

Memorandum

To: ISO Board of Governors

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

Date: July 19, 2017

Re: Regulatory update

This memorandum does not require Board action.

Highlights

- *ISO filed a tariff amendment to add Valley Electric Association as a small participating transmission owner*
- *ISO submitted a filing with FERC addressing outstanding market redesign and technology upgrade directives*
- *FERC accepted the Bonneville Power Administration coordinated transmission agreement*
- *ISO filed energy imbalance market implementation agreement for Powerex Corp.*
- *FERC issued an extension for the ISO to comply with FERC Order No. 831*
- *FERC accepted (and suspended) the ISO's extension of participating intermittent resource program protective measures*
- *FERC accepted tariff amendment to clarify requirements related to market awards on interties, the timeline for implementing customized negotiated default energy bids, and posting effective flexible capacity values and capacity categories*
- *FERC accepted tariff amendment to reflect the Board of Governor's oversight over the Department of Market Monitoring*
- *FERC accepted tariff amendment to modify the term "Pre-RA Import Commitment"*
- *ISO implemented the Spring Release on May 2, 2017*

Federal Energy Regulatory Commission and related Court of Appeals matters

- **Tariff amendment to modify the definition of *Pre-RA Import Commitment* (ER17-1788)**

On June 9, 2017, the ISO filed a tariff amendment with FERC to clarify use of the defined term “Pre-RA Import Commitment.” This clarification respects Congress’ commitment regarding the basic allocation of rights to the output of the Boulder Canyon Project power plant that has been in place, in some cases, since the 1930s. The ISO requested an effective date of July 10, 2017. FERC approved the amendment on July 7, 2017.

- **FERC order accepting and suspending the ISO’s tariff amendment to extend participating intermittent resource program protective measures (ER17-1337)**

On May 23, 2017, FERC issued an order conditionally accepting the ISO’s tariff amendment to extend protective measures for participating intermittent resources. The protective measures were approved by the Board and FERC in 2014 to provide qualifying resources the ability to retain for three years the same imbalance energy settlement that was in effect before the ISO adopted the fifteen-minute market. These measures were set to expire on April 30, 2017. Pursuant to the request of certain market participants, the ISO proposed to extend these measures for one year. FERC approved the extension provisionally. The protective measures are therefore subject to refund pending further FERC action affirming its decision or denying the tariff amendment.

- **FERC order accepting tariff amendment to transfer administrative oversight of the Department of Market Monitoring to the Board from the Chief Executive Officer (ER17-1312)**

On May 17, 2017, FERC issued an order accepting the ISO’s tariff amendment to reflect that the Department of Market Monitoring (DMM) reports directly to the Board for administrative purposes. These changes were made to comport with FERC’s most recent guidance on best practices for ensuring the independence of an internal market monitoring unit. The revised oversight structure also follows Order No. 719 and will eliminate the potential that DMM could be subject to inappropriate ISO management influence. This tariff revision became effective April 1, 2017.

- **Motion for extension of time to comply with FERC Order No. 831 (RM16-5)**

On May 1, 2017, the ISO filed a motion for an extension of time to comply with FERC Order No. 831 (*Offer Caps in Markets Operated by Regional Transmission Organizations and Independent System Operators*). The extension is necessary because the ISO intends to integrate the Order No. 831 directives in the context of its existing commitment cost and default energy bid stakeholder process. The ISO intends to file the resulting tariff changes early next year. On May 11, 2017, FERC granted the requested extension to May 1, 2018.

- **FERC order accepting tariff amendment to clarify certain tariff provisions (ER17-1132)**

On April 24, 2017, FERC issued an order accepting the ISO's tariff amendment to clarify three areas related to: (1) deeming market awards on the interties as accepted if the scheduling coordinator does not affirmatively accept or decline an ISO dispatch instruction within the timeframe established in the business practice manual; (2) lengthening the timeline for implementing customized negotiated default energy bids from three business days to 11 business days, consistent with the master file change timeline; and (3) posting effective flexible capacity values and flexible capacity categories for resources under construction. These revisions became effective March 10, 2017, as requested.

- **Filing addressing outstanding FERC directives relating to the ISO's market redesign and technology upgrade (ER17-1459)**

On April 21, 2017, the ISO submitted a filing with FERC in response to a FERC directive to implement certain outstanding market redesign and technology upgrade directives from September 2006. These directives are as follows: (1) implement a two-tier allocation of real-time bid cost recovery uplift; (2) implement bid cost recovery changes to account for units running over multiple operating days; (3) implement multi-hour constraints in the residual unit commitment process; (4) assess whether and how to develop more flexibility for ancillary services substitution; (5) develop software functionality to support exports for ancillary services; and (6) undertake a stakeholder process to examine rebating the over-collection of transmission losses to renewable resources. Based on its current market design and needs, the ISO requested that FERC deem the ISO's current market structure as just and reasonable without implementation of these additional enhancements.

- **Tariff amendment to implement generator interconnection driven network upgrade cost recovery (ER17-1432)**

On April 18, 2017, the ISO filed a tariff amendment to create a new class of transmission owners – the certified small participating transmission owner – whose low-voltage, generator-interconnection-driven network upgrade costs will be allocated regionally instead of to that transmission owner alone. The ISO proposed that Valley Electric Association meets the certified small participating transmission owner criteria. The ISO requested an effective date of June 18, 2017. Southern California Edison Company opposed the cost allocation and the ISO answered this protest on May 23, 2017, reiterating that the ISO maintains the appropriate incentives and keeps costs and benefits aligned. FERC issued a deficiency letter on June 5, 2017, requesting additional information, with responses due on July 5, 2017.

Regulatory Agreements

- **Operating agreement with the Metropolitan Water District (ER17-2068)**

On July 10, 2017, the ISO filed with FERC an operating agreement between the ISO and the Metropolitan Water District of Southern California (MWD). The agreement governs the operation of MWD's transmission system within the ISO balancing authority area. It also provides that the ISO may make transmission capacity MWD is not otherwise using available to ISO market participants. The agreement also ensures that MWD will have its own local capacity area for purposes of meeting the ISO's resource adequacy requirements. The requested an effective on October 1, 2017.

- **Market efficiency enhancement agreement with Western Area Power Administration – Sierra Nevada Region (ER17-2061)**

On July 7, 2017, the ISO filed with FERC an amendment to the market efficiency enhancement agreement between the ISO and the Western Area Power Administration – Sierra Nevada Region. The amendment modifies the location of injections and withdrawals modeled in the ISO market. The ISO requested an effective date of September 6, 2017.

- **Energy imbalance market implementation agreement with Powerex Corp. (ER17-1796)**

On June 9, 2017, the ISO filed with FERC an energy imbalance market implementation agreement between the ISO and Powerex Corp. The ISO requested an effective date of August 15, 2017, and that Powerex Corp. will participate in the energy imbalance market on April 4, 2018. This energy imbalance market implementation agreement will permit an entity with resources located in a balancing authority outside of the United States to participate in the energy imbalance market.

- **Amended and restated participating generator agreement with Energia Azteca X, S.A de C.V. (ER17-1782)**

On June 9, 2017, the ISO filed a first amended and restated participating generator agreement between the ISO and Energia Azteca X, S.A de C.V. The ISO requested an effective date of August 9, 2017. This amendment is to update reference to the applicable balancing authority as the responsibilities have been transferred from Comisión Federal de Electricidad to Centro Nacional de Control de Energía – Gerencia de Control Regional Baja California.

- **FERC order accepting energy imbalance market implementation agreement for the Balancing Authority of Northern California – Sacramento Municipal Utility District (ER17-1300)**

On May 18, 2017, FERC issued a letter order accepting the energy imbalance market implementation agreement between the ISO and the Balancing Authority of Northern

California (BANC), effective June 1, 2017. This has allowed the ISO to move forward with extension of the real-time energy market to one of BANC's members, the Sacramento Municipal Utility District, with a target for implementation on April 1, 2019.

- **Amendment No. 1 to the Sycamore-Penasquitos approved project sponsor agreement with the San Diego Gas & Electric Company (ER17-1627)**

On May 18, 2017, the ISO filed with FERC Amendment No. 1 to the approved project sponsor agreement between the ISO and the San Diego Gas & Electric Company for the Sycamore-Penasquitos transmission project. The amendment to the approved project sponsor agreement reflects the project modifications ordered by the CPUC in order to allow construction of the Sycamore-Penasquitos transmission project. On June 28, 2017, FERC issued a letter order accepting the amendment to the agreement, effective July 18, 2017. FERC approved the amended agreement on June 28, 2017.

- **Amendment No. 1 to the Gates-Gregg approved project sponsor agreement with the Pacific Gas & Electric Company and MidAmerican Central California Transco, LLC (ER17-1628)**

On May 18, 2017, the ISO filed with FERC Amendment No. 1 to the approved project sponsor agreement among the ISO, Pacific Gas & Electric Company and MidAmerican Central California Transco, LLC for Gates-Gregg transmission line project. The ISO has requested an effective date of July 18, 2017. The Gates-Gregg transmission line project consists of a 230 kV transmission line between PG&E's Gates and Gregg substations. The amendment revises the milestones so that permitting construction of the Gates-Gregg project can be placed on hold pending the results of the ISO's 2017-2018 transmission planning process. FERC approved the amended agreement on July 11, 2017.

- **FERC order accepting planning coordinator agreement for Southern California Edison (ER17-1222)**

On May 5, 2017, FERC accepted the ISO's planning coordinator agreement for Southern California Edison Company, effective May 16, 2017. This agreement allows the ISO to be the planning coordinator for the bulk electric system facilities within the ISO's balancing authority area.

- **Coordinated transmission agreement with Bonneville Power Administration (ER17-1493)**

On April 28, 2017, the ISO filed with FERC a coordinated transmission agreement between the ISO and the Bonneville Power Administration. On June 20, 2017, FERC issued a letter order accepting the coordinated transmission agreement, effective July 1, 2017. The coordinated transmission agreement allows the ISO and the Bonneville Power Administration to work cooperatively to manage the energy imbalance market flows on the Bonneville Power Administration transmission system. FERC approved the agreement on June 20, 2017.

Reports filed

- **AES Huntington Beach – hours of operation report (ER13-351)**

On June 12, 2017, the ISO filed an informational report on hours of operation for AES Huntington Beach for the months of March 2017, April 2017, and May 2017, under FERC's January 4, 2013 and May 1, 2014 orders.

- **Informational report: energy imbalance market – available balancing capacity report (ER15-861)**

On May 30, 2017, for the third quarter of 2016 (July 1 to September 30, 2016) the ISO submitted an informational report to FERC of the ISO's adoption of available balancing capacity functionality so that the energy imbalance market automatically recognizes and accounts for capacity an energy imbalance market entity identifies as available to maintain reliable operations in its own balancing authority area and that is not otherwise bid into the market. The ISO's available balancing capacity enhancement was implemented on March 23, 2016. The ISO will continue to submit a quarterly informational report for at least the first year after the ISO implements the available balancing capacity functionality. The quarterly informational reports are to provide information on the performance of the available balancing capacity functionality and to provide the same information the ISO provides in its monthly informational reports submitted during an energy imbalance market entity's first six-month transition period.

- **Department of market monitoring annual report on market issues and performance for 2016 (ZZ17-4)**

On May 9, 2017, the ISO submitted DMM's Annual Report on Market Issues and Performance for 2016 to FERC pursuant to Section 5.2 of Appendix P to the ISO tariff. The report provides DMM's discussion and analysis of ISO operations, market trends, and the performance of the wholesale markets for the 2016 calendar year.

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

On May 8, 2017 and June 7, 2017, 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 April and May 2017, respectively.

- **Informational report on transition period for first six months of new 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 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. The ISO and DMM have filed these reports: (1) on June 20, 2017, the ISO filed an informational report for Puget Sound Energy, for March 2017; (2) on May 4, 2017, the ISO filed an informational report for Puget Sound Energy, for February 2017; (3) on May 4, 2017, the ISO filed an informational report for Arizona Public Service, for February 2017; (4) on May 1, 2017, DMM filed an informational report for Arizona Public Service, for January 2017; and (5) on May 1, 2017, DMM filed an informational report for Arizona Public Service, for December 2016.

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

On April 17, 2017, May 15, 2017, and June 15, 2017, the ISO submitted to FERC monthly market disruption reports for the periods of February 16 to March 15, 2017, March 16 to April 15, 2017, and April 16 to May 15, 2017, 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 April 17, 2017, May 1, 2017, May 15, 2017, May 30, 2017, June 15, 2017, and June 30, 2017, 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 January, February, March, and April 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.

California Public Utilities Commission matters

- **Comments on Energy Division's staff proposal on process for implementing integrated resource planning (R.16-02-007)**

On June 28, 2017, the ISO filed comments with the CPUC responding to specific questions posed in the Administrative Law Judge's Ruling seeking input on the May 17, 2017 Energy Division Staff Proposal on Process for Implementing Integrated Resource Planning at the CPUC. The ISO will be working with the CPUC to develop an Integrated Resource Plan process.

- **ISO local capacity technical analysis and flexible capacity assessment and obligations for 2018 (R.14-10-010)**

On June 14, 2017, the ISO filed opening comments with the CPUC regarding the proposed decision adopting local and flexible capacity obligations for 2018 and refining the resource adequacy program. The ISO supports the proposed decision's refinement of resource adequacy by adoption of an effective load carrying capacity methodology. The ISO responded in its comments that it does not believe that a transition period is warranted and cautioned that the qualifying capacity values derived from the effective load carrying capacity will increase capacity requirements in the Imperial Valley/San Diego area. On June 19, 2017, the ISO filed reply comments supporting the adoption of an effective load carrying capacity methodology that accurately accounts resources; supporting an effort to address multi-year resources adequacy requirements; and clarifying the ISO's efforts to adopt availability assessment of hours.

On May 1, 2017, the ISO submitted its final flexible capacity needs assessment and its final local capacity technical analysis for 2018 to the CPUC. The ISO conducts an annual flexible capacity technical study to determine the flexible capacity needed to help ensure ISO system reliability as provided in ISO tariff section 40.10.1. The ISO's local capacity technical analysis for 2018 is a report that documents the results and recommendations, provides this information to the CPUC for consideration in its 2018 resource adequacy requirements program.

- **Response to NextEra Energy Transmission West LLC's motion to compel San Diego Gas & Electric Company's responses to data requests (A.15-08-027)**

On June 5, 2017, the ISO filed a response to NextEra Energy Transmission West LLC's motion to compel the production of certain confidential attachments that the San Diego Gas & Electric Company provided in response to the Office of Ratepayer Advocates' first set of data requests. In its response, the ISO requested a ruling confirming that the confidential attachments, containing confidential bid and trade secret information, are not relevant or admissible regarding the Suncrest Dynamic Reactive Power Support Project.

- **Comments on the proposed decision directing Southern California Gas Company to provide additional funding for flex alert program (A.12-08-007)**

On May 2, 2017, the ISO filed comments supporting the proposed decision directing the Southern California Gas Company to provide additional funding for the 2017 Flex Alert paid advertising campaign to reduce the risk of natural gas and electricity curtailments in the Los Angeles basin for the summer of 2017, due to the ongoing effects of the natural gas leak at the Aliso Canyon natural gas storage facility. However, the ISO requested clarification in the proposed decision in directing the Southern California Gas Company to provide funding to support the Flex Alert paid advertising campaign, and not to provide payment to the ISO for Flex Alerts. On May 8, 2017, the ISO filed reply

comments requesting the Southern California Gas Company fund the Flex Alert program to maintain its current level of effectiveness.

- **Comments in response the proposed decision in phase 2 on results of Southern California Edison Company local capacity requirements request for offers for Moorpark sub-area (A.14-11-016)**

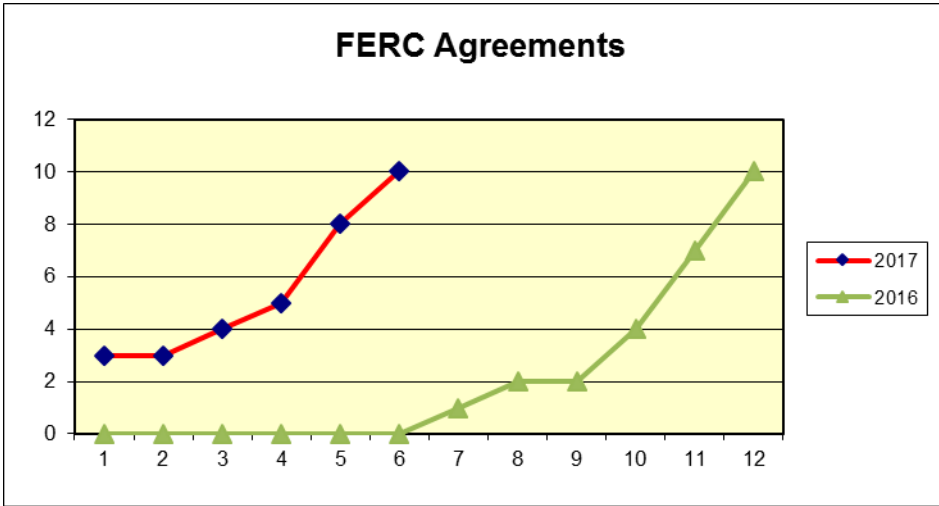
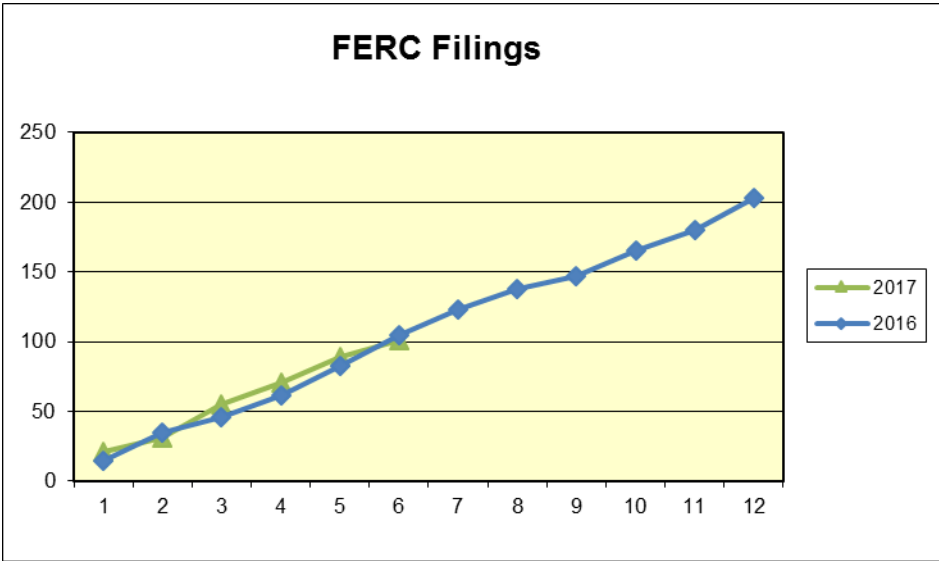
On April 27, 2017, the ISO filed comments in response to the CPUC's Proposed Decision in Phase 2 on results of Southern California Edison Company local capacity requirements request for offers for Moorpark sub-area, where the CPUC rejected the Ellwood contracts between Southern California Edison Company and NRG California South LP. The ISO's position is that if the CPUC approves the Proposed Decision, the ISO recommends that Southern California Edison move forward to close any residual local capacity requirement gap, consistent with the understanding that the Mandalay Unit 3 will retire in the near future.

California Energy Commission matters

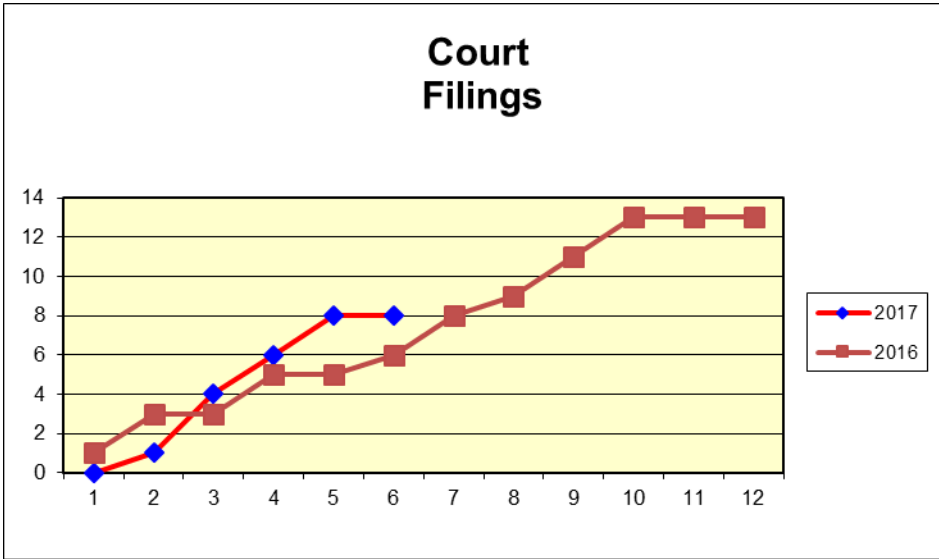
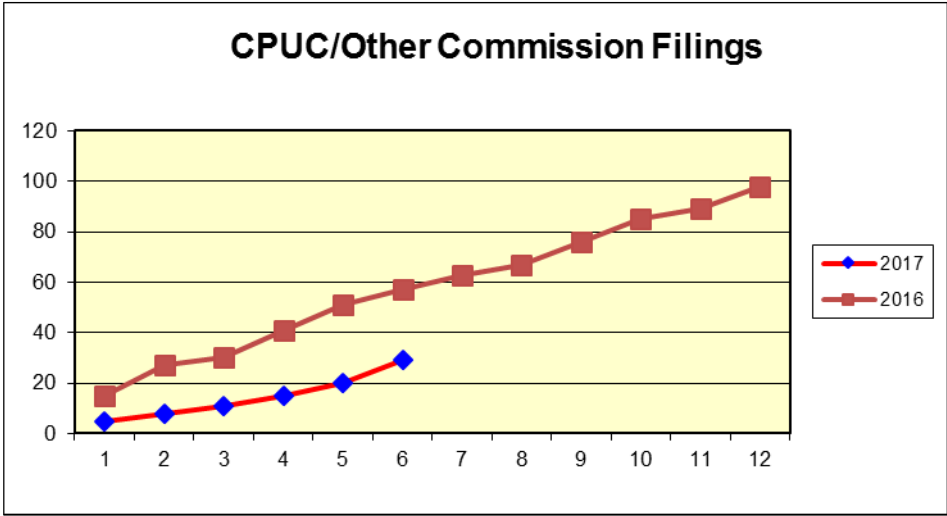
- **Letter informing the Puente Project AFC Committee that the ISO will conduct a special study in the Moorpark sub-area (15-AFC-01)**

On June 16, 2017, the ISO submitted a letter to the CEC informing the Puente Power Project Application for Certification Committee that the ISO would conduct a Special Study for the Moorpark sub-area. The ISO requested an alternate timeline to deliver the Special Study by August 16, 2017 as opposed to the July 19, 2017 date proposed by the CEC.

Regulatory Filings Through
June 2017



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