

Memorandum

To: ISO Board of Governors
From: Elliot Mainzer, President and Chief Executive Officer
Date: May 10, 2023
Re: CEO report

This memorandum does not require ISO Board of Governors action.

INTRODUCTION

For my May 2023 CEO Report, I am pleased to welcome our new Board member, Joseph Eto, and will provide an update on summer readiness, the latest regarding development of tariff language for the Extended Day-Ahead Market (EDAM), an update on our day-ahead market enhancements initiative and phase 2 of our resource sufficiency evaluation enhancements, the ISO's 2022-2023 transmission plan and interconnection process enhancements, the status of Assembly Bill 538, and the successful on-boarding of the three new Western Energy Imbalance Market's (WEIM) participants.

WELCOME JOSEPH ETO

Before I move into the issues for this month, I wanted to take a moment to welcome Joseph Eto as the newest member of the ISO Board of Governors. Joe's distinguished career and expertise on so many of the big issues we work on at the ISO will be a tremendous asset to the organization. I am excited by his appointment and am looking forward to working with him.

SUMMER READINESS

Summer readiness activities are well underway and continue to progress with several key activities taking place in the month of May. Among other developments, we held the ISO's third annual Summer Readiness Leadership Roundtable on May 9. Utilities and resource providers from across the West participated in the discussion and shared their perspectives on what the summer outlook may bring in each of their areas, which is always instructive. While everyone agreed that conditions are improved over last year with additional hydro and other resources, there was also a deep appreciation for the value of enhanced coordination and communications to ensure that we are all pitching in across the West when we experience extreme weather and other reliability challenges.

Later this month, our Operations team, along with the Reliability Coordinator, neighboring balancing areas, load-serving entities and participants in the WEIM across our footprint will participate in several ISO-hosted operational tabletop drills and workshops to ensure effective communication and coordination during emergency operations. Our Communications and Public Relations team has also been meeting regularly with their colleagues in the Governor's office and state agencies to enhance their coordination, and these meetings will take on greater frequency now that summer is close at hand.

We will also be offering a virtual refresher training May 25 for all of our scheduling coordinators and any interested stakeholders, and we will review communication protocols and provide an overview of the various Energy Emergency Alerts (EEA) that may be declared during emergency operations. As you know, we adopted the EEA framework last year to better align with the North American Electric Reliability Corporation methodology and we are working to ensure smooth communications there as well. We are also coordinating a tabletop drill with the Governor's office to ensure emergency actions are well coordinated across state agencies.

The details of the summer assessment will be covered during the ISO Board of Governors meeting, where you will hear that, generally speaking, near-term conditions have improved significantly since last year. Overall, 2023 capacity conditions are better compared to 2022 primarily due to an increase in storage and other resources coming on line and greatly improved in-state hydro conditions. However, even with this news, the grid remains vulnerable to high loads and availability of imports during widespread heat events as we have seen in prior years during the late summer months. We continue to work on sharpening our internal processes and training to ensure smooth operations as much as possible as we head into the peak summer season.

EXTENDED DAY-AHEAD MARKET (EDAM) TARIFF LANGUAGE

With approval of the EDAM design by the ISO Board of Governors and WEIM Governing Body in February, our team has been busily working on the EDAM tariff, publishing the first draft of the tariff language on March 30. We held a stakeholder meeting on April 10 and received the first round of stakeholder comments April 28. To facilitate more deep dives into the tariff development and discuss stakeholder comments, we have scheduled a series of workshops for May 15, 19, and 22 and continue to target the EDAM tariff filing with the Federal Energy Regulatory Commission (FERC) at the end of June.

Separately, we are in the process of developing systems and software requirements to support EDAM implementation. These activities will continue into the better part of next year, with market simulation to ensure that software, systems and processes can be tested and that software is in place during fall of 2024.

We have also started onboarding discussions with PacifiCorp and are continuing to target spring 2025 onboarding. We very much appreciate the significant continued collaboration with stakeholders as we continue to move forward through this new phase of our discussions.

DAY-AHEAD MARKET ENHANCEMENTS

At our May Board meeting, we are bringing you a proposal to enhance the ISO's day-ahead market. The proposal provides critical design enhancements to ensure the day-ahead market efficiently schedules resources to account for increasing levels of net load forecast uncertainty between day-ahead and real-time markets. Net load uncertainty continues to increase as the generation fleet turns over to a cleaner, but more variable, resource mix. The proposed enhancements are also important elements of EDAM as they unlock significant diversity benefits across the expanded EDAM footprint. The day-ahead market enhancements are designed to be implemented concurrently with EDAM.

The development of a new imbalance reserve product and enhancements to the residual unit commitment (RUC) process are significant changes to the day-ahead market structure that have raised robust discussions with stakeholders. In February, we decided to extend the stakeholder process to fully consider stakeholder feedback and address remaining concerns. The result is a proposal that provides enhanced protections to guard against unintended market outcomes. Those protections include flexible parameters that can be adjusted to ensure the design provides the proper balance between operational benefits and cost. Also, the ISO has committed to an enhanced market simulation process to provide a basis for the initial setting of the flexible parameters to ensure the design works as intended. The ISO will continue to diligently monitor market results after we go live to identify whether further adjustments are necessary to achieve the desired market outcomes.

RESOURCE SUFFICIENCY EVALUATION ENHANCEMENTS PHASE 2

We have also made considerable progress with phase 2 of our resource sufficiency evaluation enhancements (RSEE). As you will recall, the ISO received approval during the December 2022 joint governance meeting to proceed with filing at FERC our RSEE Phase 2 changes that include the creation of an assistance energy transfer market product, revisions to export tagging rules that more accurately describe the quality of the export products purchased from the ISO balancing authority area and enhancements to how ISO exports are evaluated in the WEIM resource sufficiency evaluation.

We filed tariff revisions reflecting these changes at FERC on March 31 and are expecting an order near the start of the summer operating season. The ISO is also in the process of revising its business practices that relate to these policy changes, including language in our business practice manuals that governs the conditions under which the ISO would utilize the assistance energy transfer functionality.

2022-2023 TRANSMISSION PLAN

The Board this month is also being briefed on and asked to approve the ISO's 2022-2023 Transmission Plan, which was released on April 3, 2023. Developed in close coordination with the California Public Utilities Commission (CPUC) and the California Energy Commission (CEC), this year's plan reflects a much more strategic and proactive approach to better synchronize power and transmission planning, interconnection queuing and resource procurement. The plan is consistent with the Memorandum of Understanding (MOU) signed by the ISO and the two state entities last December that tightens those same key linkages so California is better equipped to onboard as much as 7,000 megawatts of new resources each year over the coming decade and meet its reliability needs and the clean-energy policy objectives of Senate Bill 100.

As described in the MOU, the CPUC will continue to provide resource planning information to the ISO, as it did for this transmission planning cycle. The ISO will develop a final transmission plan, initiate the transmission projects and communicate to the electricity industry specific geographic zones that are being targeted for transmission projects along with the capacity being made available in those zones. The CPUC will in turn provide clear direction to load-serving entities to focus their energy procurement in those key transmission zones, in alignment with the transmission plan. To bring this more coordinated approach full circle, the ISO will give priority to

interconnection requests located within those same zones in its generation interconnection process.

This year's plan found the need for a total of 46 transmission projects, the vast majority of which would be built in California. They range in projected costs from \$4 million to \$2.3 billion, for a total infrastructure investment of an estimated \$9.3 billion. The plan represents the next major installment of infrastructure investment required to meet California's long-term clean energy goals. I would also add that, in close coordination with regulatory agencies, load-serving entities and other key stakeholders we worked with to put this plan together, we did our best to address the state's reliability and policy needs in the most cost-effective and efficient way possible.

INTERCONNECTION PROCESS ENHANCEMENTS

On the very closely related matter of interconnection queue management, as I have reported previously, the ISO launched its process to address the need for transformational reform of our interconnection queuing processes on March 6, with the posting of an initial issue paper that set out the context and need for these changes.

Overall, the initial feedback to the proposal has been positive. There is widespread agreement with the need for transformational changes in the interconnection process and alignment with resource planning, transmission planning and procurement, as our transmission plan underscores. At the same time, however, there are deep concerns with the details of how best to achieve that change. We will continue working through the issues with our stakeholders in the months ahead.

The need for solutions was further reinforced by results of the Cluster 15 interconnection request application window, which was open April 3-16. While our survey of potential applications in December had indicated approximately 300 applications could be received, which was already sufficient to necessitate reform of this process, we wound up receiving 546 applications. This volume, far surpassing the Cluster 14 "supercluster" of 373 applications, most assuredly drives home the need for reform.

As I also reported earlier, the interconnection process reform initiative is proceeding in two tracks. The first addresses the immediate issue of needing to manage the schedule for the Cluster 15 interconnection request applications, and you will be asked at the Board meeting to approve the tariff changes that will allow the schedule to be adjusted. The schedule changes are critical to ensure that the process reform is in place when we address the Cluster 15 applications, and to allow the ISO's planning and engineering staff and the utilities to focus on the Cluster 14 projects that have moved into the detailed phase II study process. The second track focuses on the substantive process changes themselves, and the ISO is targeting posting a straw proposal by the end of this month.

ASSEMBLY BILL 538

On April 26, following a vigorous debate in the Assembly Utilities and Energy Committee, Assembly Bill 538 sponsored by Assembly Member Chris Holden was successfully voted out of the committee with several amendments and sent to Assembly Appropriations for additional

debate and consideration. There is a tremendous amount of energy and focus within California and across the West on the issue of regional market coordination and we look forward to the next steps in this important and timely conversation.

ONBOARDING NEW WEIM PARTICIPANTS

On April 5, we announced the official entry of three new participants in the WEIM, all of whom have on-boarded successfully. With that, the WEIM now represents nearly 80% of the demand for electricity in the Western interconnection. We are very happy to welcome to the WEIM the Western Area Power Administration (WAPA) Desert Southwest region, El Paso Electric (EPE) and AVANGRID.