



# Memorandum

**To:** ISO Board of Governors

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

**Date:** November 6, 2019

**Re:** **Regulatory update**

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***This memorandum does not require Board action.***

## **Highlights**

- *FERC accepted the ISO's reliability must-run-capacity procurement mechanisms enhancements.*
- *FERC denied Nevada Hydro's complaint regarding the Lake Elsinore Advanced Pumped Storage project.*
- *FERC denied all rehearing requests of its order denying CXA La Paloma's complaint.*
- *ISO filed a tariff amendment to enforce the maximum gas usage constraint in Southern California.*
- *FERC accepts in part and rejects in part the ISO's local market power mitigation enhancements; the ISO filed request for rehearing of FERC's rejection of the net export limit for the energy imbalance market.*
- *FERC accepts the energy imbalance market implementation agreement with Turlock Irrigation District.*
- *CPUC issues decision clarifying requirement that non-resource specific system resources under resource adequacy contracts must self-schedule into the ISO market.*

## **Federal Energy Regulatory Commission and related Court of Appeals matters**

- **Southern California maximum gas constraint (ER20-273)**

On October 31, 2019, the ISO submitted a tariff amendment to address the effects of limitations on the natural gas system in Southern California on the ISO's ability to operate the electric grid and its markets reliably and efficiently, by permanently extending three tariff provisions previously approved by FERC on a temporary basis -- the maximum gas constraint and related tariff provisions regarding the designation of other transmission constraints as uncompetitive and the suspension of virtual bidding. The ISO requested that FERC accept the proposed tariff provisions to provide a permanent, effective tool to address the impact of these limitations with an effective date of December 31, 2019. If FERC declines to approve these provisions on a permanent basis, the ISO requested FERC extend them another year, until December 31, 2020.

- **Request for rehearing or clarification of FERC's local market power mitigation enhancements order (ER19-2347)**

On October 30, 2019, the ISO submitted a request for rehearing of FERC's September 30, 2019, order rejecting tariff provisions proposed in the ISO's July 2, 2019 tariff amendment to allow an energy imbalance market entity to limit dispatch of incremental net exports when the entity's balancing authority area is subject to bid mitigation. The ISO argued that FERC rejected net export limit proposal based on erroneous factual conclusions and misunderstandings of the ISO's proposal and that once FERC resolves the errors and misunderstandings, it should grant rehearing and find that the net export limit is just and reasonable.

- **Comments of the ISO/RTO Council on the Staff Paper Regarding Notices of Penalty regarding Critical Infrastructure Protection Reliability Standards (AD19-18)**

On October 28, 2019, the ISO participated in the comments to FERC by the ISO/RTO Council in response to a white paper in which FERC staff and staff of the North American Electric Reliability Corporation (NERC) propose a new format for NERC's submission of notices of penalty involving violations of NERC Critical Infrastructure Protection Reliability Standards. The ISO/RTO Council supports the FERC and NERC staffs' goal of ensuring there is a sufficient balance between security and transparency but proposed additional modifications that would further balance these objectives. The ISO/RTO Council also commented that this proceeding also implicates FERC's broader administration of its regulations relative to the release of Critical Energy and Electric Infrastructure Information and urged FERC to undertake a review of those practices to ensure they appropriately protect critical security information.

- **Petition for approval of disposition of penalty assessments proceeds and non-refundable interconnection financial security (ER20-179)**

On October 23, 2019, the ISO submitted a petition pursuant to section 37.9.4 of its tariff seeking FERC approval of how the ISO intends to distribute the proceeds of penalties collected for violations of the ISO's Rules of Conduct for the calendar year 2018. In addition, the ISO sought approval of how it intends to distribute non-refundable study deposits for projects interconnecting to Southern California Edison's distribution system for the periods running January 2017 through June 2017, and July 2018 through December 2018, and to correct errors the ISO made in the distribution of such deposits for the period running January 2018 through June 2018.

- **Letter Order accepting tariff revisions - interconnection process enhancements track 3 - network upgrade definitions (ER19-2679)**

On October 18, 2019, FERC accepted the ISO's August 23, 2019, revisions to its generator interconnection and deliverability allocation procedures and related tariff sections, set forth in the appendices of the ISO tariff. The revisions will be reflected in the small and large generator interconnection agreements, the generator interconnection procedures, and definitions. The revisions are accepted effective October 23, 2019, as requested.

- **Order denying complaint of Nevada Hydro - Lake Elsinore Advanced Pumped Storage (EL19-81)**

On October 17, 2019, FERC denied the complaint filed on June 17, 2019, by Nevada Hydro Company, Inc. alleging that the ISO failed to follow its tariff in studying the Lake Elsinore Advanced Pumped Storage Project (LEAPS) as a transmission facility in ISO's 2018-2019 transmission planning process. FERC found that Nevada Hydro did not demonstrate that the ISO violated its tariff in its study of LEAPS as both a proposed reliability-driven transmission solution and a proposed economic transmission project as part of the 2018-2019 transmission planning cycle, or that the results of that process are unjust and unreasonable or unduly discriminatory against Nevada Hydro.

- **Order denying rehearing requests - CXA La Paloma's Complaint (EL18-177)**

On October 17, 2019, FERC denied the requests for rehearing of its November 19, 2018 order denying a complaint filed by CXA La Paloma, LLC (CXA La Paloma) alleging that the resource adequacy regime in California is unjust, unreasonable, and unduly discriminatory, and requesting that FERC direct the ISO to implement centralized resource adequacy procurement and a transitional payment mechanism. CXA La Paloma, the NRG Companies, and Western Power Trading Forum requests for rehearing of FERC's order. FERC denied all request, upholding its prior decision.

- **Tariff amendment - non-resource-specific resource adequacy import resource bid insertion clarification (ER20-94)**

On October 11, 2019, the ISO submitted a tariff amendment to modify provisions regarding automated bid generation in the real-time market for non-resource-specific system resources providing resource adequacy capacity (NRS-RA resources). The ISO submits economic bids on behalf of resources providing resource adequacy capacity that do not meet their must-offer obligation. For NRS-RA resources, the ISO tariff requires the ISO to generate a bid in the real-time market up to the resource's full resource adequacy capacity whenever the resource has a non-zero award in the day-ahead market. As implemented, however, the ISO generates a self-schedule for NRS-RA resources in the real-time market up to the quantity of the day-ahead award. The ISO has concluded that the approach it implemented is preferable to the approach specified in the tariff and now proposes to align the tariff with its longstanding practice. The ISO requested an effective date for the revisions of October 12, 2019.

- **Order on accepting in part and rejecting in part - local market power mitigation enhancements (ER19-2347)**

On September 30, 2019, FERC accepted in part and rejected in part the ISO's July 2, 2019, tariff amendment modifying the local market power mitigation process and cost-based bids used for such resources. The amendment included three separate sets of changes that would: (1) limit the instances in which the ISO dispatches resources at mitigated bid prices when local market power mitigation is not actually triggered in a specific interval, but is a carryover of a determination made in a prior interval (mitigation timing); (2) allow an energy imbalance market entity balancing authority area in the real-time market to limit dispatch of incremental net exports under certain conditions (net export limit); and (3) create a new default energy bid (DEB) for hydroelectric resources with storage (hydro DEB). FERC accepted the mitigation timing and hydro DEB proposals but rejected the net export limit proposal finding it is inconsistent with the market power mitigation framework in the energy imbalance market and is not an appropriately calibrated solution to the concerns ISO identifies. The ISO requested rehearing of this order on October 30, 2019.

- **Order accepting the reliability must-run capacity procurement mechanisms enhancements (ER19-1641)**

On September 27, 2019, FERC accepted the ISO's April 23, 2019, tariff amendment to enhance its reliability must-run (RMR) framework and further differentiate its RMR program from its backstop procurement authority under the capacity procurement mechanism (CPM) provisions of its tariff. The ISO's revisions consisted of: (1) elimination of the existing risk of retirement CPM tariff provisions and to incorporate certain aspects of its risk of retirement CPM procurement authority into the RMR construct such that all backstop procurement of resources at risk of retirement or mothball status would be addressed through the RMR provisions; (2) incorporating the

ISO's ability to designate and dispatch RMR resources to address any reliability need rather than just local reliability needs; (3) creating a second path for processing RMR designations that formalizes a longer "runway" for resource planning; (4) subjecting RMR resources to a must offer obligation and the resource adequacy availability incentive mechanism provisions of ISO's tariff; (5) removing the "hardwired" 12.25 percent rate of return from the RMR cost-based compensation formula; and (6) allocating RMR costs to load serving entities instead of transmission customers and establish a method for allocating resource adequacy credits for the RMR capacity. FERC rejected all protests and accepted the tariff revisions effective September 28, 2019, as requested.

### **Non-Conforming Regulatory Agreements**

- **Energy imbalance market implementation agreement between the ISO and Balancing Authority of Northern California, Phase 2 (ER20-95)**

On October 11, 2019, the ISO submitted an energy imbalance market implementation agreement dated October 4, 2019, between the ISO and Balancing Authority of Northern California (BANC). The implementation agreement sets forth the terms under which the ISO will extend its existing real-time energy market systems to provide imbalance energy service to the Western Area Power Administration (WAPA) and additional BANC members. This pertains to the second phase of BANC's participation in the energy imbalance market. Under the implementation agreement, BANC will compensate the ISO for its share of the costs of system changes, software costs, and other configuration activities related to the second phase. The ISO requests that FERC orders the agreement effective October 16, 2019, so that the extension of the real-time energy market to include the second phase of BANC's participation may proceed towards implementation on April 1, 2021.

- **Amendment to market efficiency enhancement agreement with Sacramento Municipal Utility District (ER20-56)**

On October 8, 2019, the ISO submitted a third amendment to the market efficiency enhancement agreement between the ISO and Sacramento Municipal Utility District (SMUD). The agreement sets to model and price interchange transactions between the ISO and SMUD in a manner that reflects the resources that support those transactions. The ISO requests that this third amendment be made effective on October 17, 2019, and requests waiver of the 60-day notice requirement to permit this amendment to become effective on October 17, 2019.

- **Letter order accepting reliability coordinator service agreement with Gridforce Energy Management LLC (ER19-2537)**

On October 2, 2019, FERC accepted the non-conforming reliability coordinator services agreement between the ISO with Gridforce Energy Management, LLC, filed on August

6, 2019. The agreement provides for the ISO to become the reliability coordinator for the generating facilities in the Gridforce balancing authority area starting November 1, 2019. The agreement includes a finite term of service of 17 months, from November 1, 2019, until April 1, 2021. The agreement was accepted for filing, effective October 7, 2019, as requested.

- **Letter order accepting the energy imbalance market implementation agreement with Turlock Irrigation District (ER19-2623)**

On October 2, 2019, FERC accepted the energy imbalance market implementation agreement between the ISO and the Turlock Irrigation District. The agreement sets forth the terms under which ISO will extend its real-time energy market systems to provide imbalance energy services to Turlock pursuant to the energy imbalance market tariff provisions. Under the agreement, Turlock will compensate the ISO for its share of the costs of related system changes, software licenses, and other configuration activities. The agreement was accepted effective October 16, 2019, as requested.

#### **Informational reports filed**

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

On October 30, October 15, September 30, and September 15, 2019, 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 June – August 2019. 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.

- **Joint report concerning settlement overlay process - crisis era litigation (EL00-95 and EL00-98)**

In compliance with a July 10, 2018 FERC order, on October 1, 2019, the ISO along with the California Power Exchange Corporation (PX) and the California Parties, submitted a report on the status of the California Parties' settlement overlay process. Although substantial progress has been achieved, the settlement overlay process is not yet complete. The California Parties proposed that FERC establish a new date of January 31, 2020, by which time they intend to file the settlement overlay as well as a proposed process for the final clearing of the ISO/PX markets or submit an updated report. The California Parties, the ISO, and the PX believe they have resolved all disputed issues identified in the July 10, 2018 order. The parties have agreed that the resolution of this issue may be reflected in the settlement overlay filing, and expect that the overlay filing will be a comprehensive proposal for the clearing of the ISO/PX markets and accounts relating to these proceedings.

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

On October 15, and September 16, 2019, the ISO submitted to FERC its monthly market disruption reports for the periods of August 16 through September 15, 2019 and July 16 through August 15, 2019, respectively. A market disruption is an action or event that causes a failure of the ISO market related to system operation issues or system emergencies.

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

On October 7 and September 9, 2019, the ISO submitted to FERC an informational filing containing the rates or formulas used to calculate negotiated default energy bids, major maintenance adders, custom operations and maintenance adders, and calculated opportunity costs that the ISO implemented, modified, or terminated in the month of September and August, 2019.

- **Western energy imbalance market transition period informational reports for new participating entities (ER15-2565)**

FERC, in its October 29, 2015, order directed the ISO and its Department of Market Monitoring to file monthly informational reports on the transition period for new western energy imbalance market entities during its first six months of participation. 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 filed its informational reports for Balancing Authority of Northern California and Sacramento Municipal Utility District on October 18, 2019 and September 9, for the months of August and July 2019, respectively.

### **California Public Utilities Commission and other State Matters**

- **R.17-09-020 (Resource Adequacy OIR - 2019 - 2020 Compliance Years)**

On October 17, 2019, the CPUC issued a decision affirming resource adequacy import rules. The decision provides that non-resource-specific resource adequacy imports, must self-schedule into the ISO market, consistent with the timeframe established in the governing contract to meet the requirement that such resources are an “energy product” that “cannot be curtailed for economic reasons.” On September 26, 2019, the ISO filed comments opposing the a prior version of the proposed decision that would have required a “must deliver” requirement on the basis that it would reduce import flexibility to meet ramping needs and increase the need for other dispatchable resources. The must self-schedule requirement in the October 17 order poses the same issues. On October 28, 2019, the ISO filed a response supporting a motion to stay the decision, thereby maintaining previously applicable rules for resource adequacy imports in the

interim.

Separately, the ISO submitted comments and reply comments on September 30, 2019 and October 15, 2019 regarding a joint settlement agreement that addresses central procurement and multi-year resource adequacy requirements. The ISO supported the joint party settlement agreement, particularly noting the importance of the proposed multi-year resource adequacy procurement requirements for system, flexible, and local capacity.

- **R.16-02-007 (OIR re Integrated Resource Planning Framework (SB 350))**

On October 31, 2019, the ISO submitted comments on the revised proposed decision requiring electric system reliability procurement for 2021-2023 issued on October 21, 2019. The ISO noted it appreciates the immediate and impactful efforts to address the reliability shortfall by directing incremental resource procurement and providing a way to transition off the use of once-through cooling (OTC) resources and that the ISO agrees with the general direction outlined in the revised proposed decision. The ISO further recommended that the CPUC: (1) count resource adequacy-backed imports based on historical levels and, at minimum, allow resource-specific imports to count towards incremental procurement; and (2) develop an annual assessment to determine the efficacy of new procurement to address operational needs and support early release of OTC resources with extended compliance deadlines.

Separately, on October 14, 2019, the ISO supported a motion to establish qualifying capacity values for hybrid resources. The ISO noted that it expects that hybrid storage resources will be essential to meeting the reliability needs identified in the integrated resource planning proceeding. The ISO also supported an interim methodology to count hybrid resources by summing the respective qualifying capacity of the underlying individual resources.

- **R.19-09-009 (Order Instituting Rulemaking Regarding Microgrids Pursuant to Senate Bill 1339)**

On October 21, 2019, the ISO submitted comments pursuant to the CPUC's Order Instituting Rulemaking Regarding Microgrids Pursuant to Senate Bill 1339. Senate Bill 1339 requires the CPUC to consult with the ISO in its microgrid rulemaking. The ISO's comments noted that it will continue to work with the CPUC and stakeholders regarding microgrid requirements.

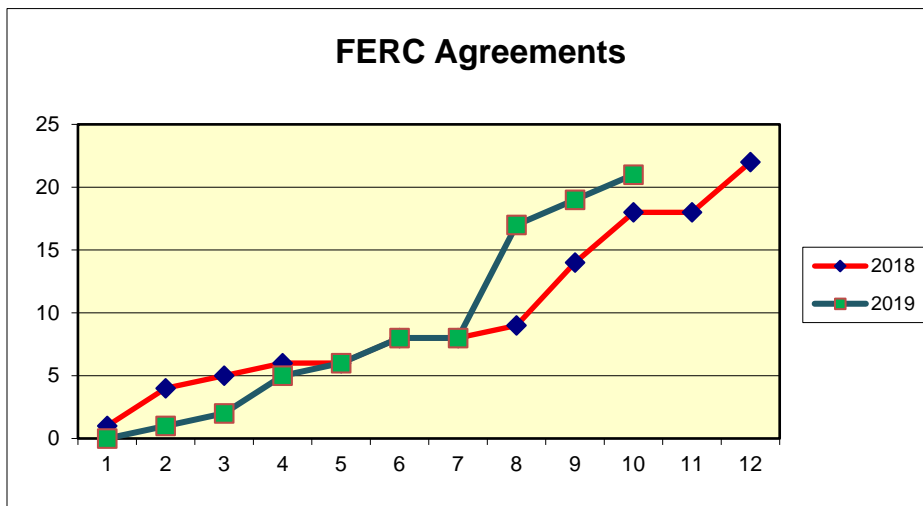
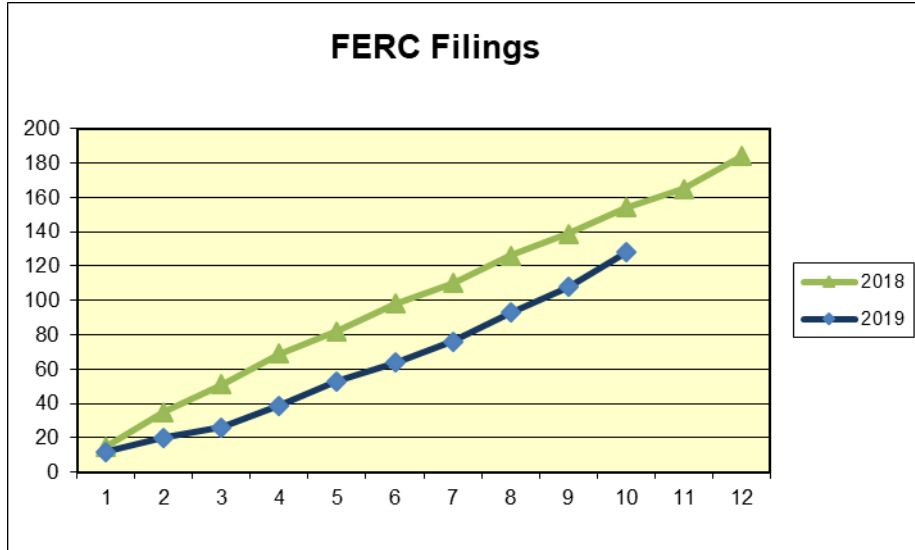
- **A.15-04-013 (Application of Southern California Edison Company (U338E) for a Certificate of Public Convenience and Necessity for the RTRP Transmission Project)**

On September 27, 2019 and October 18, 2019, the ISO filed its opening and reply briefs, respectively, supporting Southern California Edison Company's request for a certificate of public convenience and necessity to build the Riverside Transmission Reliability Project

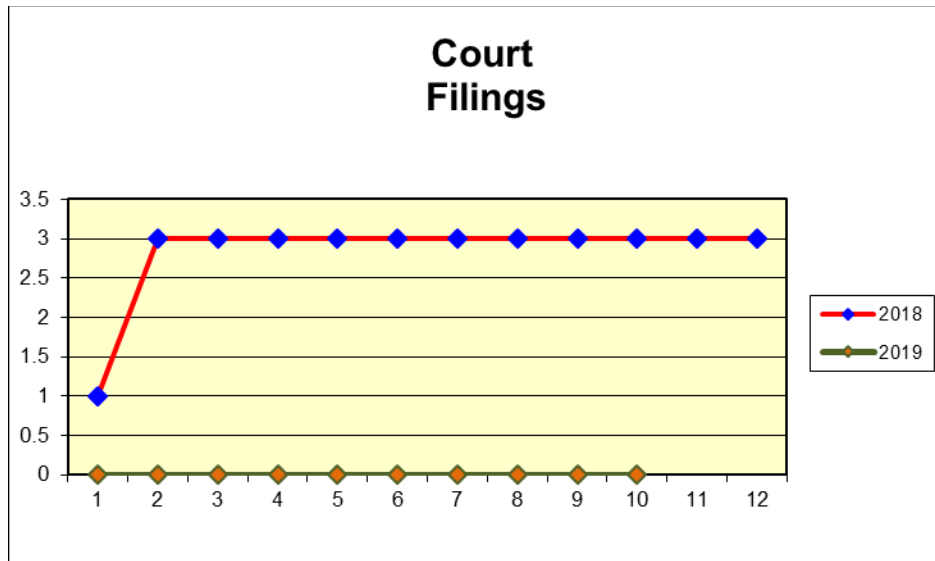
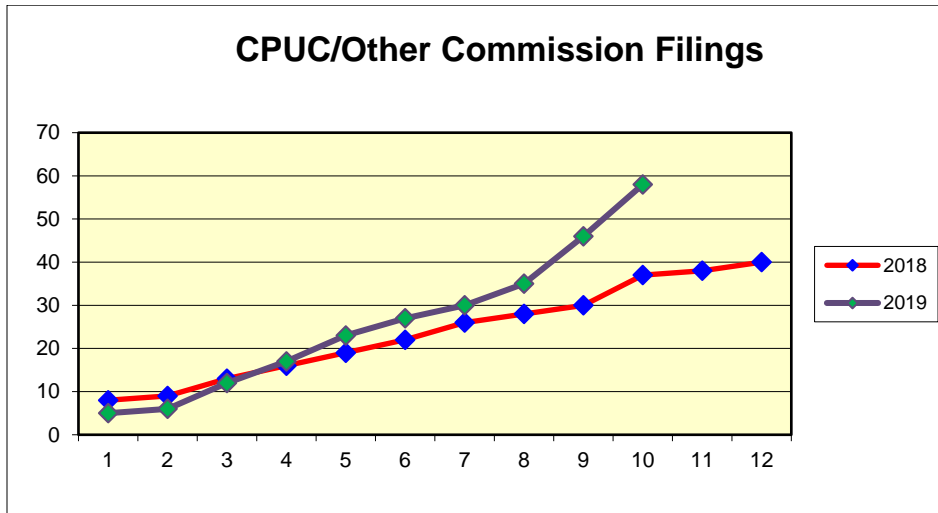


(RTRP). The ISO noted that the RTRP provides significant operational benefits to the ISO, in addition to providing a secondary connection to the Bulk Electric System for the City of Riverside.

# Regulatory Filings Through October 31, 2019



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