



Memorandum

To: ISO Board of Governors

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

Date: July 17, 2019

Re: Regulatory update

This memorandum does not require Board action.

Highlights

- *ISO filed a tariff amendment to enhance the local market power mitigation process and reflect hydroelectric resource opportunity costs in default energy bids*
- *ISO filed a non-conforming reliability coordinator service agreement between the ISO and the Los Angeles Department of Water and Power*
- *FERC accepted the ISO's tariff amendment to mitigate temporary unavailability of inverter-based generators*
- *FERC accepted the ISO's tariff amendment to extend existing resource adequacy availability incentive mechanism exemption to certain planned outages*
- *FERC accepted the ISO's tariff amendment to clarify the dispatch of reliability demand response resources*
- *FERC accepted the ISO's non-conforming western energy imbalance market agreement among the ISO and the City of Seattle City Light Department*
- *FERC accepted the western energy imbalance market implementation agreement between the ISO and Public Service Company of New Mexico*

Federal Energy Regulatory Commission and related Court of Appeals matters

- **Tariff amendment to enhance local market power mitigation and reflect hydroelectric resource opportunity costs in default energy bids (ER19-2347)**

On July 2, 2019, the ISO filed a tariff amendment that includes three separate measures that facilitate participation of fast-ramping hydroelectric resources in the western energy imbalance market by improving the local market power mitigation process and cost-based bids used for such resources being mitigated. First, the ISO proposes to evaluate in each interval in the real-time market if a resource's bid should be mitigated rather than relying on mitigation in prior intervals. Second, the ISO proposes to allow a western energy imbalance market entity balancing authority area to limit its dispatch of incremental net exports under certain conditions in the real-time market. Third, the ISO proposes to introduce a default energy bid designed specifically for hydroelectric resources with storage that will be based on opportunity costs. The ISO requested an order by September 30, 2019, with an effective date related to the hydroelectric resource default energy bid of October 14, 2019. The ISO proposed that the remainder of the measures would go into effect by no later than December 4, 2019.

- **FERC accepted the ISO's tariff amendment to address temporary unavailability of inverter-based generators (ER19-1153)**

On July 2, 2019, FERC accepted the ISO's February 28, 2019, tariff amendment to address reliability issues caused when inverter-based generators go offline or cease to inject current into the grid due to the routine clearing of high voltage transmission faults or transient voltage. The changes establish a platform to collect information that will help educate the ISO, its grid operators, and stakeholders on the operation of inverter-based generators. Although FERC issued its order on July 2, it granted the ISO's request that the changes be effective April 30, 2019, as requested, which will avoid disrupting completion of generator interconnection agreements that take considerable time to draft, tender, negotiate, and execute.

- **FERC accepted ISO's tariff amendment to extend existing resource adequacy availability incentive mechanism exemption to certain planned outages (ER19-1562)**

On June 14, 2019, FERC accepted the ISO's April 11, 2019, tariff amendment to apply an existing exemption from resource adequacy availability incentive mechanism (RAAIM) to certain planned outages. RAAIM is a tool used to create financial incentives for resources providing resource adequacy capacity to meet their availability obligations. The ISO exempts forced outages if they are due to factors outside of the generator's control such as generator outages induced by transmission limitations. The changes authorize the ISO to also exempt planned generator outages that are caused by the same reasons. These tariff changes became effective on June 17, 2019.

- **FERC accepted the ISO's tariff amendment to clarify existing dispatch principles for reliability demand response resources (ER19-1561)**

On June 7, 2019, FERC accepted the ISO's April 11, 2019, tariff amendment to clarify existing dispatch principles for reliability demand response resources. The tariff now clarifies that reliability demand response resources will be eligible for dispatch if the ISO issues a warning notice, without any additional conditions. This dispatch procedure is consistent with the CPUC's decision that clarified a 2010 settlement agreement approved by the CPUC, California investor-owned utilities, ratepayer advocates, large customers, and demand response providers. These tariff changes became effective on June 11, 2019.

- **FERC granted the ISO's petition for limited tariff waiver permitting the ISO to calculate effective flexible capacity values for proxy demand resources (ER19-1690)**

On May 31, 2019, FERC granted the ISO's April 26, 2019, petition for a limited tariff waiver that permits the ISO to calculate effective flexible capacity used in the determination of flexible resource adequacy values for proxy demand resources. The current tariff requires the ISO to establish effective flexible capacity values for proxy demand response resources based on their response to the ISO's dispatch tests. The ISO lacks rules for testing proxy demand resources for this purpose and is in the process of developing these rules. With the requested waiver, the ISO can establish the effective flexible capacity values based on a general formula rather than a testing-based approach until it has developed appropriate testing rules. This avoided disruption for the June 2019 resource adequacy month.

- **Compliance with FERC Order No. 845 – reform of generator interconnection procedures and agreements (ER19-1950)**

On May 22, 2019, the ISO submitted a filing in compliance with FERC Order No. 845 – Reform of Generator Interconnection Procedures and Agreements, which seeks to improve certainty for interconnection customers, promote more informed interconnection decisions, and enhance the interconnection process. In compliance, the ISO proposed to update its *pro forma* generator interconnection procedures and generation interconnection agreements. The ISO did not request an effective date and is awaiting FERC directive.

- **Tariff clarifications filing process (ER19-1837)**

On May 14, 2019, the ISO filed a tariff clarifications amendment to correct any typographical errors or administrative errors in the tariff identified through its recent review of the current tariff provisions. The ISO requested an effective date of August 12, 2019.

Non-Conforming Regulatory Agreements

- **Non-conforming reliability coordinator service agreement between the ISO and Los Angeles Department of Water and Power (ER19-2288)**

On June 28, 2019, the ISO filed a non-conforming reliability coordinator service agreement between the ISO and Los Angeles Department of Water and Power (LADWP). The reliability coordinator service agreement sets forth the scope of services and associated rate for the ISO to become the reliability coordinator of record for LADWP. The agreement is non-conforming with regards to the termination provisions, in that this agreement will terminate in 30 months. The ISO requested an effective date of July 1, 2019.

- **Notice of termination of the approved project sponsor agreement between the ISO, Pacific Gas & Electric Company, and MidAmerican Central California Transco, LLC (ER19-2073)**

On June 7, 2019, the ISO filed a notice of termination of the approved project sponsor agreement between the ISO, Pacific Gas & Electric Company, and MidAmerican Central California Transco, LLC. The project sponsor agreement was terminated as a result of the ISO's 2018-19 transmission planning process. The ISO requested a retroactive effective date of June 1, 2019.

- **FERC accepted the non-conforming western energy imbalance market entity agreement between the ISO and City of Seattle City Light Department (ER19-1612)**

On June 5, 2019, FERC accepted the ISO's April 18, 2019, non-conforming western energy imbalance market entity agreement between the ISO and City of Seattle, by and through its City Light Department. The western energy imbalance market entity agreement sets forth the legal obligations and operational rules that will govern the City of Seattle's participation in the western energy imbalance market. The non-conforming western energy imbalance market entity agreement went into effect on June 18, 2019, which will provide the ISO and City of Seattle adequate time to complete all necessary actions to enable the City of Seattle's participation in the western energy imbalance market on April 1, 2020.

- **FERC accepted the western energy imbalance market implementation agreement between the ISO and Public Service Company of New Mexico (ER19-1794)**

On June 25, 2019, FERC accepted the ISO's May 7, 2019, western energy imbalance market implementation agreement between the ISO and Public Service Company of New Mexico (PNM). The western energy imbalance market implementation agreement will enable PNM, an entity outside of the ISO's balancing authority area, to participate in the ISO's real-time market for energy imbalance. The western energy imbalance

market implementation agreement became effective July 7, 2019, to facilitate PNM's participation in the western energy imbalance market on April 1, 2021.

Informational reports filed

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

On May 15, May 30, June 17, and July 1, 2019, the ISO submitted to FERC exceptional dispatch informational reports on: (1) the price impact of exceptional dispatches as ordered by FERC in its September 2, 2009, order; and (2) an analysis of the degree of mitigation as required by tariff section 34.11.4. These reports covered the months of February, March, April, May 2019. 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.

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

On May 15 and June 17, 2019, the ISO submitted to FERC its monthly market disruption reports for the periods of March 16, 2019, through April 15, 2019, and April 16, 2019 through May 15, 2019, respectively. A market disruption is an action or event that causes a failure of the ISO market related to system operation issues or system emergencies.

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

On May 7, June 7, and July 8, 2019, the ISO submitted to FERC informational filings 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 April, May, and June, 2019, respectively.

- **Quarterly informational report: status of reliability must-run and capacity procurement mechanism stakeholder process (ER18-641)**

On June 3, 2019, the ISO submitted its fourth and final quarterly informational report to FERC providing an update on the status of the ISO's reliability must-run and capacity procurement mechanism stakeholder process. On January 12, 2018, the ISO filed a tariff revision addressing the issue of risk of retirement capacity procurement designations on an earlier timeline for an upcoming resource adequacy compliance year. On April 12, 2018, FERC issued an order rejecting the ISO's tariff amendment, and 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 is complete. On April 22, 2019, the ISO filed the reliability must-run enhancements tariff amendment with FERC as a result of this stakeholder process, thus completing the ISO's reporting obligation.

- **Western energy imbalance market transition period informational reports for new participating entities (ER15-2565)**

FERC, in its October 29, 2015, order directed the ISO and its Department of Market Monitoring to file monthly informational reports on the transition period for new western energy imbalance market entities during its first six months of participation. During this six-month transition period, the ISO does not apply penalty factors, and instead calculates energy prices based on the last economic price signal. The ISO filed its informational reports for Balancing Authority of Northern California/Sacramento Municipal Utility District for on June 26 and July 9, 2019, for the months of April and May 2019, respectively.

- **Western energy imbalance market available balancing capacity informational reports (ER15-861)**

On May 14 and 15, 2019, the ISO submitted informational reports to FERC of the ISO's adoption of the available balancing capacity functionality for the fourth quarter of 2017 (October 1 to December 31, 2017), and the first and second quarters of 2018 (January 1, 2018 to March 31, 2018, and April 1, 2018, to June 30, 2018, respectively). The available balancing capacity functionality allows the western energy imbalance market to recognize and account for capacity that is not otherwise bid into the market that the energy imbalance market entity identifies as available to maintain reliable operations in its own balancing authority area. The ISO implemented the available balancing capacity enhancement on March 23, 2016. 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.

California Public Utilities Commission and other State Matters

- **Comments supporting alternative proposed decision for funding for the flex alert program (A.12-08-007)**

On June 27, 2019, the ISO filed comments with the CPUC supporting the alternate proposed decision that authorizes up to \$5 million to fund the 2019 Flex Alert paid media campaign in the Los Angeles area and directs Southern California Gas Company to fund the campaign. The ISO recommended that the CPUC accept the proposed decision.

- **Comments on proposed decision regarding demand response auction mechanism, baselines, and auto demand response for battery storage (A.17-01-012)**

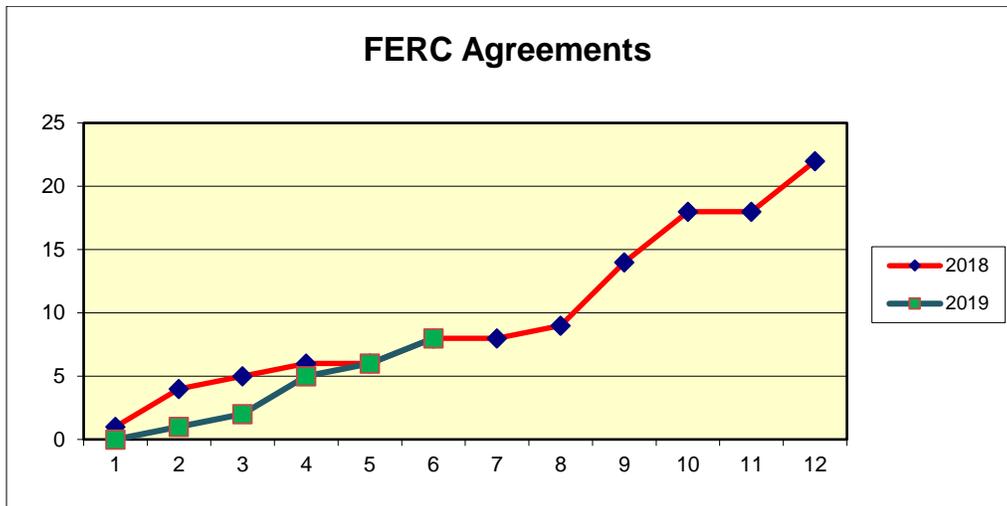
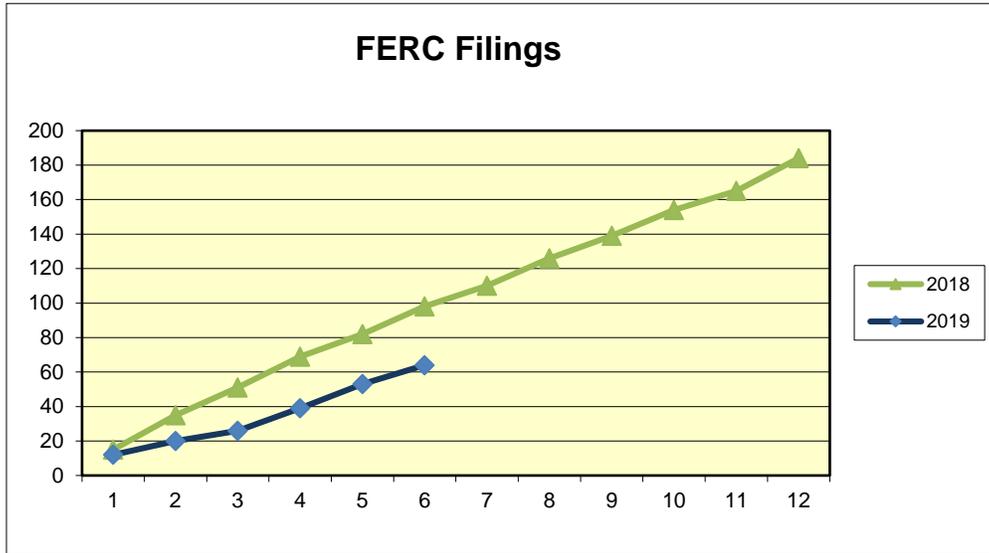
On June 20, 2019, the ISO filed comments with the CPUC supporting the proposed decision to exclude reliability demand response resources from the demand response

auction mechanism. The ISO also clarified the distinction between resource adequacy hours and the ISO's availability assessment hours.

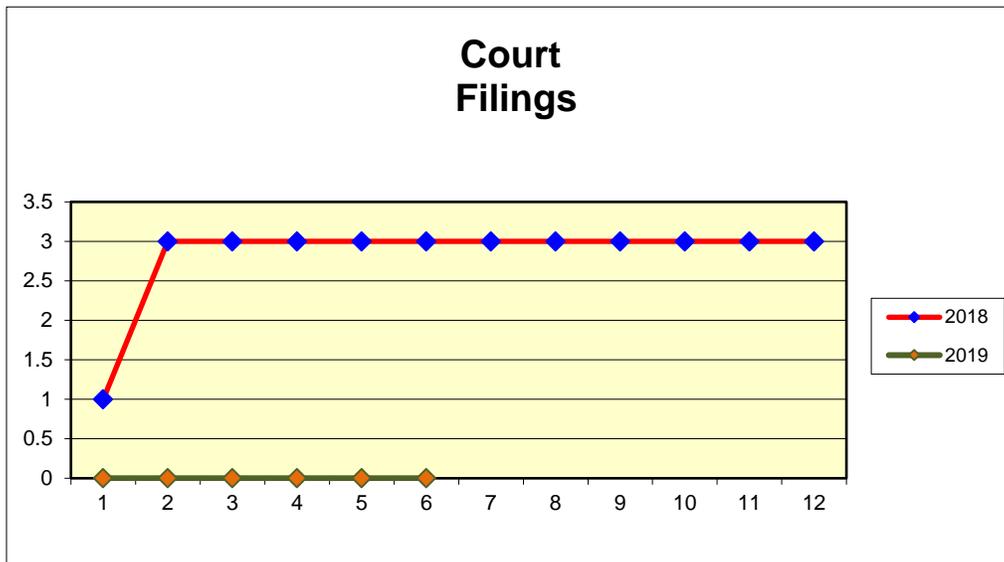
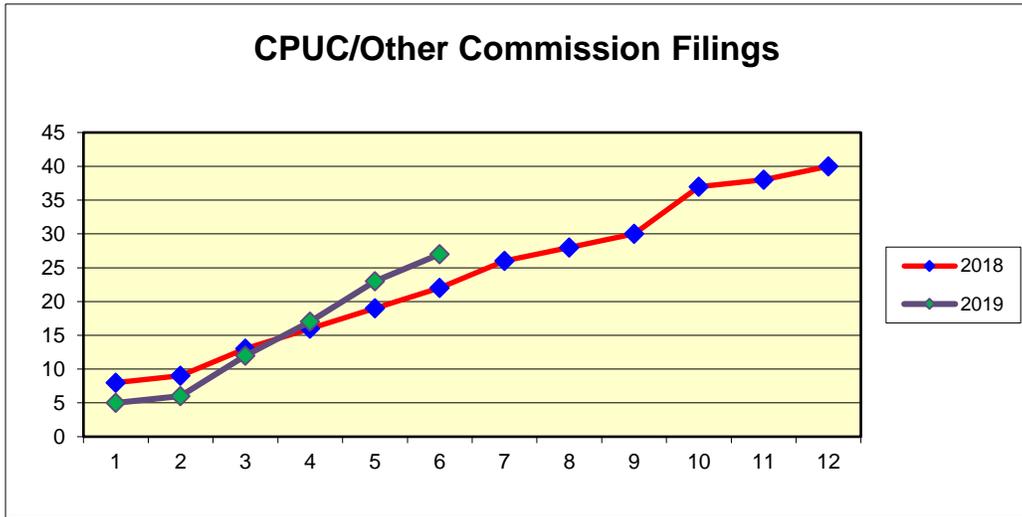
- **Comments on proposed decision adopting local capacity obligations for 2020-2022, adopting flexible capacity obligations for 2020, and refining the resource adequacy program (R.17-09-020)**

On June 13, 2019, the ISO filed opening comments, and reply comments on June 18, 2019, with the CPUC regarding the proposed decision adopting local capacity obligations for 2020-2022, adopting flexible capacity obligations for 2020, and refining the resource adequacy program (proposed decision). The ISO recommended that the CPUC continue to validate the effective load carrying capacity methodology in future resource adequacy proceedings to properly apply a 1-in-10 year loss of load expectation to calculate the effective load carrying capacity. The ISO requested that the CPUC clarify the proposed decision to explicitly note that the methodology used to derive the monthly effective load carrying capacity values will not be used to validate reliability and that methodology adopted will only be used for the 2020 resource adequacy compliance year. Finally, the ISO requested that the CPUC ensure that actual storage dispatch aligns with expected storage performance.

Regulatory Filings Through
June 2019



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