

Memorandum

To: ISO Board of Governors

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

Date: March 17, 2021

Re: Regulatory update as of March 16, 2021

This memorandum does not require Board action.

Highlights

- *FERC issued an order approving the ISO's tariff amendment to accelerate the effectiveness of certain FERC Order No. 831-related provisions permitting after-the-fact recovery of energy costs that exceed the existing \$1,000/MWh cap on energy bids.*
- *FERC issued an order approving the ISO's amendment to permit a share of a resource to be pseudo-tied to the ISO balancing authority area.*
- *FERC issued an order finding the ISO properly calculated interest on reallocated minimum load and start-up costs consistent with FERC's prior order in the Amendment 60 proceeding.*
- *The ISO filed a tariff amendment to establish a new framework for operations and maintenance cost adders.*
- *The ISO filed a tariff amendment to implement market rule enhancements complementing its tariff provisions to comply with FERC Order No. 831.*
- *The ISO filed a tariff amendment to enhance real-time settlement and base schedule submissions in the EIM.*
- *The ISO submitted proposals to the CPUC to enhance the resource adequacy program.*
- *The ISO submitted comments and testimony in the CPUC rulemaking proceeding to establish policies, processes, and rules to ensure reliable electric service in California, and in the event of an extreme weather event in 2021.*
- *President Biden names Richard Glick FERC Chair*

Federal Energy Regulatory Commission

- **Technical Conference re Climate Change, Extreme Weather, and Electric System Reliability (AD21-13)**

On March 5, 2021, FERC issued a notice of technical conference to discuss issues surrounding the threat to electric system reliability posed by climate change and extreme weather events. The technical conference will be held June 1-2, 2021.

- **Reliability Technical Conference (AD21-11)**

On March 5, 2021, FERC issued a notice of technical conference to discuss policy issues regarding the reliability of the Bulk-Power System. The technical conference will be held on September 30, 2021.

- **Variable Operations and Maintenance (ER21-1266)**

On March 3, 2021, the ISO filed a tariff amendment to implement tariff revisions arising from its variable operations and maintenance (O&M) initiative. The tariff amendment changes how the ISO market accounts for O&M costs to ensure market participants' bids reflect these costs more accurately. In particular, the ISO proposes a new framework for O&M cost recovery based on new O&M adders for start-up, minimum load, and energy costs. These adders will replace the existing adders for major maintenance expenses and variable O&M costs.

- **Electrification and the Grid of the Future (AD21-12)**

On March 2, 2021, FERC issued a notice of technical conference to initiate a dialog between Commissioners and stakeholders on how to prepare for an increasingly electrified future. The technical conference will address: projections, drivers, and risks of electrification in the United States; the extent to which electrification may influence or necessitate additional transmission and generation infrastructure; whether and how newly electrified sources of energy demand (e.g., electric vehicles, smart thermostats) can provide grid services and enhance reliability; and the role of state and federal coordination as electrification advances. The technical conference is scheduled for April 29, 2021.

- **Revisions to Regulations on Electric Reliability Organization Performance Assessments (RM21-12)**

On March 1, 2021, the ISO joined with the ISO-RTO Council (IRC) in filing joint comments on FERC's January 19, 2021 Notice of Proposed Ruling (NOPR) regarding Electric Reliability Organization Performance Assessments. The IRC supported the NOPR's proposal regarding formalizing the method for the Electric Reliability Organization (ERO) and Regional Entities to receive and respond to recommendations from third-parties for improving the ERO's operations, activities, oversight, and procedures.

- **Amendment 60 (ER04-835)**

On March 1, 2021, FERC issued an order finding the ISO's compliance filing properly calculated interest on reallocated minimum load and start-up costs constituent with FERC's prior order. FERC directed the ISO to issue final invoices and file a final refund report within 30 days after invoicing.

- **RTO/ISO Credit Principles and Practices (AD21-6/AD20-6)**

On February 25-26, 2021, FERC held a technical conference to discuss principles and best practices for credit risk management in organized wholesale electric markets. Ryan Seghesio, ISO Vice President, Chief Financial Officer and Treasurer, participated on a panel comparing and contrasting the risk management structures, credit practices, and recent credit enhancements implemented by RTOs/ISOs.

- **September 8-9, 2011 Southwest Power Outage (IN14-10)**

On February 26, 2021, FERC issued an order amending its 2014 order approving Stipulation and Consent Agreement, relieving the ISO of any obligation to complete its contingency modeling enhancement project as mitigation, thus completing all ISO obligations under the Consent Agreement.

- **Bond Issuance – Refinancing 2013 Bonds (ES21-10)**

On February 24, 2021, the ISO filed with FERC an informational Report of Securities Issued. The report, among other things, indicated the principal amount, gross and net proceeds, and fees and charges associated with the bond offering completed on January 26, 2021.

- **Midway-Sunset Cogeneration Company – RMR (ER21-998)**

On February 24, 2021, the ISO filed a protest in response to Midway's filing of an un-executed reliability must-run agreement for its 248 MW natural gas-fired facility. The ISO asked FERC to make the agreement effective on February 1, 2021, subject to refund, and to set the filing for hearing and settlement procedures.

- **Enhance Market Parameters and Import Bidding - Order No. 831 (ER21-1192)**

On February 22, 2021, the ISO filed a tariff amendment to implement market enhancements supplementing the ISO's tariff provisions to comply with FERC Order No. 831. The first enhancement allows the ISO to use current market scheduling and pricing parameters based on a \$1,000/MWh soft energy bid cap unless market conditions support costs and bids above \$1,000/MWh. The second enhancement provides rules for allowing for import bids, export bids, demand bids, and virtual bids above \$1,000/MWh. The ISO requested an effective date for its proposed tariff revisions no later than June 15, 2021.

- **Modernizing Electricity Market Design (AD21-10)**

On February 18, 2021, FERC issued a notice of technical conference on resource adequacy in the evolving electricity sector. The conference will be held on March 23-24, 2021.

- **Order 831: Recovery of Energy Costs (ER21-1164)**

On February 22, 2021, FERC issued a letter order accepting the ISO's February 17, 2021 tariff amendment filing to accelerate the effectiveness of certain tariff revisions FERC previously accepted as complying with Order No. 831. These tariff provisions permit after-the-fact recovery of energy costs that exceed the ISO's existing \$1,000/MWh cap on energy bids. The ISO filed these tariff revisions in response to rising natural gas prices due to extreme weather conditions,

- **Intertie Deviation Settlement (ER20-1890)**

On February 1, 2021, FERC issued an order accepting the ISO's December 17, 2020, petition for a limited tariff waiver to extend the effective date of the proposed tariff changes from January 1, 2021 to February 1, 2021.

- **EIM Enhancements - Base Schedule Timelines and Real-Time Settlements (ER21-955)**

On January 27, 2021, the ISO filed tariff changes that enhance real-time settlement and base schedule submissions in the EIM. The changes will support new EIM entity onboarding efforts in 2021 and increase efficiency of EIM outcomes.

- **Order No. 831 Compliance (ER19-2757)**

On February 18, 2021, the ISO filed a notice to withdraw its petition for limited waiver to suspend temporarily the tariff provisions to comply with FERC Order No. 831, which had a March 31, 2021 effective date.

- **Compliance with Order Nos. 845 and 845-A (ER19-1950)**

On January 21, 2021, FERC issued an order accepting the ISO's filing to comply with FERC's July 2020 order addressing the ISO's Order Nos. 845 and 845A compliance filing.

- **Pseudo-Ties of Shared Resources (ER21-447)**

On January 26, 2021, FERC issued an order accepting tariff amendments permitting a share of a resource to be pseudo-tied to the ISO balancing authority area. The proposed amendments remove the existing tariff-based limitation that requires delivery of the entire output of a pseudo-tied resource to the ISO balancing authority area and provides a framework for a pseudo-tie of a shared resource to participate in the ISO market.

Non-Conforming Regulatory Agreements

- **Transmission Control Agreement (TCA) – Morongo Transmission LLC (ER21-1288)**

On March 5, 2021, the ISO filed an amendment to the Transmission Control Agreement, adding Morongo Transmission LLC, and updating the listing of contractual entitlements for Southern California Edison Company set forth in the Transmission Control Agreement.

- **EIM Readiness Criteria (ER15-861)**

On March 2, 2021, the ISO filed information reports for Los Angeles Department of Water and Power and Public Service Company of New Mexico, certifying their readiness to participate in the ISO's energy imbalance market on April 1, 2021.

On February 23, 2021, the ISO filed informational reports for Turlock Irrigation District and Balancing Authority of Northern California, certifying their readiness to participate in the ISO's EIM on March 25, 2021.

- **EIM Implementation Agreement – El Paso Electric Co, (ER21-1003)**

On January 29, 2021, the ISO filed an implementation agreement for El Paso Electric, to be effective April 5, 2021.

- **EIM Entity Agreement – Tacoma Power (ER21-674)**

On February 12, 2021, FERC issued a letter order accepting the December 17, 2020, agreement for Tacoma Power, to be effective March 1, 2021.

- **California Oregon Intertie – Path Operating Agreement (COI POA) (ER21-649)**

On February 4, 2021, FERC issued a letter order approving the December 15, 2020 amendment to the Path Operating Agreement. The amendment reduces the annual cost of the California-Oregon Intertie path operator (currently the ISO) and revises the billing frequency.

Informational reports filed

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

On February 16, 2021, the ISO filed an informational market disruption report for the period December 16, 2020 – January 15, 2021. A market disruption is an action or

event that causes a failure of the ISO market related to system operation issues or system emergencies.

- **Exceptional dispatch reports (ER08-1178 and EL08-88)**

On March 8, 2021, the ISO filed a 120-day informational report for the period July 1, 2020 – January 31, 2021.

On February 16, 2021, the ISO filed an informational report for the month of December 2020. 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 the ISO market cannot address.

- **Negotiated default energy bids, major maintenance adders, custom operations and maintenance adders, and calculated opportunity costs (ER06-615)**

On February 8, 2021, and March 8, 2021, the ISO filed informational reports containing the rates or formulas used to calculate negotiated default energy bids, major maintenance adders, custom operations and maintenance adders, and calculated opportunity costs that the ISO implemented, modified, or terminated in the months of January 2021 and February 2021, respectively.

California Public Utilities Commission and other State Matters

- **A.16-10-012 (DCR Transmission – Ten West Link Project)**

On February 12, 2021, the ISO filed its opening brief supporting a certificate of public convenience and necessity for the Ten West Link Transmission Project. The project provides economic benefits to ISO ratepayers in excess of project costs. It also provides important reliability benefits by reinforcing the existing transmission Path 46 connecting the ISO grid to the desert southwest. The ISO approved the proposed project in its 2013-2014 transmission planning process.

- **R.19-11-009 (Resource Adequacy Program)**

On February 26, 2021, the ISO filed its final Track 3B.2 proposal to reform the CPUC's resource adequacy program. The ISO proposed using an unforced capacity methodology to (1) assess capacity needs and resource contributions taking into account resource availability and deliverability and (2) recognize unit-specific forced outage rates to accurately reflect this information in procurement. The ISO also proposed a multi-year system resource adequacy framework to maintain near-term reliability and ensure continued operation of existing generation resources.

On January 28, 2021, the ISO filed four Track 3B.1 proposals. These included minimum

import requirements for resource adequacy resources, using an effective load carrying capability methodology to calculate qualifying capacity values for variable-output demand response resources, guidelines for availability limited resource procurement, and adopting a 17.5% planning reserve margin for June – October 2021 and summer 2022.

On January 28, 2021, the ISO filed Track 4 proposals. The proposals included (1) discontinuing all non-net neutral credits and requiring all resources counting for resource adequacy to be shown on supply plans, (2) adopting the ISO's slow reliability demand response resources resource adequacy counting proposal, and (3) eliminating the planning reserve margin adder for demand response.

- **R.20-05-003 (Continue Integrated Resource Planning (IRP))**

On February 17, 2021, the CPUC issued its decision (D.21-02-008) transferring electric resource portfolios to the ISO for the 2021-2022 transmission planning process.

- **R.20-11-003 (Order instituting rulemaking to establish policies, processes, and rules to ensure reliable electric service in California, and in the event of an extreme weather event in 2021)**

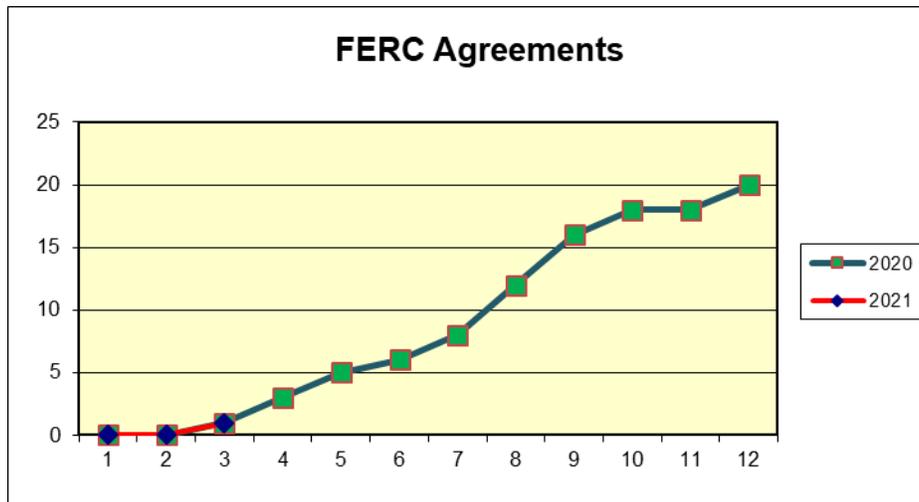
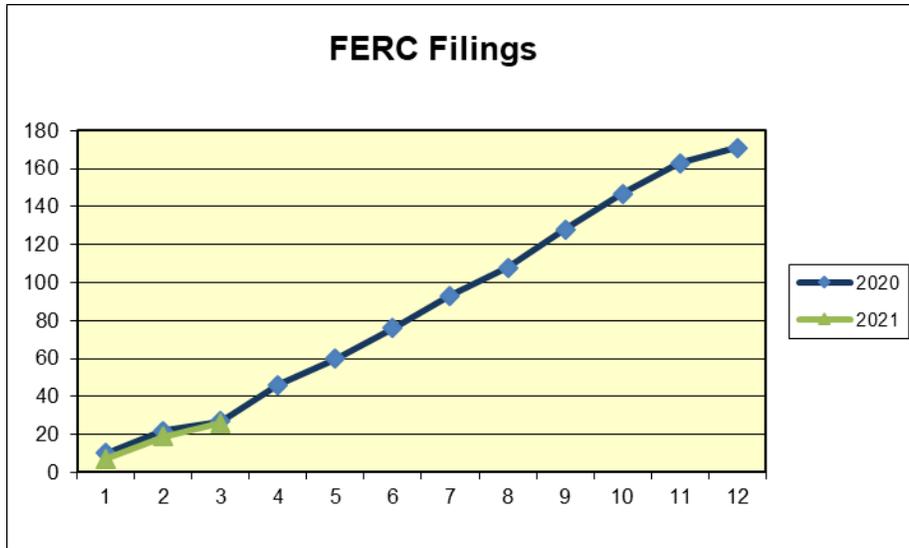
On February 17, 2021, the CPUC issued its decision (D.21-02-028) directing PG&E, SCE, and SDG&E to seek contracts for additional power capacity for summer 2021 reliability.

On February 12, 2021, the ISO filed its reply legal and policy brief. The CAISO's briefs supported increasing the planning reserve margin for the period June – October 2021, authorizing incremental import procurement, funding the Flex Alert paid advertising campaign, and adopting an emergency load reduction program (ELRP) that would be incremental to the resource adequacy program. The ISO requested the CPUC ensure all incremental capacity is resource adequacy capacity subject to applicable resource adequacy tariff provisions.

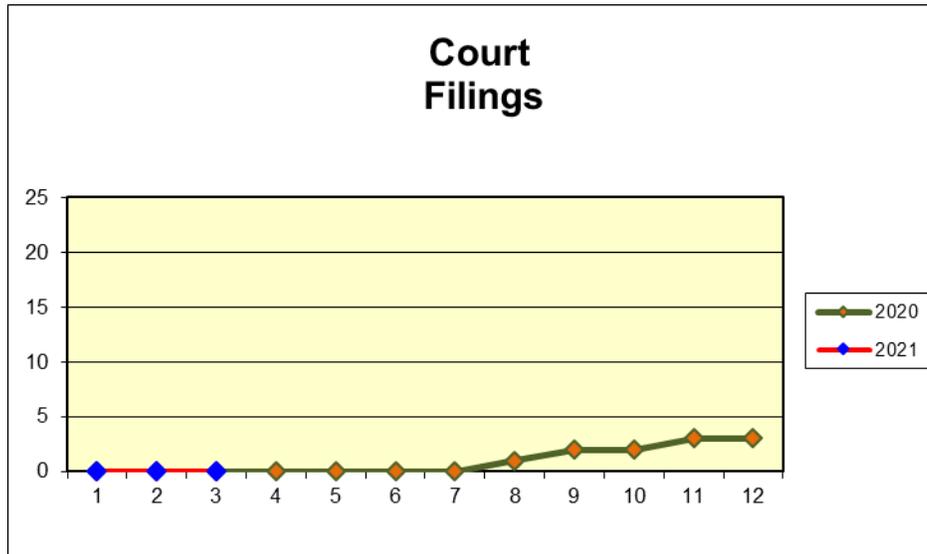
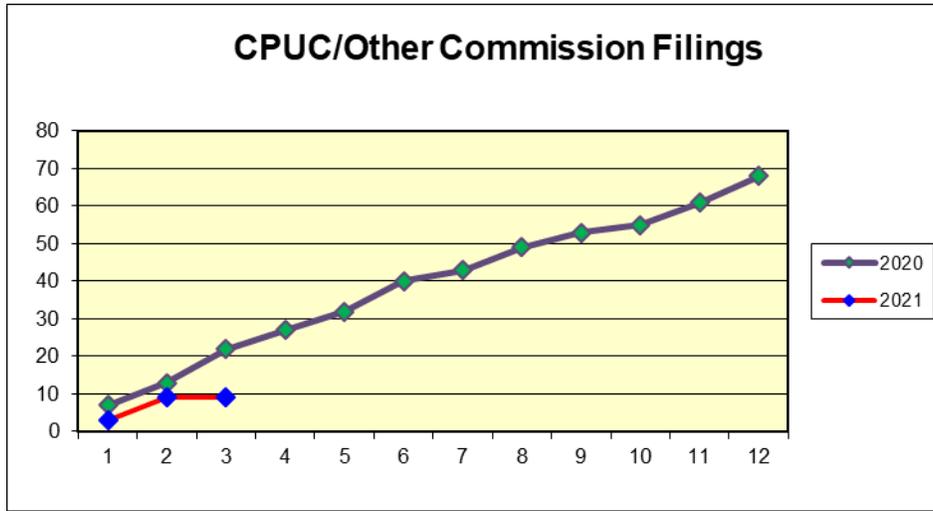
On February 5, 2021, the ISO filed its opening legal and policy brief, providing policy recommendations to ensure reliable electric service for summer 2021 in the event of an extreme weather event.

Previously, on January 19, 2021, the ISO submitted reply testimony supporting (1) the need for additional energy supply or decreased demand to adequately prepare for summer 2021, and (2) an increase in the existing planning reserve margin from 15% to 17.5%, to apply to the net peak. The testimony also supported the funding and promotion of the statewide Flex Alert media campaign.

Regulatory Filings Through March 8, 2021



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