

Memorandum

To: ISO Board of Governors

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

Date: May 9, 2018

Re: Regulatory update

This memorandum does not require Board action.

Highlights

- *ISO filed a tariff amendment to modify its commitment costs rules*
- *ISO filed a tariff amendment to improve the efficiency of its congestion revenue rights auction*
- *FERC rejected the ISO's tariff amendment to issue risk of retirement capacity procurement designations on a shorter timeline*
- *ISO filed a petition for limited tariff waiver to apply market power mitigation to Powerex's EIM aggregated participating resource interval by interval*
- *FERC accepted the ISO's tariff amendment to modify the methodology for the resource adequacy availability incentive mechanism*
- *FERC granted the ISO's petition for limited tariff waiver to request exemption of availability assessment hours for certain demand response resources*
- *FERC granted the ISO's 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 the ISO's tariff amendment to improve the interconnection process by extending "parking" and shortening the request window*

Federal Energy Regulatory Commission and related Court of Appeals matters

- **FERC granted the ISO's petition for a limited tariff waiver to process out-of-time acquired resources annual recertification (ER18-857)**

On April 30, 2018, FERC granted the ISO's 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. FERC also granted the ISO's request that FERC waive any otherwise applicable availability mechanism charges or incentive payments for a unit that submits a valid recertification request by the extended deadline under the waiver. Acquired resources provide capacity under legacy contracts that pre-date the ISO's incentive/penalty program for resources providing 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 and the waiver ensures these resources will not lose their exemption permanently.

- **FERC rejected the ISO's risk of retirement capacity procurement mechanism tariff amendment (ER18-641)**

On April 12, 2018, FERC rejected the ISO's 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 a risk of retirement capacity procurement mechanism designation, and the ISO also proposed three separate types of risk of retirement capacity procurement mechanism designations. FERC 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's complete.

- **Tariff amendment to implement congestion revenue rights auction efficiency (ER18-1344)**

On April 11, 2018, the ISO filed a tariff amendment to improve the efficiency of the ISO's congestion revenue rights (CRR) auctions. The amendment proposes that transmission owners 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 it uses for the annual CRR allocation and auction. The ISO also proposes to limit the source and sink pairs for CRRs that market participants can purchase in the CRR auctions. The ISO requested an order by June 11, 2018, and an effective date of July 1, 2018.

- **Petition for limited tariff waiver to apply market power mitigation to Powerex's EIM aggregated participating resource interval by interval (ER18-1339)**

On April 10, 2018, the ISO filed a petition for a limited tariff waiver of tariff sections 34.1.5.2 and 34.1.5.4 to allow the ISO to continue test Powerex's aggregate participating resource for market power interval-by-interval but not mitigate its bid for the remaining hours once mitigation triggers. Waiver of these provisions has no unintended consequences because these provisions mitigate against the exercise of intertemporal market power, which Powerex's resource lacks because it also lacks ramping constraints. Powerex began participation in the western energy imbalance market on April 4, 2018. During parallel operations held prior to full implementation, the ISO and Powerex identified that the market

frequently mitigated the Powerex aggregated resource and caused flows to reverse. When the ISO tests Powerex's aggregated participating resource for market power and identifies potential market power in the import direction, even though it does not identify potential market power in the export direction, the resource is dispatched to export at a mitigated bid price. The ISO developed an interim procedure that limits Powerex's exports in cases in which the implications of market power detected in the northbound direction are limited to the BC Hydro area. The interim procedure limits the adverse impact on Powerex created by the market power mitigation when the market power implications are limited to BC Hydro's area. This procedure will be implemented through the business practice manuals and the requested waiver will enable the ISO to not have to limit the exports through the rest of the hour. The ISO requested expedited treatment and an order by May 9, 2018.

- **FERC granted the availability assessment hours tariff waiver (ER18-838)**

On March 29, 2018, FERC granted the ISO's 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 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. 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 tariff.

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

On March 29, 2018, FERC issued an order accepting the ISO's 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-weighs 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.

- **Commitment cost enhancements phase 3 tariff amendment (ER18-1169)**

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. The ISO requested an effective date of November 1, 2018, and an order by May 23, 2018.

Regulatory Agreements

- **FERC approves joint offer of settlement related to unexecuted RMR agreements for Gilroy energy and Metcalf energy (ER18-230 and ER18-240)**

On April 30, 2018, FERC issued a letter order approving the joint offer of settlement among Gilroy Energy Center, LLC, the ISO, and Pacific Gas and Electric Company, and among Metcalf Energy Center, LLP, the ISO, and Pacific Gas and Electric Company pertaining to unexecuted reliability must-run agreements.

- **GridLiance West Transco settlement agreement (ER17-706)**

On December 29, 2016, GridLiance West Transco, LLC (GridLiance) filed a transmission owner tariff, which contains a formula rate template and implementation protocols, with FERC that was contested by market participants. On March 14, 2018, GridLiance filed an offer of settlement with FERC, which FERC accepted as final with its certification of uncontested settlement issued on April 30, 2018, and on May 3, 2018, the settlement Judge issued an order terminating settlement procedures.

- **Certificate of concurrence relating to affected participating transmission owner upgrade facilities agreement among the ISO, Southern California Edison Company, and ARES Nevada, LLC (ER18-1420)**

On April 23, 2018, the ISO filed a certificate of concurrence with respect to the affected participating transmission owner upgrade facilities agreement (Ares Nevada UFA) among Ares Nevada, LLC, the ISO, and Southern California Edison Company (SCE). On March 13, 2018, SCE submitted the Ares Nevada UFA with FERC. SCE explained that Ares Nevada's interconnection at the GridLiance West Transco Gamebird 230 kV Switchyard affects SCE's electric system and in order to mitigate that impact, SCE must upgrade its electric system. As such, the parties entered into a non-conforming upgrade facilities agreement to provide scope, cost, milestones, and charges for the upgrades to SCE's electric system. The Ares Nevada UFA was accepted by FERC on May 2, 2018, effective March 13, 2018, and the ISO's certificate of concurrence is pending FERC acceptance.

- **FERC accepted the planning coordinator agreement between the ISO and Silicon Valley Power (ER18-862)**

On April 16, 2018, FERC issued an order accepting the planning coordinator agreement among Silicon Valley Power (SVP) and the ISO. The agreement went into effect on April 17, 2018. The ISO is 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.

- **FERC accepted notice of cancellation of physical scheduling plant agreement with Pacific Gas and Electric Company (ER18-853)**

On April 4, 2018, FERC issued an order accepting the ISO's notice of cancellation with Pacific Gas and Electric Company for the superseded Middle Fork-Ralston physical scheduling plant agreement that was filed on February 13, 2018. The canceled physical scheduling plant agreement between the ISO and Pacific Gas & Electric Company concerned the same three generating units as the Middle Fork-Ralston physical scheduling plant agreement between the ISO and Placer Counter Water Agency that went into effect on January 1, 2018.

- **FERC accepted, and suspended, amendment to large generator interconnection agreement with AltaGas Sonoran Energy Inc. (ER18-156)**

On March 16, 2018, FERC issued an order accepting and suspending the amendment to the large generator interconnection agreement (LGIA) and establishing hearing and settlement judge procedures. On October 25, 2017, SCE filed a second amendment to a non-conforming LGIA between AltaGas Sonoran Energy Inc., the ISO, and SCE, for Project Q17. The second amendment to the LGIA was contested, and FERC ordered that the matter be referred to a settlement judge, where it is currently pending.

- **Second amendment to adjacent balancing authority operating agreement with Arizona Public Service Company (ER18-1098)**

On March 15, 2018, the ISO filed a second amendment to the adjacent balancing authority operating agreement (ABAOA) between the ISO and Arizona Public Service Company (APS). The amendment to the ABAOA is to implement a new interconnection point between the ISO and APS' balancing authority area boundary at the Delaney 500 kV Switchyard. The ISO requested an effective date of May 15, 2018.

Reports filed

- **Informational report on the first year of RAIM non-availability charge (ER15-1825)**

On April 2, 2018, the ISO filed with FERC an informational report providing an analysis on the impacts and reasonableness of the ISO's resource adequacy availability incentive mechanism (RAAIM) price after one year of experience with RAIM. The ISO filed this informational report to comply with FERC's May 29, 2015, order conditionally accepting the ISO's reliability services initiative phase 1A tariff amendment. RAIM replaced the standard capacity product, which was a tariff mechanism that assessed the performance of resources providing resource adequacy based on whether they were on forced outage. The ISO's report indicates that after one year that the RAIM price remains in the zone of reasonableness and adequately balanced goals of being high enough to incentivize performance and low enough not to penalize under-performing capacity unduly.

- **Corrected annual demand response reports for 2016 and 2017 (ER06-615)**

On March 30, 2018, the ISO filed corrected versions of its annual report evaluating demand response participation in the ISO market for 2016 to reflect updated financial settlement information for nine months after the trading day and updated contract information; and 2017 to fix an administrative error made in preparing that report. The annual demand response report is filed with FERC pursuant to FERC's June 25, 2007, order in the market redesign and technology upgrade proceeding.

- **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) on April 2, 2018, the ISO filed its informational report for Portland General Electric for February 2018; (2) on April 3, 2018, DMM filed its informational report for Portland General Electric for January 2018; (3) on April 27, 2018, the ISO filed its final informational report for Portland General Electric for the month of March 2018; and (4) on April 27, 2018, DMM filed its informational report for Portland General Electric for February 2018. DMM has one final report to be filed with FERC for Portland General Electric for March 2018. The ISO and DMM will begin filing these monthly reports for Idaho Power Company and Powerex as these entities began participation in the western EIM on April 4, 2018.

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

On March 7, 2018, and April 9, 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 February 2018 and March 2018, respectively.

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

On March 15, 2018, and April 16, 2018, the ISO submitted to FERC monthly market disruption reports for the periods of January 16 to February 15, 2018, and February 16, 2018, to March 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 March 2, 2018, March 15, 2018, March 30, 2018, April 16, 2018, and April 30, 2018, the ISO filed with FERC 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 December 2017, January 2018, and February 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 cannot be addressed by the ISO market.

California Public Utilities Commission and other state matters

- **ISO's draft local capacity technical analysis and flexible capacity needs assessment for 2018 (R.17-09-020)**

On April 23, 2018, the ISO filed the CPUC two draft studies: (1) draft flexible capacity needs assessment; and (2) draft local capacity technical analysis. The CPUC provided these draft studies to comply with the Assigned Commission and Administrative Law Judge's joint ruling modifying track 1 schedule ruling issued March 27, 2018. The ISO emphasized in its production of the draft studies that they are drafts and are subject to change based on feedback received by ISO stakeholders and internal review. The ISO will provide final studies by May 15, 2018, as outlined in the CPUC's ruling.

- **ISO comments on the final report of working group one regarding telemetry issue (R.17-07-007)**

On April 16, 2018, the ISO filed comments with the CPUC pursuant to Working Group One's Final Report in the Order Instituting Rulemaking to Consider Streamlining Interconnection of Distributed Energy Resources and Improvements to Rule 21, regarding issue 4: Telemetry. The ISO stated in its comments that there is a need for more accurate short-term forecasting for distribution-connected resources that are not participating in the ISO's wholesale market.

- **Opening and reply briefs of the ISO regarding the NextEra Energy Transmission West, LLC application for certificate of public convenience and necessity for the Suncrest Dynamic Reactive Power Support Project (A.15-08-027)**

On March 5, 2018, the ISO filed an opening brief with the CPUC, and subsequently on April 4, 2018, a reply brief, addressing the assigned Commissioner's scoping ruling issues regarding public convenience and necessity and the feasibility of alternatives for the Suncrest Dynamic Reactive Power Project (Suncrest Project). The ISO stated that the Suncrest Project is necessary to meet California's Renewables Portfolio Standard goal and to provide deliverability to new renewable generation projects. The ISO also

addressed any potential environmental impacts and urged the CPUC to approve the Suncrest Project without considering the proposed alternatives in the Final Environmental Impact Report (FEIR) and recommended that the CPUC certify the FEIR and granted NextEra Energy Transmission West, LLC a certificate for public convenience and necessity for the Suncrest Project. This matter is currently pending CPUC decision.

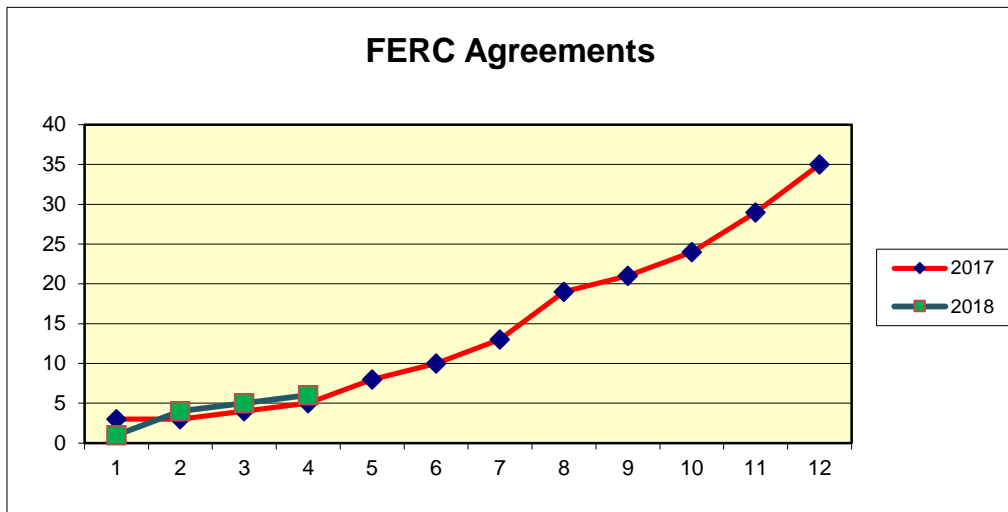
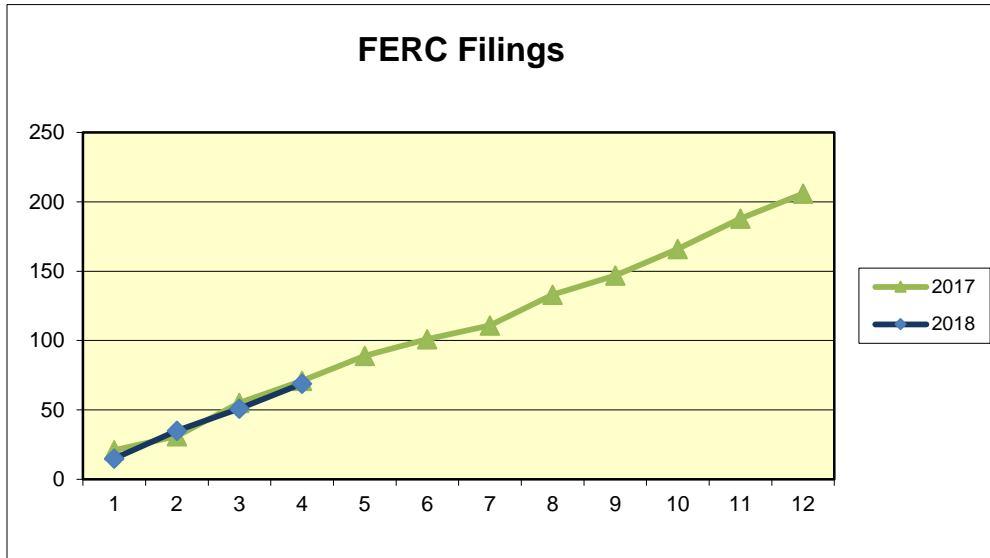
- **Comments and reply comments on proposed modifications to the resource adequacy program (R.17-09-020)**

After the CPUC's February 22 and 23, 2018, workshops on the submitted resource adequacy proposals, the ISO filed comments on March 7, 2018, and subsequently reply comments on March 16, 2018, in accordance with the CPUC's scoping memo. The ISO stated that reform of the resource adequacy program can be accomplished through the track 1 decision. The ISO noted, however, that there are many issues that were raised at the workshops that will need to be addressed in track 2 and encouraged the CPUC to facilitate additional workshops to address multi-year resource adequacy requirements and procurement, availability-limited resources, and flexible resource adequacy requirements.

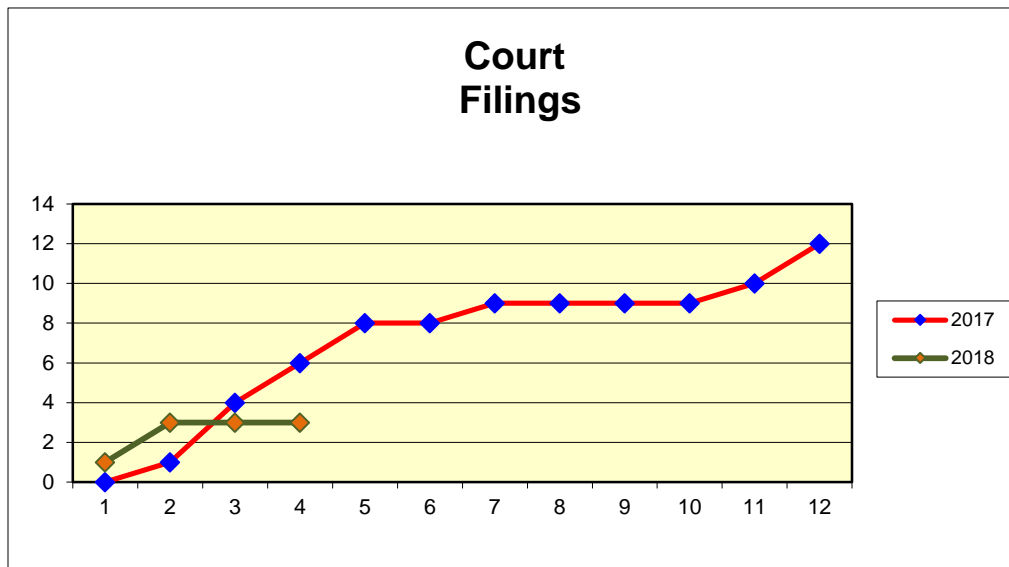
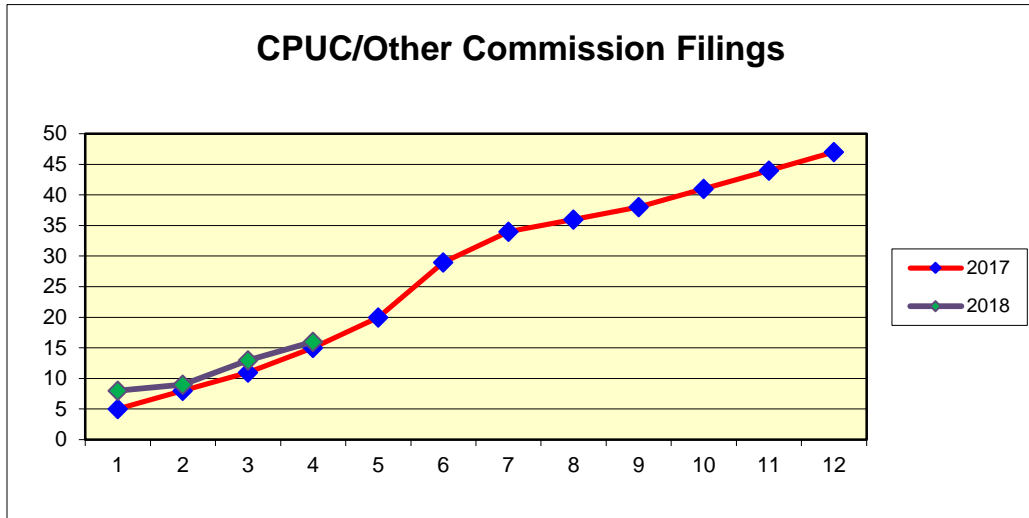
- **Comments on flex alert funding for 2018 (A.12-08-007)**

On March 16, 2018, the ISO filed comments with the CPUC supporting the CPUC's decision to direct Southern California Gas Company (SoCalGas) to provide additional funding for marketing, education, and outreach activities to reduce the risk of natural gas and electricity curtailments in the Los Angeles basin this summer, due to the ongoing effects of the natural gas leak at SoCalGas' Aliso Canyon storage facility.

Regulatory Filings Through April 2018



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