

Memorandum

To: ISO Board of Governors
From: Elliot Mainzer, President and Chief Executive Officer
Date: March 15, 2023
Re: CEO report

This memorandum does not require ISO Board of Governors action.

INTRODUCTION

For my March 2023 CEO Report, I will provide an update on reliability issues this winter and the current situation on natural gas prices, ISO activities related to summer readiness, the latest on the ISO's Extended Day-Ahead Market (EDAM) and related initiatives, our report to the Legislature pursuant to Assembly Concurrent Resolution 188, the status of the 2022-2023 transmission plan and interconnection process enhancements, new entities joining the Western Energy Imbalance Market (WEIM), and my recommendation that Dr. Scott Harvey be reappointed to the Market Surveillance Committee.

CONGRATULATIONS

Before I provide the updates mentioned in my introduction, I would like to congratulate Angelina Galiteva for the good news that she was reappointed to the ISO Board of Governors by Gov. Gavin Newsom on February 21, 2023. Angelina began serving on the Board in 2011 and while her reappointment must be confirmed by the Senate, it was wonderful to see the governor's announcement, which signals his continued confidence in her leadership and expertise. Congratulations Angelina! Now, with Ashutosh Bhagwat having stepped down after serving on the Board for 12 years, I am excited and hopeful that we will get a new appointment soon.

WINTER RELIABILITY ISSUES

The bulk electric system continues to face a challenging winter with volatile weather and record-setting snowpack and precipitation. The rain and wind did take out some transmission lines and there have also been some localized impacts, but the bulk electric system has generally held up well and overall system reliability has been maintained without significant concerns. At the same time, the state's load-serving entities have worked hard to maintain reliability in the distribution system under tremendously challenging circumstances. With winter continuing, this situation is ongoing.

I also wanted to report that the recent volatile weather did create some operational balancing issues, but we were able to work through those challenges without incident. Of course, the snow is welcome and much needed, and if the trend continues through the rest of the winter and even into the spring, it will put us in good shape with in-state hydro resources this summer. The cold weather also provides some challenges with natural gas in Southern California but we have had very strong coordination with the different gas companies serving the state and have been able to work through these issues.

NATURAL GAS PRICES

Natural gas prices have been reduced quite a bit, from a high in December of an average of \$30.6/MMBTU for the Northern and Southern hub, down to an average for the two hubs of \$7.6/MMBTU in February. Although still relatively high, the reduction in prices is welcome news. We continue to work with the regulatory community in California to make sure we have a solid understanding of the fundamentals of the gas supply chain and any changes that may be necessary going forward. As part of our work with the California regulatory community, I and several ISO colleagues participated in a California Public Utilities Commission hearing on rising natural gas prices on February 7. We have provided and will continue to provide transparent data on market prices and grid operations to support future analysis and policy discussions.

SUMMER READINESS

Now that March is here and spring is just around the corner, we are actively ramping up our summer readiness activities with outreach and coordination well under way. Among other things, our third annual summer readiness leadership roundtable is scheduled for May 9. We are also working closely with the governor's office, utilities and others around the West to make sure we are as prepared as possible for what could be another volatile and unpredictable summer season. We also have scheduled operational table top drills for May 23. Additionally, our team that produces the ISO's annual Summer Loads and Resource Assessment has been working on this year's report, which will be released in the spring.

EDAM

The ISO Board of Governors and WEIM Governing Body's February decision to approve the final EDAM design proposal, along with the WEIM Governance Review Committee's governance proposal and the transmission service and market scheduling priorities initiative, generated some strong positive momentum and energy for these initiatives. We have moved quickly into the implementation stage to capitalize on that progress. Specifically, we have begun developing EDAM tariff language and fine-tuning implementation details. We will go through our usual iterative stakeholder process in developing the tariff, publishing the draft tariff for stakeholder review and input, with stakeholder meetings to review the language as we continue to stay engaged with stakeholders and our partners across the West.

We anticipate publication of the initial draft of the EDAM tariff language at the end of March, at which point we will hold a stakeholder meeting and take stakeholder comments on the language. We are targeting filing our EDAM tariff with the Federal Energy Regulatory Commission by the end of June.

Separately, we are continuing to work internally on developing the business requirements and starting to engage with PacifiCorp, which has expressed its intent to join the EDAM, on outlining implementation activities and coordination.

DAY-AHEAD MARKET ENHANCEMENTS

We are also listening intently through our stakeholder process on the day-ahead market enhancement initiative and taking additional time to host a number of workshops to discuss a narrow scope of issues related to the structure of the imbalance reserve product. We held a

workshop on February 27 and two more have been scheduled for March 7 and 8, to work collaboratively with stakeholders through the remaining issues, particularly focusing on nodal and zonal procurement of imbalance reserves. We are now targeting to bring this topic to the ISO Board of Governors and WEIM Governing Body for a decision at the May 2023 joint session.

TRANSMISSION SERVICE AND MARKET SCHEDULING PRIORITIES INITIATIVE

Following approval in February of what we also refer to as the wheel-through initiative by the ISO Board of Governors and the WEIM Governing Body's support in its advisory role we are now at the tariff drafting stage on this item as well. We have targeted publication of the initial tariff draft on March 15, followed by a stakeholder call and stakeholder comments. This will also be an iterative stakeholder process on the tariff development and we are anticipating our FERC filing in the third quarter of this year.

PRICE FORMATION ENHANCEMENTS INITIATIVE

This initiative explores several topics related to price formation in the day-ahead and real-time markets, including scarcity pricing to incentivize resources to be available and perform during scarcity supply conditions, as well as fast-start pricing that recognizes the value of flexible resources in the market, among other topics. This is another important initiative with implications for EDAM and our broader market design and we want to ensure there are appropriate price signals for resources to be valued and actively participate in the market. We have a workshop planned for March 16 on this topic, particularly fast-start pricing, and look forward to engaging with stakeholders across the West. We have also contracted with a consultant experienced on these issues to help us evaluate different possibilities.

ASSEMBLY CONCURRENT RESOLUTION 188 REPORT

On February 27, we submitted the final ACR 188 report prepared by the National Renewable Energy Laboratory along with my transmittal letter. Both the report and letter have been posted to the ISO's website. This is an exciting and dynamic time for energy in the West. We appreciate Assembly Member Chris Holden and the entire State Legislature for requesting the report summarizing existing studies and papers on regional coordination of the electric power system and its potential impact on costs and reliability for California and the West. We believe members of the Legislature will find the report helpful in describing the value proposition of broader regional coordination and for characterizing the initiatives that are underway across the region. We have also communicated that we stand ready to assist as work continues to find the most effective way forward for California and the West.

2022-2023 TRANSMISSION PLAN

There is a lot happening on the transmission planning front. The 2022-2023 Transmission Plan will be released in draft form for stakeholder comment at the end of March and brought to the Board of Governors for approval at your May 2023 meeting. This year's plan is building on the momentum starting with last year's \$3 billion plan and our 20-Year Transmission Outlook that we released in February of 2022. The new annual plan will be bringing forward several substantial transmission projects, keying off the California Public Utilities Commission's (CPUC) resource plans for this planning cycle of 40 gigawatts (GW) of additional resources needed over the next decade. Our planners are also conducting a sensitivity study of 70 GW of resource development

in this study cycle, and the CPUC has now approved resource portfolios for use in the 2023-24 transmission plan that set a 70 GW level of resource development by 2023 as the base requirement.

In addition, our planners are making significant changes to how the transmission plan is framed and information presented as part of our broader, more proactive approach to transmission planning and coordination with resource planning, interconnection and resource procurement efforts. These changes focus on providing greater clarity on the transmission capacity available to resources in key resource development zones as the system exists today and as it is being planned. This includes providing greater clarity and insight as to why transmission projects are being selected for approval, and the resource basins and resource development levels that will be enabled. This is foundational to tightening the linkages between load forecasting, integrated resource planning, transmission planning, interconnection queuing and power procurement as described in the December 2022 MOU between the CEC, CPUC and ISO.

INTERCONNECTIONS

Building on my update during our last meeting, the resource interconnection team at the ISO has launched a new stakeholder process that will address the need for transformational reform in interconnection queuing processes. An initial issue paper that sets out the context and need for these transformational changes to our interconnection process was posted on March 6, with a stakeholder call scheduled for March 13. The process will move forward from here, based on stakeholder feedback expected in the days ahead. This process is pivotal to the realignment of planning, procurement and interconnection activities and the team has advanced for discussion a number of impactful proposals on how to achieve these outcomes. We are looking forward to the industry feedback and collaboration as we develop our final recommendations later this year. I feel a tremendous sense of urgency to make highly impactful progress on this topic in 2023.

We have also clarified that while the Cluster 15 interconnection application window will be opened in early April as originally scheduled, processing those applications will be deferred until this next round of process enhancements has taken place, and once the large volume of Cluster 14 projects that posted security deposits and moved into the phase 2 detailed study stage are processed. As I have reported to you previously, more than 200 resource projects are seeking to move forward with these detailed studies, creating major additional workload for the ISO and the large PTOs.

NEW WEIM PARTICIPANTS

The Western Energy Imbalance Market is on track to bring on three new market participants on April 5 -- the Western Area Power Administration (WAPA) Desert Southwest, El Paso Electric and Avangrid Renewables. All three entities have completed their systems and procedure readiness certifications, which were filed on March 3, 2023. At this moment, El Paso and Avangrid are waiting for FERC authorization of market-based rate authority to support their WEIM participation. The authorization is expected any day and we are excited to have these new partners join the WEIM.

These latest WEIM participants are particularly noteworthy for their diversity. WAPA Desert Southwest provides federal hydroelectric power and transmission services to 70 municipalities, cooperatives, Native American tribes, federal and state agencies and irrigation districts. El Paso

Electric is a regional electric utility that serves more than 440,000 customers in west Texas and southern New Mexico, marking our first entry into the state of Texas. And as the WEIM's first generation-only entity, Avangrid Renewables offers carbon-free resources and transmission services.

MSC APPOINTMENT

Dr. Scott Harvey has served as a member of the ISO Market Surveillance Committee since 2011. His current term expires on March 31, 2023. During his tenure on the MSC, Dr. Harvey has provided invaluable expertise and advice to the ISO Board of Governors, Western EIM Governing Body, ISO management and staff on numerous issues relating to the operation of the ISO market.

Under the tariff, and the new joint authority construct, the ISO CEO recommends joint approval by the ISO Board of Governors and WEIM Governing Body for MSC appointments. Therefore, as outlined in the joint ISO Board of Governors and WEIM Governing Body memo, I request that the ISO Board of Governors and WEIM Governing Body approves the re-appointment of Dr. Harvey as a member of the MSC and authorize execution of a contract for a three-year term.