

Memorandum

To: ISO Board of Governors
From: Steve Berberich, President and Chief Executive Officer
Date: March 15, 2018
Re: **CEO report**

This memorandum does not require Board action.

OVERALL SYSTEM CONDITIONS

Overall, system conditions have been represented by relatively low loads and cooler than normal temperatures. However, those cooler than normal temperatures, particularly in Southern California have impacted electric operations and market pricing due to ongoing gas curtailments to the gas-based electric generating fleet. Beginning in mid-February, SoCalGas requested that we limit the gas burn of the fleet to less than the day-ahead market results. As a result, there was significant upward pressure on wholesale prices and the ISO repeatedly issued restricted maintenance notices to ensure adequate transmission was available to deliver power to the region.

Also, with low loads and favorable renewable generating conditions, we have seen very high penetrations of renewables since the first of the year. In many cases, at least 50% of the load was served by renewables and, in one case more than 70%.

RELIABILITY COORDINATOR SERVICES

In January, 2018, the ISO notified Peak Reliability of the ISO's intention to cease receiving Peak's services providing a 20 month notice. We are now turning our attention to fully implementing those services within our operations and to be ready for certification on our readiness to provide those services in 2019. We expect to be up and running in our footprint by spring of 2019 after a period of shadowing the Peak service and then be ready to provide those services to others starting in the third quarter of 2019.

POWEREX & IDAHO EIM READINESS

Both Powerex and Idaho have certified they are ready to begin operation in the EIM market effective April 4, 2019. We look forward to having them join our market and appreciate all of the hard work both companies have invested in preparation, testing and readiness.

CONGESTION REVENUE RIGHTS

Congestion revenue rights (CRRs) are a significant part of the ISO market and indeed all RTO/ISO markets and are used by holders to hedge congestion risk. The economic theory behind them is that they reduce the cost of energy because it reduces the risk premium that might otherwise be included in energy price bids. The rights are allocated to load serving entities and auctioned off to the broader market. Unfortunately, the CRR market consistently experiences a shortfall in the amount brought in through the annual and monthly auctions and payments to CRR holders since being put in place in 2009. There are a number of causal factors that contribute to the shortfall, but Management recognizes the significant, persistent problem and is focused on developing a number of improvements that will narrow or eliminate the gap between the auction revenue and payments while still preserving the fundamental reason for CRR's to exist – hedging risk and holding down energy prices.

At this meeting, we will be asking for Board approval of several changes to the CRR market which will help narrow the gap. We also are considering bringing (after stakeholdering) more substantive changes to a future Board meeting this summer (that could be put in place for the 2019 annual allocation and auction process). One of the changes being considered is a partial funding approach to CRRs that would limit the payout of CRRs when there is a shortfall in congestion revenue collected from the day-ahead market.

RENEWABLE ENERGY PRODUCTION

New renewable production records have been achieved since the last Board meeting. The ISO set new records for instantaneous percentage of load served by renewable resources: all renewable resources 71.8% on February 18 at 2:08 p.m. and wind and solar resources reached 62.1% penetration on that same day at 2:43 p.m.

The most recent solar peak of 10,411 MW occurred on March 5, 2018 at 10:18 am. The most recent wind generation peak of 4,985 MW was set on May 16, 2017 at 5:26 p.m. We continue to also get significant renewable generation contributions from geothermal, small hydro and other sources contributing to our generation mix.

MSC APPOINTMENT

Dr. James Bushnell has served as a member of the ISO Market Surveillance Committee since 2002 and his term as a committee member expires on March 31, 2018. During his tenure on the MSC, Dr. Bushnell has provided invaluable expertise and advice to the Board of Governors, EIM Governing Body, ISO Management and staff on numerous issues relating to the operation of the ISO market.

The tariff requires that the ISO CEO, subject to approval by the Board of Governors, make appointments to the MSC. Therefore, as outlined in the Board memo, I request that the ISO

Board of Governors reappoint Dr. Bushnell as a member of the MSC and authorize execution of a contract for a three-year term.