



Memorandum

To: ISO Board of Governors and WEIM Governing Body
From: Elliot Mainzer, President and Chief Executive Officer
Date: March 12, 2024
Re: **CEO report**

This memorandum does not require ISO Board of Governors or WEIM Governing Body action.

INTRODUCTION

For my March 2024 CEO report, I will provide updates on our analysis of the market’s performance during the January cold spell, continued progress related to our extended day-ahead market, summer readiness activities, our interconnection process enhancements initiative and planning for the 2024 Stakeholder Symposium.

CONGRATULATIONS AND APPRECIATION

Before my update on some of the current issues we have been working on, I want to extend my congratulations to Mary Leslie for having been reappointed to the ISO Board of Governors (Board) by Gov. Gavin Newsom. Mary has served on the Board since 2019 and all of us continue to benefit from her invaluable experience and expertise. I am happy to say we now have the benefit of Mary’s strong leadership and expertise at least through the end of 2026.

WINTER MARKET PERFORMANCE REPORT

As you recall, during my last CEO report in February, I talked about the extreme cold weather that the Pacific Northwest and northern Rocky Mountain states had experienced over the Martin Luther King Jr. holiday weekend January 13 to 15, 2024, and how the Western Energy Imbalance Market (WEIM) helped maintain system reliability through the region.

Since that event, we continued to analyze everything that happened on the grid during that time period, and on March 6, our Market Performance and Advanced Analytics team published a Winter Conditions Report that provides a detailed and factual examination of those several days in January.

Unfortunately, we have seen a lot of misinformation circulating about what actually occurred, but the California ISO played an important part in helping to keep electricity flowing during the extreme cold weather that gripped parts of the West in mid-January.

Just to recap a bit, demand for electricity to heat homes and businesses soared in the Northwest over the long holiday weekend as temperatures dropped 20 to 40 degrees below normal. Five balancing authorities that maintain grid stability issued energy emergency alerts as demand exceeded supply. The shutdown of a major gas storage facility in Washington State led one

balancing authority to declare that it might need to order rotating outages, and significant exports of electricity from the Desert Southwest and California helped avoid more serious consequences.

As our analysis found, congestion between California and the Pacific Northwest limited the volume of exports to the Pacific Northwest. No exports could flow on the Nevada-Oregon Border intertie, a major north-south transmission corridor, because of a forced outage. In addition, severe weather caused transmission outages in Oregon, limiting transfers on the Malin intertie, a key interface between California and the Pacific Northwest.

Despite those constraints, our day-ahead market scheduled more than 6,000 megawatts (MW) of exports over the long holiday weekend. Approximately 1,500 MW went to the Northwest through Malin and the remainder went to other balancing authority areas in the West, including more than 2,000 MW to the Southwest.

The ISO's day-ahead market also scheduled 300 MW of wheel-through transactions from south to north, which were supported into the real-time market. And in the real-time market, the WEIM played a pivotal role in optimizing the dispatch of electricity across a broad swath of the West, delivering power to where it was needed most at the least cost to utilities and consumers.

At the same time, transmission constraints on the ISO grid and in other parts of the West limited the amount of exports the ISO could move through its system, but the ISO did have capacity to meet its load and provide a helpful level of exports. The WEIM also rationed supply and demand and managed congestion based on transmission limits.

As our report also notes, there were midday hours when California was a net exporter of up to 3,000 MW and then during the later hours of the day, the ISO balancing authority area became a net-importer of up to 1,000 MW. That's because although there was enough capacity to serve load and exports in the ISO, the combination of supply bids, demand, and transmission constraints in the WEIM displaced more expensive power in the ISO balancing authority area and allowed for imports to the ISO. And this was not at the expense of serving load on the rest of the WEIM footprint or anywhere in the Northwest.

The transfers into California were mainly from the Southwest, where prices were on average under \$200 per megawatt hour (MWh) and relatively cheaper compared to those in California. At the same time, the market dispatched electricity from California to the Northwest and Rocky Mountain states. In contrast, prices in the Northwest and mountain states reached prices of more than \$900/MWh, reflecting tight supply conditions.

The WEIM also allowed northern balancing authority areas to access the market's Assistance Energy Transfer program so they could receive electricity transfers when they were unable to meet their own resource sufficiency requirements. That program provided up to 176 MW of electricity that would not have been available otherwise.

The transmission congestion at the Malin intertie resulted in day-ahead congestion rents in excess of \$100 million. And to be clear, congestion rents are distributed to holders of congestion revenue rights, which are financial instruments that protect holders against high prices at specific locations. These rights are available to all market participants, including to qualifying Northwest utilities for free. Any congestion revenue collected in excess of congestion rights entitlements is distributed back to demand on the ISO grid, which includes exports.

It is also important to point out that the ISO's new extended day-ahead market (EDAM) that we

plan to launch in 2026 will provide new mechanisms for managing transmission congestion for participating entities while distributing congestion revenues. The EDAM will be able to help Pacific Northwest transmission operators better manage and allocate the costs of congestion on their systems.

These findings and more were the focus of a public meeting held on March 11 where we had a healthy dialogue and I believe we can all feel good about the role the California ISO and the WEIM played during the January cold spell.

EXTENDED DAY-AHEAD MARKET UPDATE

Our positive momentum regarding EDAM is continuing. I was very pleased last month when the Los Angeles Department of Water and Power (LADWP) oversight board voted to authorize LADWP to begin preparations to join the ISO's extended day-ahead market.

As you know, LADWP is the largest municipally owned utility in the nation. It has been a member of the WEIM since 2021. Although no formal announcement was immediately made after LADWP's board action, a letter in the public record from its top executives recommending the move said, "EDAM builds on the success of WEIM, providing additional benefits to its participants while increasing regional coordination, supporting policy goals of the state of California and meeting demand more efficiently."

As I noted in a statement issued in response to media inquiries, "LADWP owns and operates more than 3,600 miles of transmission lines spanning five Western states and controls approximately 8,000 MW of generation capacity, further enhancing the transmission footprint and resource diversity of EDAM. LADWP joining EDAM would bring additional reliability and economic value to current and future market participants across the West and we look forward to building on this positive momentum in the months ahead."

Also on February 16, we submitted our compliance filing for EDAM and our day-ahead market enhancement initiative, which includes tariff clarification requested by the Federal Energy Regulatory Commission (FERC) associated with considerations that the ISO will use for the imbalance reserve deployment factor we will include in the business practice manual. We also addressed clarification of the balancing area by balancing area market power mitigation procedures, removal of provisions regarding the transmission revenue recovery mechanism which were not approved by FERC without prejudice, also known as the EDAM access charge, and other minor tariff language cleanup as part of the compliance filing. Regarding the EDAM transmission revenue recovery, we intend to submit a filing to FERC by the end of March that responds to the additional explanations and clarifications it requested. And we received some more good news earlier this month when FERC approved a number of our proposals that enable the ISO balancing authority to participate in the EDAM consistent with its design.

Finally, on the related design topic that FERC approved last October, our transmission service and market scheduling priorities, we posted updated available transfer capability (ATC) numbers in February that can be reserved in advance. We also ran our second request window in February for those seeking to establish wheeling through priority for June 2024 and beyond. We are continuing with manual implementation in March, publishing ATC numbers and opening a request submission window until new functionality becomes available in April to automate the process.

SUMMER READINESS ACTIVITIES

March is also that time of the year where we really start to focus very keenly on summer readiness, making sure we are prepared for the hot weather and whatever reliability and other challenges it may present. It's important to note that we will have more resources available to the grid as we approach this summer. Last year, as of March 1, we had 80,577 MW of power on the grid. This year, as of the end of February, that had grown to 86,047 MW, an increase of 6.8 percent.

We are also taking a modified approach to our summer readiness activity and training this year by offering more comprehensive refresher training for market participants. Topics will focus on managing intertie transactions, export priorities, operational actions associated with unit response and performance, and emergency assistance protocols and communications. This summer readiness training series will be offered throughout the month of May with a different topic presented each week.

As is also our custom, we will again be hosting our Summer Readiness Leadership Roundtable, where we engage with leadership from our neighboring balancing areas, WEIM entities and utilities within California and across the West to discuss the forecasted outlook for summer operations. The event also provides us all with an opportunity to highlight key areas for awareness, coordination and communication. This will be the fourth consecutive year for the Roundtable, which is scheduled for May 14.

Coincidentally, our System Operations team will be holding its annual Operational Readiness meetings that same week, with a session on May 15 for the ISO balancing authority and participating transmission owners and another meeting the following day for RC West and WEIM customers. And our Communications team is beginning its regularly held meetings with their counterparts in the Governor's Office and other state agencies to coordinate communications protocols and practices for the summer.

INTERCONNECTION PROCESS ENHANCEMENTS (IPE) PHASE 2

Our interconnection process enhancements initiative continues to advance toward a comprehensive and transformational final proposal which we plan to release to stakeholders by March 29 and bring to the Board at their next meeting in May. Stakeholders have continued to engage in the policy initiative, and the ISO has spent the past several weeks looking at cluster 15 data, including results of a survey of cluster 15 interconnection customers to understand the potential impact of proposed reforms on the interconnection queue.

We are committed to advancing foundational reforms to our interconnection queuing process to ensure alignment with resource and transmission planning and procurement, and to result in deployment of the resources the ISO system will need in the right locations. The reformed interconnection process will require broad and systemic changes affecting the ISO, participating transmission owners, load-serving entities, generation developers, and other stakeholders, but it is critical to facilitating a reliable and timely transition to clean energy.

In addition, the team is working to finish our compliance filing for FERC Order No. 2023, which is due April 3, and upon which we plan to layer additional reforms that are necessary to address our unique interconnection circumstances.

2024 STAKEHOLDER SYMPOSIUM

In early February, we announced that we will be hosting our Stakeholder Symposium on October 30, 2024. It will be held once again at the Safe Credit Union Convention Center in downtown Sacramento, with a welcome reception planned for the evening before.

I am excited about again bringing stakeholders a robust and thought-provoking program focused on new technologies, development of the transmission network, market expansion and system reliability as the grid is transformed with record levels of new clean resources. Details regarding the reception and how to register for the Symposium will be provided in the coming months. We hope you will save the date and plan to join us in what is always a stimulating and informative event.