

Memorandum

To: ISO Board of Governors
From: Elliot Mainzer, President & Chief Executive Officer
Date: December 9, 2020
Re: **CEO report**

This memorandum does not require Board action.

ISO'S CORONAVIRUS RESPONSE

Overall business continuity at the ISO is proceeding well, with the vast majority of ISO staff working remotely. In late November, in response to the rapid increase in the number of coronavirus cases statewide and new restrictions put in place by Governor Newsom, we reverted to the highly restricted building access limitations first introduced last March as part of our pandemic response plan. The ISO intends to remain in this highly restricted posture until at least January 17, 2021. More broadly, until there is widespread vaccination, significant diminishment of the spread, or therapeutics that render COVID-19 relatively harmless, we expect to remain in a primarily virtual operating posture for employees and visitors.

OVERALL BALANCING AREA SYSTEM CONDITIONS

In November and early December, high winds created severe fire risks in California. In response, the California investor-owned utilities activated several PSPS events. During the recent PSPS events, no BES lines were de-energized. However, fires did affect some transmission lines in southern California. SDG&E was the most impacted with only 2 transmission lines keeping them tied to the rest of the grid. The ISO re-dispatched generation to manage the issue and was prepared to balance the resultant island if necessary.

RC WEST OPERATIONS

RC West load has transitioned to the winter load pattern. November loads were in the 75 GW range. PSPS events have not impacted wide area reliability and have been managed at the local level.

FINAL ROOT CAUSE ANALYSIS

The ISO, CPUC and CEC leadership and staff continue to coordinate closely on the final root cause analysis and are on target to complete the report by the end of December. Agency and ISO staff are finalizing additional analysis of demand response resource performance and under-scheduling. These updates and additional information regarding high heat days during the Labor Day weekend will be reflected in the final report.

SUMMER 2021 READINESS

ISO and agency staff are coordinating on delivering on the action items identified in the joint preliminary root cause analysis. On November 30, 2020, the ISO launched a webpage dedicated to providing timely updates to stakeholders on the ISO's efforts to prepare for next summer. To further the public dialogue, we are also holding regular conference calls dedicated to these issues. The first call was held on December 8, 2020 and focused on introducing the webpage as well as discussion on our efforts and progress.

ISO staff also conducted a workshop to dive more deeply into market parameters and scheduling priorities as identified in the preliminary root cause analysis. We requested stakeholder input as we evaluate the need for additional changes to our residual unit commitment process beyond those changes that were implemented last summer.

ISO staff is also working on a road map to reliably manage the significant entry of storage resources next summer and beyond. We have developed several enhancements to manage storage resources, but many of those changes will not be in effect until next fall and there are additional topics related to market design and price signals of interest to the storage community that require additional dialogue. In the interim, we will work with storage providers to maximize the likelihood that their resources will be available to provide reliable, dispatchable capacity during the net peak hours next summer. Similarly, we continue to engage with utility distribution companies and distributed energy/demand response providers to further their reliable and efficient participation in grid operations heading into summer 2021.

CPUC ORDER INSTITUTING RULEMAKING (OIR) COMMENTS

The ISO recently submitted comments in the CPUC's Order Instituting Rulemaking in advance of Summer 2021. As interim measures, the ISO proposed to increase the planning reserve margin from 15 to 20 percent and that the revised planning reserve margin be applied to both the gross peak and the net peak when solar production is very low or zero during the months of June through October 2021. The ISO has suggested that the increased planning reserve margin is necessary to account for a higher forced outage rate identified in prior ISO studies. In a recent analysis, which the ISO submitted to the CPUC, the ISO identified a resource gap in the existing fleet that ranges from 450 to 3,300 MW from July through September 2021. The ISO strongly recommends pursuing opportunities to contract with existing resources and imports and to expeditiously develop other demand response mechanisms in advance of the summer.

Proposed Revision Request 1280

In August 2020, the ISO submitted proposed revision request (PRR) 1280 through its Business Practice Manual change management process. The purpose of this PRR is to strengthen the ISO's administration of the resource adequacy (RA) elements of its tariff by ensuring only capacity subject to the ISO's RA tariff requirements counts towards meeting load serving entities' (LSE) RA obligations. The proposed change would end the practice of counting credits toward meeting LSE RA obligations with resources or load curtailment procedures that do not meet the definition of RA capacity under the ISO tariff and that are not subject to the tariff's RA provisions.

The ISO's proposed Business Practice Manual revisions were opposed and appealed by several parties. The ISO Executive Appeals Committee met on December 1, 2020, and heard from six appellants as well as ISO staff. The appeals came from the California Public Utilities Commission (CPUC), the Metropolitan Water District of Southern California (MWD), Southern California Edison Company (SCE), Pacific Gas and Electric Company (PG&E), California Efficiency + Demand Management Council (CEDMC), and the California Large Energy Consumers Association (CLECA).

As confirmed in a letter from CPUC Chair Marybel Batjer, the ISO has identified important resource adequacy issues that need to be resolved quickly. Based on the materials provided and the discussions with appellants, the Executive Appeals Committee has determined that the best way to resolve these issues is to work in a focused and collaborative fashion with the California Public Utilities Commission, LRAs and other stakeholders to resolve these issues as expeditiously as possible. Therefore, the Executive Appeals Committee ruled that the BPM amendments set forth in PRR 1280 will be held in abeyance until August 1, 2021, at which time ISO Management can then determine whether or not the ISO's expressed concerns have been satisfactorily addressed.

SYSTEM MARKET POWER MITIGATION

Prior to the events of August and September 2020, the ISO analyzed the potential for the exercise of system market power. Pricing performance during summer events continues to be reviewed by both the ISO and DMM. While supply conditions this summer were such that market power could have been exercised, based on bids during the summer events, the ISO and DMM did not observe entities exercising system market power. The ISO is continuing to develop a real-time system market power mitigation proposal and Management will seek approval of its proposal from the Board of Governors before next summer if our analysis indicates that system market power is occurring. Ultimately, price formation should not be undermined by the exercise of market power, but price formation should also be allowed to reflect competitive market dynamics and appropriately reflect and incentivize supply and demand response.