



Memorandum

To: ISO Board of Governors

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

Date: August 29, 2018

Re: Regulatory update

This memorandum does not require Board action.

Highlights

- *ISO answers complaint by La Paloma on resource adequacy program*
- *ISO filed a tariff amendment to expand options for energy storage and distributed energy resource participation in the ISO market*
- *FERC granted the ISO's petition for limited tariff waiver requesting that demand response resources be exempt from the ISO's RAAIM penalties*
- *ISO filed a tariff amendment to improve the efficiency of its congestion revenue rights market rules*
- *ISO filed a request for rehearing of FERC's order rejecting the ISO's market values proposal in the ISO's tariff amendment to modify its commitment cost rules*
- *FERC accepted the ISO's tariff amendment modifying its pro forma in compliance with FERC Order No. 842 – primary frequency response*
- *FERC accepted the ISO's compliance filing calculating refunds for transactions during the electricity crisis era*

Federal Energy Regulatory Commission and related Court of Appeals matters

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

On August 24, 2018, the ISO answered the complaint filed at FERC on by CXA La Paloma, LLC on June 20, 2016. La Paloma alleges that the California resource adequacy program is unjust, unreasonable, and unduly discriminatory. La Paloma contends the California Public Utility Commission (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 requests that FERC direct the ISO to implement a mandatory centralized capacity market that includes flexibility requirements. The ISO responded 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 claim that a resource adequacy framework based on bilateral procurement by load serving entities is unduly discriminatory and unable to secure the resources needed to maintain reliability is unsubstantiated and inaccurate. The ISO further argues that over a decade, the ISO has maintained system reliability and secured the resources it needs through a resource adequacy program based on bilateral procurement supplemented by FERC-approved backstop procurement authority exercised in limited circumstances.

- **Tariff amendment to expand options for energy storage and distributed energy resources (ER18-2242)**

On August 17, 2018, the ISO filed a tariff amendment with FERC to expand options for energy storage and distributed energy resource (ESDER Phase 2) participation in the ISO market. The amendment proposes three new demand response methodologies, clarification to the definition of "station power," and incorporation of all relevant gas indices into the net benefits test. The ISO requested an effective date of November 1, 2018.

- **FERC Order accepting filing in compliance with FERC Order No. 842 primary frequency response – revise *pro forma* generator interconnection agreements (ER18-1616)**

On August 3, 2018, FERC issued an order accepting the ISO's filing in compliance with FERC Order No. 842 – *Primary Frequency Response*. The ISO's *pro forma* generator interconnection agreements incorporate FERC's scripted *pro forma* language. FERC Order No. 842 requires newly interconnecting generators to install, maintain, and operate equipment capable of providing primary frequency response. FERC Order No. 842 became effective on May 15, 2018.

- **FERC granted the petition for limited tariff waiver exempting certain demand response resources from RAAIM (ER18-1699)**

On July 30, 2018, FERC issued an order granting the ISO's petition for limited tariff waiver requesting that 42 demand response resources, be exempt from the non-availability charges and incentive payments under the ISO's resource adequacy availability incentive mechanism (RAAIM) from April 1, 2017, to April 30, 2018. RAAIM is the ISO's mechanism for evaluating and incenting performance for resource adequacy capacity. Resources providing resource adequacy capacity with a maximum resource capacity below 1 MW are exempt from RAAIM. The ISO incorrectly applied the exemption to 42 resources and has not applied RAAIM to these resources since it implemented RAAIM on April 1, 2017.

- **Request for rehearing of FERC's order rejecting alternative market values in the ISO's commitment cost enhancements phase 3 tariff amendment (ER18-1169)**

On July 23, 2018, the ISO filed a request for rehearing of FERC's June 21, 2018, order partially accepting, subject to condition, and partially rejecting, the ISO's proposed tariff revisions relating to the ISO's tariff amendment to modify its commitment cost rules. The ISO requested that FERC accept the rejected portions of the ISO's proposal to require scheduling coordinators to register market values in the master file for certain resource characteristics. The ISO requested to be able to replace physical characteristics with design capability values. Additionally, FERC rejected other provisions of the ISO's filing, as these were not severable from the master file proposal, and as such, the ISO requested that these provisions be accepted as well. These provisions include the removal of ramp rates as a component of daily bids, limitations to the maximum number of starts per day, and the replacement of references to physical characteristics with design capabilities related to a resources participation in the ISO market.

- **Tariff amendment to implement congestion revenue rights market rules (ER18-2034)**

On July 17, 2018, the ISO filed a tariff amendment to improve the efficiency of the ISO's congestion revenue rights (CRR) market rules. The amendment proposes to no longer provide full funding of released CRRs and instead to allocate any day-ahead revenue insufficiency to CRR holders on a constraint-by-constraint basis by scaling their CRR entitlement based on the CRR's modeled flow over a particular constraint in the direction of the congestion. The amendment also proposes to decrease the percentage of system capacity available in the annual CRR allocation and auction processes. The ISO requested an order by September 20, 2018, and an effective date of September 24, 2018, for the capacity provisions, and January 1, 2019, for the balance of the proposed tariff provisions.

- **FERC accepted the ISO's electricity crisis era compliance filing (EL00-95 and EL00-98)**

On July 10, 2018, FERC issued an order accepting the ISO's refund rerun compliance filing calculating refunds for transactions that took place in the California organized markets during the electricity crisis era (October 2, 2000 – June 20, 2001). The electricity crisis era litigation began in August 2000 when San Diego Gas and Electric Company filed a complaint with FERC seeking an emergency order capping the MWh prices at which sellers may bid energy or ancillary services into the ISO market.

Informational reports filed

- **Energy imbalance market transition period informational reports for new energy imbalance market 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 energy imbalance market entities during its first six months of participation in the energy imbalance market. 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 DMM have filed the following reports: (1) on August 8, 2018, the ISO filed its informational report for Powerex Corp. for June 2018; (2) on August 20, 2018, the DMM filed its report for Idaho Power Company for April 2018; (3) on August 20, 2018, the DMM filed its report for Idaho Power Company for May 2018; (4) on August 20, 2018, the DMM filed its report for Powerex Corp. for April 2018; (5) on August 20, 2018, the DMM filed its report for Powerex Corp. for May 2018; and (6) on August 21, 2018, the ISO filed its informational report for Idaho Power Company for June 2018.

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

On August 7, 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 month of July 2018.

- **EIM available balancing capacity informational report (ER15-861)**

On July 31, 2018, the ISO submitted an informational report to FERC of the ISO's adoption of the available balancing capacity functionality for the third quarter of 2017 (July 1 to September 30, 2017). The available balancing capacity functionality allows the 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.

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

On July 16, July 30, and August 15, 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 April, May, and June 2018. On July 19, 2018, the ISO submitted a report describing its efforts to reduce the frequency of exceptional dispatches and the status of the ISO's operational product enhancements that would reduce reliance on exceptional dispatches for the period of February 2014 through June 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 July 15, and August 15, 2018, the ISO submitted to FERC its monthly market disruption reports for the period of May 16 through July 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

- **Response to Administrative Law Judge ruling on modification to the trigger mechanism for reliability demand response resources (A.17-01-012; A.17-01-018; and A.17-01-019)**

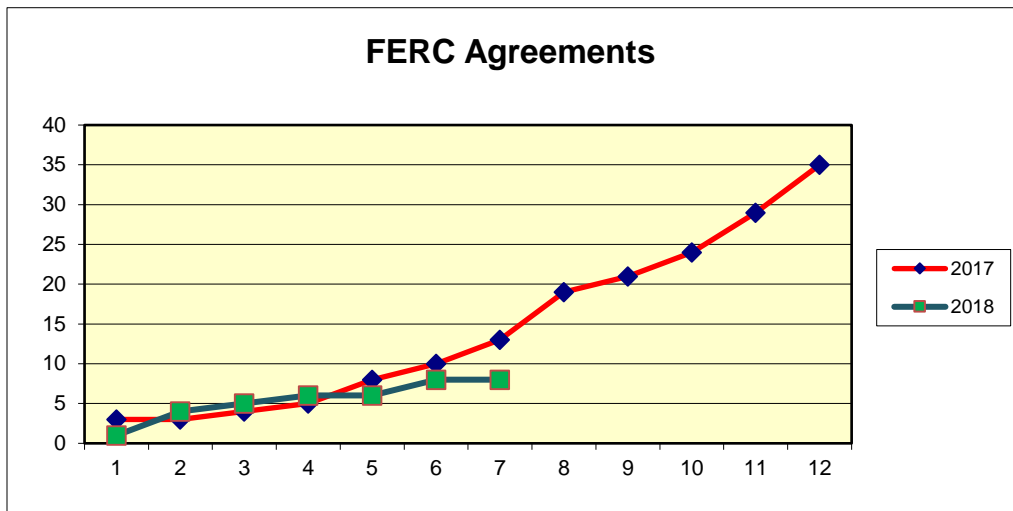
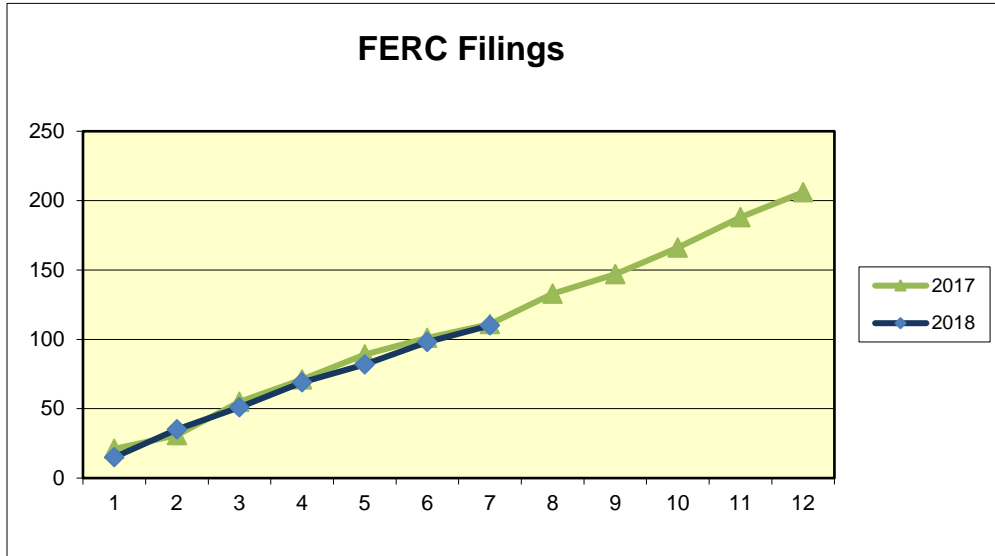
On July 20, 2018, the ISO filed responses to Administrative Law Judge Hymes' ruling requesting responses to proposed questions regarding modifying the trigger mechanism for reliability demand response resources. The ISO stated that additional flexibility could be beneficial; noting that any ISO-initiated trigger mechanism combined with high reliability demand response resources bid price effectively limits circumstances in which reliability demand response resources will actually be dispatched to meet reliability needs.

- **Resource adequacy program proposed decision and comments (R.17-09-020)**

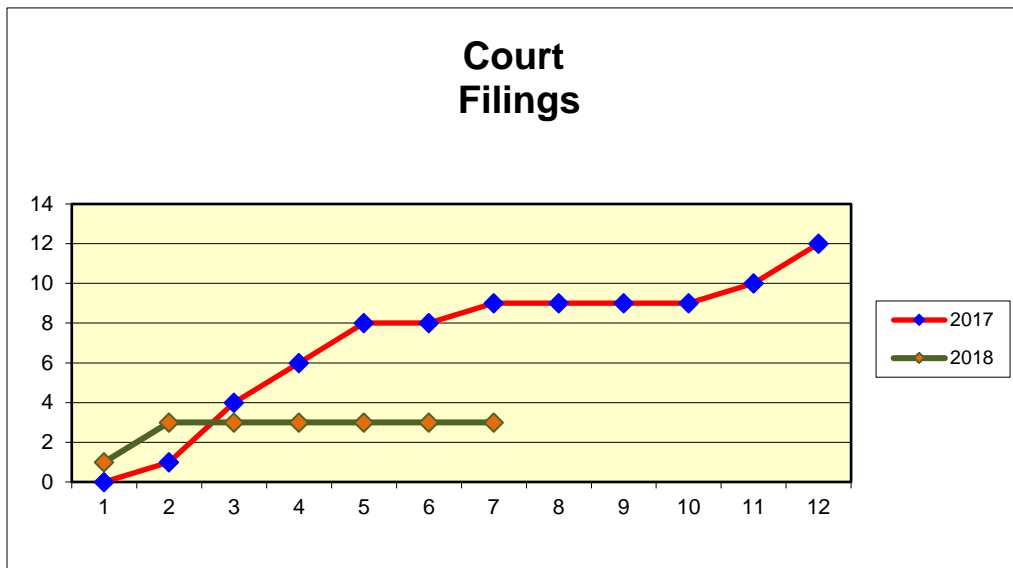
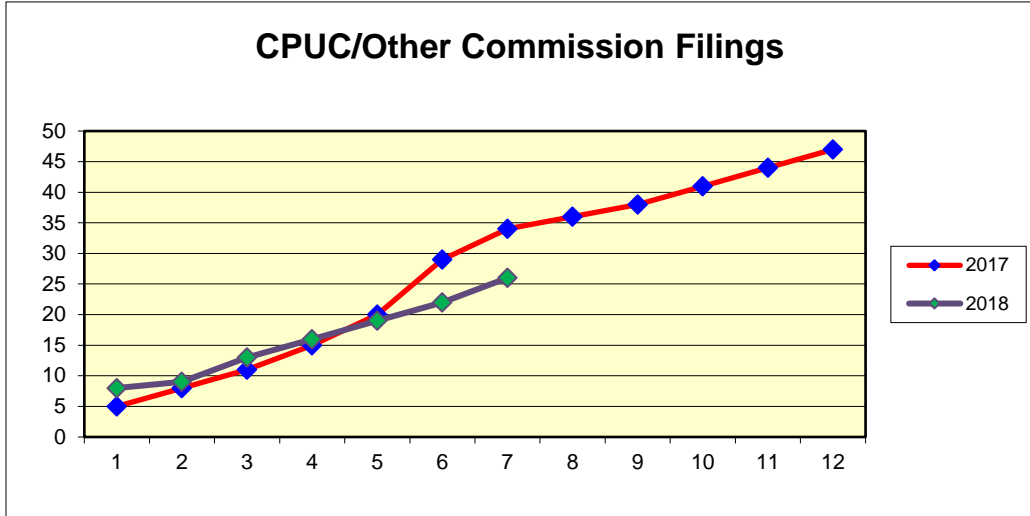
On July 10, 2018, the ISO submitted its testimony to support proposals for a multi-year local resource adequacy requirement with a three-to-five year duration, with implementation beginning in the 2020 resource adequacy compliance program year. The ISO submitted testimony for its Track 2 proposals: (1) establish a rolling three-year procurement requirement for local, system, and flexible resource adequacy capacity; (2)

revise the annual resource adequacy compliance timeline to better accommodate resource adequacy processes and decision making; (3) adopt a 1-in-5 year demand forecast during months with the highest peak demand uncertainty; (4) adopt an effective load carrying capability methodology that accurately reflects the reliability contribution of wind and solar resources; and (5) recognize the impact of availability-limited resources and the ISO's hourly load and resource analysis to determine availability needs in local capacity areas. On August 8, 2018, the ISO submitted reply comments indicating that adopting and implementing a multi-year resource adequacy requirement should be the primary focus and that the CPUC should defer other issues requiring significant effort among all parties to Track 3 of the resource adequacy proceeding.

Regulatory Filings Through
July 2018



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