



Memorandum

To: ISO Board of Governors

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

Date: November 7, 2018

Re: Regulatory update

This memorandum does not require Board action.

Highlights

- *ISO filed a tariff amendment to implement the rates, terms, and conditions of the ISO's Reliability Coordinator Service*
- *FERC accepted the ISO's tariff amendment to revise tariff rules relating to the western energy imbalance market greenhouse gas bid adder*
- *FERC accepted the ISO's tariff amendment to clarify existing obligations for variable energy resources to comply with ISO dispatch instructions*
- *ISO filed with FERC four transferred frequency response agreements for the 2018-2019 compliance year*
- *FERC accepted the ISO's tariff amendment to expand options for energy storage and distributed energy resource participation in the ISO market*
- *ISO re-filed a tariff amendment to change the funding of congestion revenue rights addressing an issue raised in a prior FERC order*
- *ISO filed a tariff amendment to extend to no later than December 31, 2019, the temporary provisions to enhance electric-gas coordination due to the limited operability of Aliso Canyon*
- *ISO filed a tariff amendment to implement the 2018 interconnection process enhancements*

Federal Energy Regulatory Commission and related Court of Appeals matters

- **FERC accepted the ISO's tariff amendment to pro forma reliability must-run agreement adding termination clause (ER18-2369)**

On October 29, 2018, FERC accepted the ISO's August 31, 2018, tariff amendment to implement interim revisions to its *pro forma* reliability must-run (RMR) agreement. For RMR resources subject to the interim RMR agreement, the revisions give the ISO the authority to terminate an RMR agreement at the end of a contract year and designate the same resource for RMR service in the following year. The interim RMR agreement is effective September 1, 2018.

- **FERC accepted the ISO's tariff amendment to revise rules relating to EIM greenhouse gas bid adder (ER18-2341)**

On October 29, 2018, FERC accepted the ISO's August 29, 2018, tariff amendment to enable the ISO to attribute energy produced by the western energy imbalance market participating resources to serve load within California more accurately and limit the hourly megawatt quantity of an EIM greenhouse gas bid adder. Energy generated or imported to serve California load is subject to California's greenhouse gas regulations. The generator or exporter, including EIM participating resources, may incur a compliance cost under California's greenhouse gas regulations. The tariff amendment enables the ISO and EIM participating resources to track compliance obligations with California's greenhouse gas regulations more accurately. The tariff amendment is effective November 1, 2018.

- **FERC accepted the ISO's tariff amendment to clarify existing obligations for variable energy resources to comply with ISO dispatch instructions (ER18-2380)**

On October 29, 2018, FERC accepted the ISO's September 5, 2018, tariff amendment to clarify the ISO's expectation of how variable energy resources should respond to ISO dispatch instructions. The ISO's tariff amendment did not change or modify market rules, rather it more clearly and accurately states current ISO practices and requirements. The tariff amendment is effective November 6, 2018.

- **FERC accepted the ISO's tariff amendment to clarify certain provisions (ER18-1787)**

On October 29, 2018, FERC issued an order accepting the ISO's June 14, 2018, tariff amendment to clarify and update certain provisions. The amendment addresses miscellaneous administrative issues the ISO identified in its tariff in relation to FERC Order No. 764, that require clarification. The ISO improves its tariff with clarifying changes from time-to-time. The changes proposed in a clarification amendment do not amend or revise existing policy and procedures. The clarifications are effective November 1, 2018.

- **FERC accepted the ISO's tariff amendment to expand options for energy storage and distributed energy resources (ER18-2242)**

On October 24, 2018, FERC accepted the ISO's August 17, 2018, tariff amendment to expand options for energy storage and distributed energy resource participation in the ISO market. The amendment introduces three new demand response methodologies, clarifies the term "station power," and incorporates all of the relevant gas price indices into the net benefits test. The tariff amendment is effective November 1, 2018.

- **Tariff amendment to extend tariff measures to address potential gas limitations at the Aliso Canyon gas storage facility (ER18-2520)**

On September 28, 2018, the ISO filed a tariff amendment to extend previously FERC-approved tariff measures addressing the effects on the ISO market and system operations of the limited operability of the Aliso Canyon natural gas storage facility. The ISO requested an additional extension to no later than December 31, 2019, without modification, of the previously approved measures. The ISO determined that there has been no change in the state of the natural gas system since it last asked for authority for the Aliso Canyon measures. This amendment will ensure the ISO will continue to have the tools it needs to mitigate reliability and market distortion risks associated with the expected limited operability of Aliso Canyon that will otherwise automatically expire on November 30, 2018, and December 16, 2018.

- **Tariff amendment to implement the ISO's interconnection process enhancements for 2018 (ER18-2498)**

On September 27, 2018, the ISO filed a tariff amendment with FERC to improve its generator interconnection process. The ISO's proposed tariff revisions arose out of the 2018 interconnection process enhancements stakeholder initiative. The ISO requested an effective date of November 27, 2018.

- **Tariff amendment to implement congestion revenue rights efficiency rules (ER19-26)**

On September 20, 2018, FERC rejected, without prejudice, the ISO's July 17, 2018, tariff amendment to eliminate the guarantee of full funding of congestion revenue rights because the ISO proposal did not conform to prior FERC precedence requiring that congestion revenue right holders be able to net prevailing and counterflow congestion revenue rights against each other. On October 1, 2018, the ISO filed a modified version of the July 17 proposal that now allows congestion revenue right holders to consistently net prevailing and counterflow congestion revenue rights against each other. The ISO requested expedited consideration and an effective date of January 1, 2019.

- **FERC order accepting the audit report (PA17-3)**

On September 14, 2018, FERC issued a delegated letter order accepting the ISO's

audit report. The order also attached a copy of the final report. The order directed the ISO to submit an implementation plan to the division of audits and accounting with FERC office of enforcement on implementing any corrective actions. The order further directed the ISO to submit quarterly reports informing the division of audits and accounting of its progress. The ISO submitted its implementation plan on October 15, 2018, consistent with FERC's order.

- **Answer to the CXA La Paloma, LLC complaint (EL18-177)**

On June 20, 2018, CXA La Paloma, LLC, filed a complaint with FERC alleging that the California resource adequacy program is unjust, unreasonable, and unduly discriminatory. La Paloma contends the CPUC has discriminated against existing generation and fossil fuel resources through the administration of its long-term procurement process, and that the CPUC is favoring demand response and renewable resources. La Paloma requested that FERC direct the ISO to implement a mandatory centralized capacity market that includes flexibility requirements. The ISO responded to the complaint that FERC should dismiss the complaint because La Paloma falls short of meeting its burden under Section 206 of the Federal Power Act of demonstrating that the ISO tariff is unjust, unreasonable, unduly discriminatory, or preferential. The ISO argues that La Paloma's claims are unsubstantiated and inaccurate. The ISO articulated its success in maintaining system reliability for over a decade through current practices. On September 10, 2018, the ISO answered comments, and on October 9, 2018, the ISO answered La Paloma's answer with FERC.

- **Filing to comply with FERC Order No. 844 (ER18-2398)**

On September 7, 2018, the ISO filed a tariff amendment in compliance with FERC's Order No. 844, FERC's final rule on uplift cost allocations and transparency in markets operated by regional transmission operators and independent system operators. As directed by FERC, the ISO revised its tariff to publish three new monthly reports: (1) a zonal uplift report; (2) a resource-specific uplift report; and (3) an operator-initiated commitment report. The ISO proposed to publish these reports after the month of January 2019. The ISO requested an effective date of January 1, 2019.

- **Tariff amendment to allow the ISO to provide reliability coordinator service (ER18-2366)**

On August 31, 2018, the ISO filed a tariff amendment with FERC to allow the ISO to provide reliability coordinator service to transmission operators within the ISO's balancing authority area and to other balancing authorities in the Western Interconnection, including transmission operators within those balancing authority areas. The ISO's amendment sets forth the terms, rates, and conditions for the ISO to provide reliability coordinator service. The ISO requested that tariff provisions related to the execution of reliability coordinator service agreements become effective November 15, 2018, and that the balance of the proposed provisions becomes effective July 1, 2019.

- **FERC granted the ISO's petition for limited tariff waiver to delay implementation of the commitment cost enhancements phase 3 initiative (ER18-1169)**

On October 23, 2018, FERC granted the ISO's petition for limited tariff waiver to delay the effective date of its commitment cost enhancements phase three tariff amendment from November 1, 2018, to April 1, 2019.

Non-Conforming Regulatory Agreements

- **Transferred frequency response agreements for the 2018-2019 compliance year (ER19-179, ER19-188, ER19-190, and ER19-196)**

On October 24, 25, and 26, 2018, the ISO filed with FERC four transferred frequency response agreements between the ISO and Bonneville Power Administration, Powerex Corp., City of Seattle, by and through its City Light Department, and Chelan County, Washington, Public Utility District No. 1. The ISO requested that these agreements become effective December 1, 2018, for the 2018-2019 compliance year in accordance with NERC Reliability Standard BAL-003.1.1, which requires balancing authorities to achieve annual frequency response that is equal to, or exceeds, its frequency response obligation. The ISO purchased the frequency response to meet its compliance obligation.

- **FERC accepted the EIM agreement with the Balancing Authority of Northern California (ER18-2360)**

On October 18, 2017, FERC accepted the ISO's non-conforming EIM agreement. On August 30, 2018, the ISO filed with FERC an EIM agreement between the ISO and the Balancing Authority of Northern California (BANC). The EIM agreement provided modifications and certain exemptions to account for BANC's participation by only one of its members, the Sacramento Municipal Utility District. BANC will begin participation in the EIM on April 3, 2019. The ISO will file its certification of readiness information filing 30 days prior to the participation commencement date.

- **Amendments to market efficiency enhancement agreement between the ISO and SMUD (ER18-2429)**

On September 14, 2018, the ISO submitted two amendments to the market efficiency enhancement agreement between the ISO and the Sacramento Municipal Utility District (SMUD). The first amendment incorporates Sutter Energy Center into the market efficiency enhancement agreement portfolio. The ISO requested that the first agreement be effective September 15, 2018. Concurrently, the ISO submitted a second amendment to the market efficiency operating agreement between the ISO and SMUD. This second amendment removes Sutter Energy Center from the market efficiency

enhancement agreement, to be effective November 29, 2018.

- **Amendment to adjacent balancing authority operating agreement and implementing a new dynamic transfer balancing authority operating agreement with Nevada Power Company (ER18-2421 and ER18-2422)**

On September 13, 2018, the ISO filed with FERC a new dynamic transfer balancing authority operating agreement with the Nevada Power Company and an amendment to the existing dynamic scheduling balancing authority operating agreement with the Nevada Power Company. On October 18, 2018, FERC accepted these agreements, effective November 13, 2018.

- **FERC accepted the amendment to the revise transmission control agreement to add Citizens Sycamore-Penasquitos Transmission, LLC as a participating transmission owner (ER18-1822)**

On August 30, 2018, FERC accepted the ISO's revisions to the ISO transmission control agreement to add Citizens Sycamore-Penasquitos Transmission, LLC as a participating transmission owner, effective August 31, 2018.

Informational reports filed

- **EIM transition period informational reports for new EIM entities (ER15-2565)**

FERC, in its October 29, 2015 order, directed the ISO and the Department Market Monitoring to file monthly informational reports on the transition period for new EIM entities during its first six months of participation in the EIM. 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 and ISO's Department of Market monitoring (DMM) have filed the following reports: (1) on September 6, 2018, the ISO filed its informational report for Idaho Power Company for July 2018; (2) on September 14, 2018, the ISO filed its informational report for Powerex for July 2018; (3) on October 1, 2018, the DMM filed its report for Idaho Power Company for June 2018; (4) on October 1, 2018, the DMM filed its report for Powerex Corp. for June 2018; (5) on October 11, 2018, the ISO filed its informational report for Idaho Power for August 2018; (6) on October 11, 2018, the ISO filed its informational report for Powerex Corp. for August 2018; (7) on October 30, 2018, the ISO filed its informational report for Idaho Power Company for September 2018; and (8) on October 30, 2018, the ISO filed its informational report for Powerex Corp. for September 2018.

- **Quarterly informational report: status of reliability must-run and capacity procurement mechanism stakeholder process (ER18-461)**

On September 4, 2018, the ISO submitted its second 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.

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

On September 7, 2018, and October 8, 2018, the ISO submitted to FERC informational filings containing the rates or formulas used to calculate negotiated default energy bids, major maintenance adders, and custom operations and maintenance adders that the ISO implemented, modified, or terminated in the months of August and September 2018, respectively.

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

On August 30, September 17, October 1, October 15, and October 30, 2018, the ISO submitted 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 May, June, July, and August 2018. 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 September 17, and October 15, 2018, the ISO submitted to FERC its monthly market disruption reports for the period of July 16 through September 15, 2018. A market disruption is an action or event that causes a failure of the ISO market related to system operation issues or system emergencies.

California Public Utilities Commission and other State Matters

- **Reply comments on energy division staff proposal (R.18-07-003)**

On October 15, 2018, the ISO filed reply comments to the CPUC Energy Division Staff Proposal on effective load carrying capability, time of delivery factors, and project viability. On September 12, 2018, Administrative Law Judge issued a ruling requesting comments on the Energy Division Staff Proposal. The ISO in response urged the CPUC to use consistent methodologies in its procurement and planning proceedings

and that the California renewables standard portfolio proceeding be coordinated with the integrated resource planning proceeding.

- **Comments on production cost modeling (R.16-02-007)**

On October 10, 2018, the ISO filed comments, with reply comments filed on October 17, 2018, in response to the Administrative Law Judge's ruling requesting comments on the updated description of the role of production cost modeling framework and results in the integrated resource planning process and analysis presented in the CPUC Energy Division staff reference system plan. The ISO stated that the CPUC should establish a process that allows parties to model and present their own production cost modeling results on the preferred system plan. The ISO requested that the CPUC provide guidance to parties as to how LSE integrated resource plans will be aggregated, as it will affect the ISO's transmission planning process.

- **Comments on energy division staff's scenarios framework (I.17-02-002)**

On October 9, 2018, the ISO filed comments, with reply comments filed on October 23, 2018, with the CPUC on the Energy Division staff's scenarios framework. The scenarios framework outlines the scope of the studies related to the Aliso Canyon natural gas storage facility. The CPUC plans to conduct three types of studies in the course of the investigation: (1) a hydraulic modeling analysis; (2) a production cost modeling analysis; and (3) an economic modeling analysis to determine whether the use of the Aliso Canyon natural gas storage facility can be minimized or eliminated and still maintain energy and electric reliability in the region.

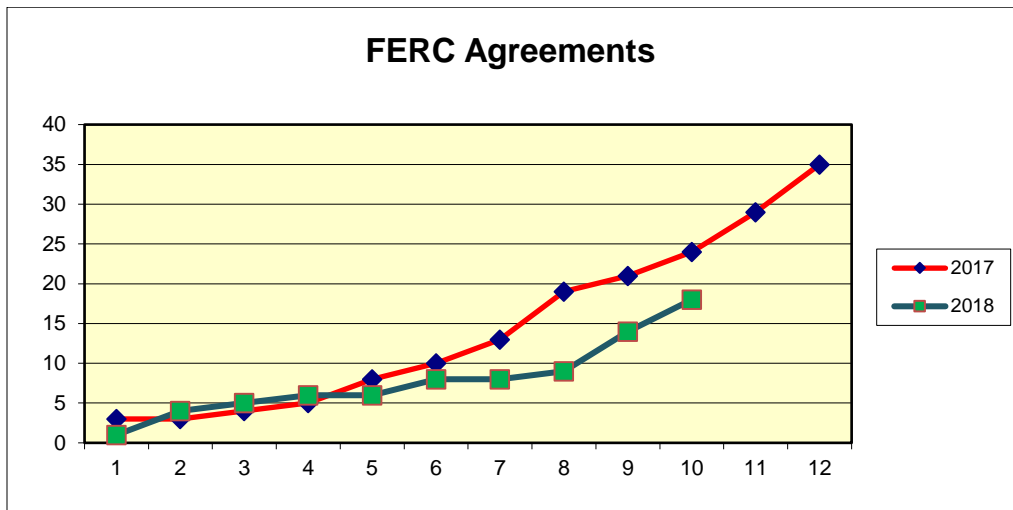
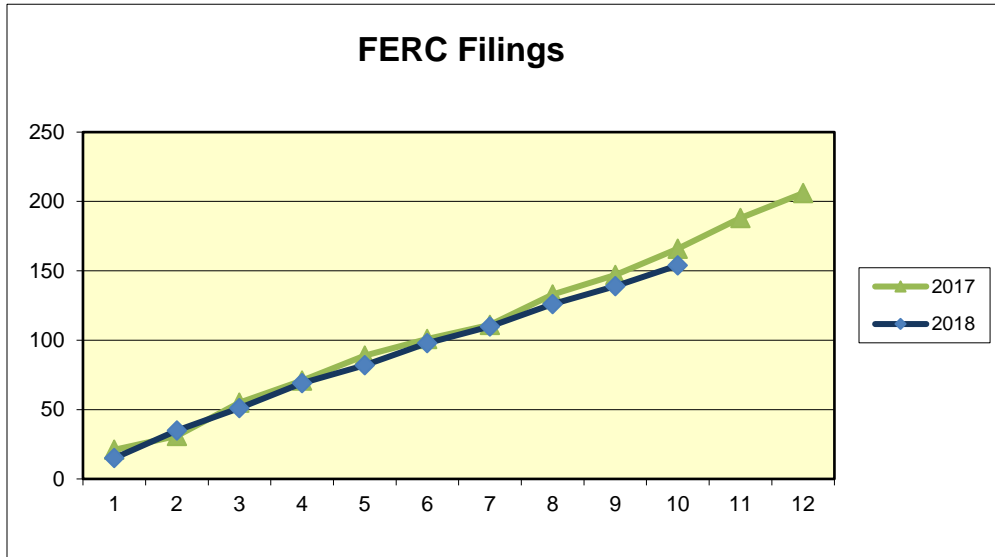
- **Decision approving public convenience and necessity for the Suncrest Dynamic Reactive Power Support Project (A.15-08-027)**

On October 2, 2018, the CPUC issued a decision granting NextEra Energy Transmission West, LLC a certificate of public convenience and necessity for the Suncrest Dynamic Reactive Power Support Project (Suncrest Project). The CPUC found that the environmental impact report for the Suncrest Project meets the requirements of the California Environmental Quality Act. The ISO filed comments in the proceeding supporting the CPUC's proposed decision approving certification for the Suncrest Project.

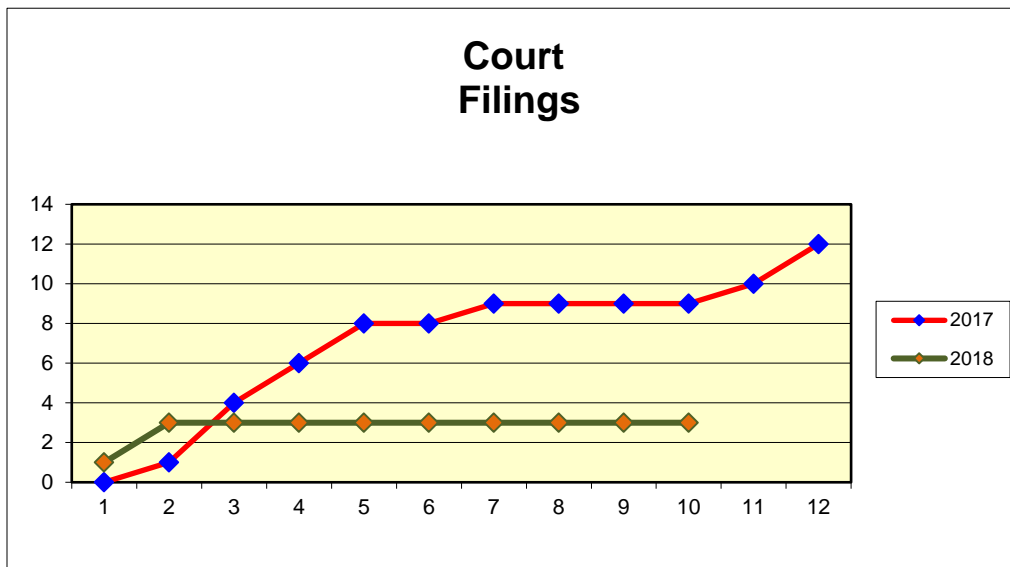
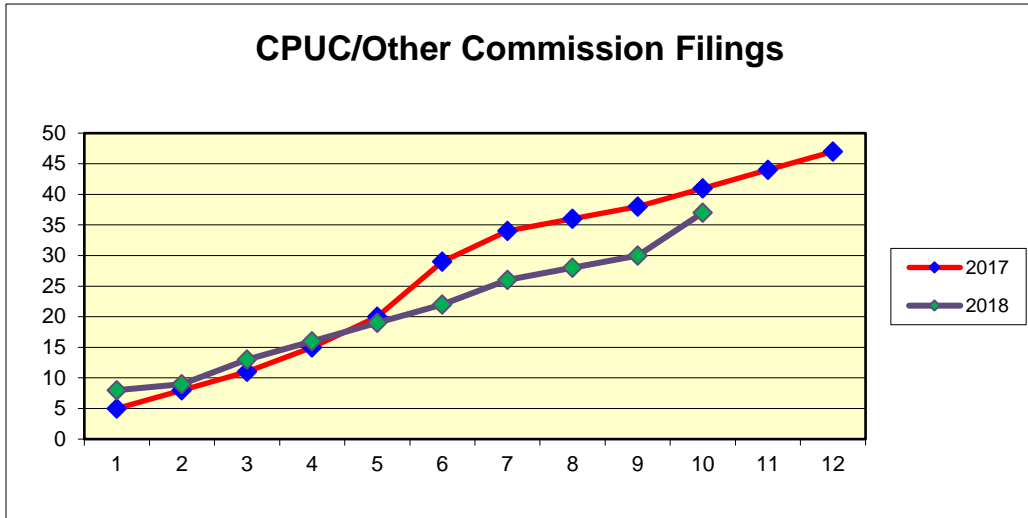
- **Reply comments on adoption and implementation of multi-year resource adequacy requirements (R.17-09-020)**

On September 14, 2018, the ISO filed reply comments regarding the CPUC's adoption and implementation of multi-year resource adequacy procurement. The ISO stressed in its comments that the CPUC should begin multi-year procurement without delay. The ISO noted that there may be function or method changes and transitions along the way, but believes that the multi-year procurement framework can be accomplished by the 2020 resource adequacy compliance year.

Regulatory Filings Through
October 2018



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