

Memorandum

To: ISO Board of Governors
From: Steve Berberich, President and Chief Executive Officer
Date: July 24, 2018
Re: CEO report

This memorandum does not require Board action.

OVERALL SYSTEM CONDITIONS

System operating conditions have been relatively mild with the exception of a strong spike in temperatures in early July driving very high loads in Southern California. On July 6, the load hit 45,352, which is an exceptionally high load so early in the summer.

The outlook remains very challenging through the remainder of the summer when temperatures surge. As noted in the Summer Loads and Resources Assessment released earlier this year, high loads are more likely to be acute in late summer and during evening peak hours. We encourage all customers to help ensure reliability when supplies get tight by conserving energy if a flex alert is issued.

CAPACITY PROCUREMENT MECHANISM (CPM) SIGNIFICANT EVENT

On July 10, 2018, the California Energy Commission (CEC) indicated at its Integrated Energy Policy Report (IEPR) workshop that it had found the 2018 monthly resource adequacy (RA) forecast it provides to both the California Public Utilities Commission (CPUC) and the ISO to be too low. The CEC also noted that it had prepared an alternate forecast which they recommended be used for resource adequacy purposes. The CEC's alternate forecast for September 2018 is 1,250 MW higher than the forecast used to support the current RA obligation for the month. The ISO believes the release of the alternate forecast constitutes a Capacity Procurement Mechanism (CPM) Significant Event for which the ISO can designate backstop resources pursuant to its CPM tariff authority. At this time, through the CPM intra-monthly competitive solicitation process for September 2018, the ISO intends to procure backstop capacity to cover the increased 1,250 MW forecast amount plus the associated planning reserve margin. Further, the CEC alternate forecast shows an even larger gap for October which may necessitate a CPM Significant Event for that month as well. The ISO is coordinating closely with the CEC and CPUC on these actions and on what can be done to avoid this in the future.

RESOURCE ADEQUACY REFORM

The ISO is collaborating closely with the California Public Utilities Commission and stakeholders on needed reforms to the Resource Adequacy (RA) program. While the RA program has served California's reliability needs well for over almost two decades, it needs improvements to adapt to the new and ever changing California energy landscape. The ISO is offering a number of changes in recent comments in the ongoing PUC proceedings:

- Provide a multi-year forward procurement approach across system, local and flexibility requirements;
- Revise the timelines linking the RA process, the ISO's planning process and the California Energy Commission's load forecasting process;
- Consider establishing a central procurer(s) for essential reliability services;
- Revise the effective load carrying capacity of resources as it relates to the reliability needs for the net peak;
- Adopt a more conservative demand profile for the highly variable months of April, May and June;
- Consider a new classification for capacity counting for use-limited resources.

RELIABILITY COORDINATOR SERVICES

Our efforts to provide reliability coordinator services continue in earnest with ongoing workshops focused on shaping the service offering. Consistent with that, at this meeting, Management will be seeking authority to file reliability coordinator terms and conditions with the Federal Energy Regulatory Commission (FERC). Noteworthy, Peak Reliability made public their intent to cease operations as the Western Interconnect reliability coordinator at the end of 2019. Our plan remains to begin providing Reliability Coordinator (RC) services to the ISO footprint in mid-2019 and to on-board other parties seeking to use our services in late 2019. Our intention is to coordinate closely with Peak Reliability as they wind down services to ensure continuity of reliability services in the West.

CONGESTION REVENUE RIGHTS

We are pleased to note that the Federal Energy Regulatory Commission approved the ISO-requested CRR market changes as outlined in our "1A" initiative. These changes, coupled with additional recently-filed modifications, focus on reducing the persistent and long-term auction funding deficiencies. Pending FERC approval for the track "1B" changes, we will monitor the auction and market closely to ensure the changes have in fact reduced the auction revenue shortfall.

RELIABILITY MUST RUN DESIGNATIONS

At this meeting, Management is requesting Reliability Must Run designations for the Ellwood generating plant and one unit of the Ormond generating plant to ensure reliability in the Moorpark sub-pocket. These designations are to provide appropriate reliability levels in the Ventura area with the retirement of the Mandalay units and not yet completed preferred

resources procurements that are currently underway. These designations do not preclude a bilateral contracting eventuality.

ENERGY IMBALANCE MARKET GOVERNANCE

We are pleased to note that Travis Kavulla from Montana has joined the EIM Governing Body starting this month replacing Douglas Howe. Mr. Kavulla brings a wealth of experience in regulatory and regional matters to the Governing Body and we are delighted to welcome him. Additionally, Carl Linvill, an existing Governing Body member, has been reappointed to another three-year term. Finally, we welcome Valerie Fong as the new Chair.

EIM BENEFITS FOR Q2 2018

First quarter benefits for EIM show an increasing benefit trend as more participants join and existing participants increase their exchange of power. Gross benefits for the first quarter of 2018 are calculated at \$42.08M bringing total benefits to \$330.52M since 2014.

RENEWABLE ENERGY PRODUCTION

The most recent solar peak of 10,739 MW occurred on June 29 at 12:33 p.m. There was also a new wind generation peak of 5,193 set on June 8, 2018 at 9:05 p.m. Also, new renewables penetration peaks were recorded on May 26, 2018 at 2:28 p.m. of 73.9% of load served by all renewables and 64.6% served by wind and solar alone.