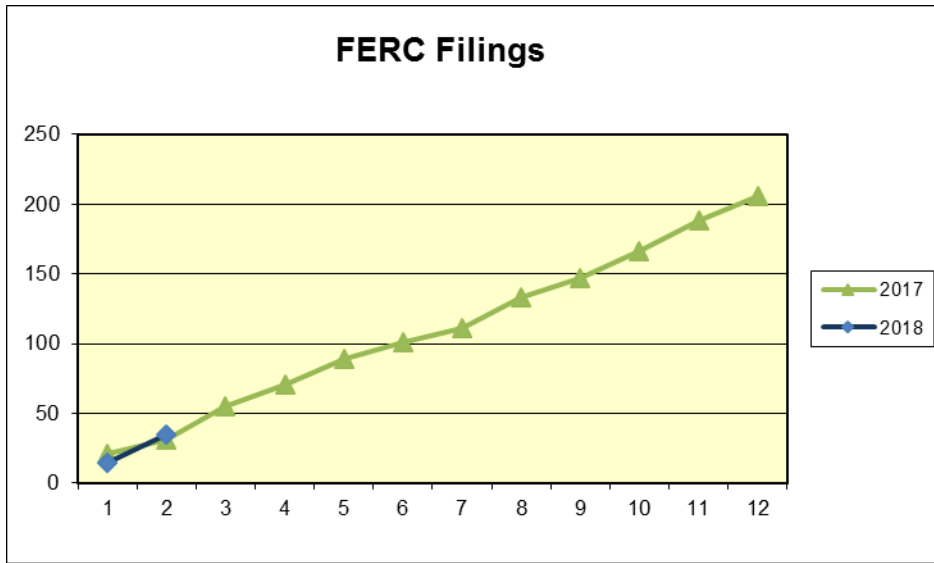
- **Comments on draft resolution ordering PG&E to hold competitive solicitation for energy storage and preferred resources rather than reliability must-run designation (R.15-03-011 and R.17-09-020)**

On December 29, 2017, the ISO submitted comments in response to the CPUC's Draft Resolution that orders Pacific Gas & Electric Company to hold a competitive solicitation for energy storage and preferred resources to meet specific local area needs in three specified sub-areas: the Pease sub-area of the Sierra local capacity area (LCA); the Bogue sub-area of the Sierra LCA; and the South Bay-Moss Landing sub-area of the Bay Area LCA. The ISO's comments provide clarity to certain facts surrounding the reliability must-run designation process and identify the potential benefits of a less restrictive implementation schedule. The ISO has committed to conducting a capacity procurement mechanism and reliability must-run stakeholder process and encourages the CPUC to participate.

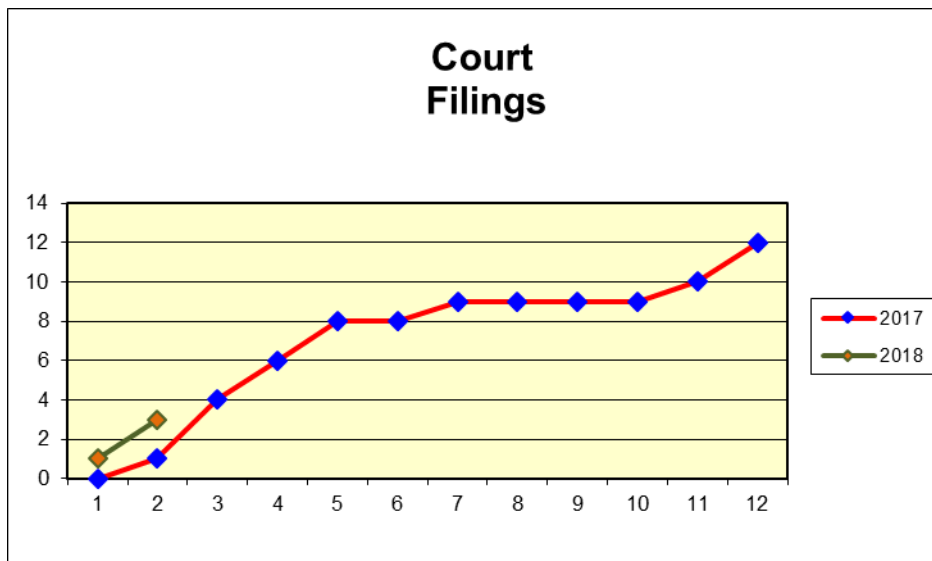
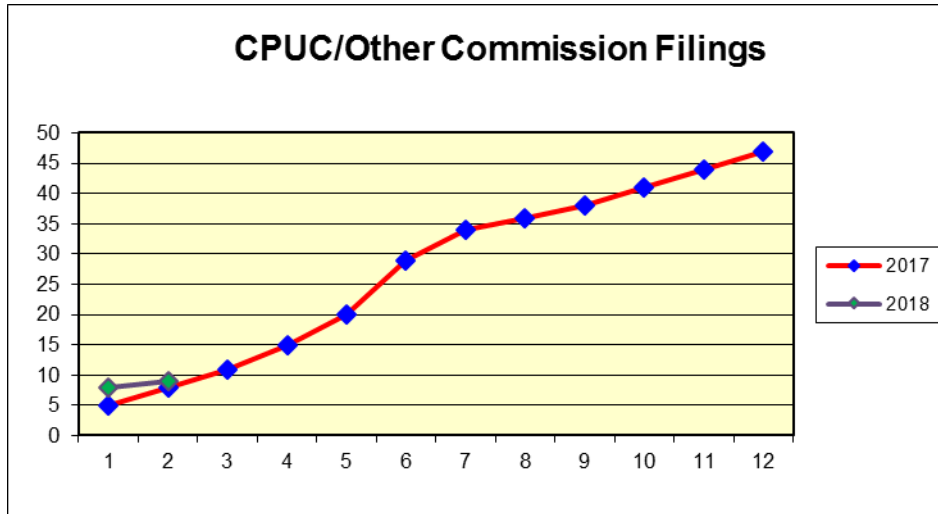
- **Comments on Commissioner Peterman's Proposed Decision on Multiple Application Issues – Energy Storage Roadmap (R.15-03-011)**

On December 4, 2017, the ISO submitted reply comments on Commissioner Peterman's Proposed Decision on Multiple Application Issues pertaining to the CPUC's order instituting rulemaking related to the Action Plan of the California Energy Storage Roadmap. Commissioner Peterman's proposed decision is to close the instant proceeding as recent rules and ISO tariff enhancements, such as the distributed energy resource provider model and demand response models, enable multiple-use applications.

Regulatory Filings Through February 2018



Regulatory Filings Through February 2018



*Regulatory Filings Through
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