



Memorandum

To: ISO Board of Governors

From: Keith Casey, Vice President, Market & Infrastructure Development

Date: October 19, 2016

Re: **Decision on load serving entity definition refinement proposal**

This memorandum requires Board action.

EXECUTIVE SUMMARY

Management proposes to revise the ISO tariff's definition of the term "Load Serving Entity" to include any market participant that has been granted authority pursuant to state or local law or regulation to serve its own load directly through wholesale purchases of electricity and that has chosen to exercise that authority.

This change addresses a gap in in the current tariff language. Specifically, a market participant similarly situated to a load serving entity does not meet the current tariff definition of "Load Serving Entity" because it focuses on a market participant serving end-use customers and does not address a market participant that purchases wholesale electricity itself as an end-use customer.

Moved, that the ISO Board of Governors approves the load serving entity definition refinement proposal, as described in the memorandum dated October 19, 2016; and

Moved, that the ISO Board of Governors authorizes Management to make all necessary and appropriate filings with the Federal Energy Regulatory Commission to implement the proposed tariff change.

DISCUSSION

Market participants that have authority pursuant to state or local law or regulation to serve their own load directly through wholesale electricity purchases are similar to load serving entities as currently defined in the tariff. Such participants have the obligation to serve load, their load is subject to ISO transmission access charges, and their scheduling coordinators incur congestion charges in the ISO market. Exclusion from the load serving entity tariff definition prevents such a market participant from receiving congestion revenue rights to

serve its load and fails to extend resource adequacy requirements to the market participant's load.

Management proposes to refine the load serving entity tariff definition to include market participants that have been granted authority pursuant to state or local law or regulation to serve their own load directly through wholesale purchases of electric energy and that have chosen to exercise that authority.

The ISO first suggested that such a participant should be considered a load serving entity in a July 29, 2016 tariff waiver filing submitted to FERC in order to treat the Bay Area Rapid Transit District as a load serving entity. That waiver request was granted by FERC on September 1, 2016. In that filing, the ISO also communicated to FERC that it would begin a stakeholder process to consider modifying the tariff definition of load serving entity.

Examples of such a market participant are the California Department of Water Resources and the San Francisco Bay Area Rapid Transit District. The current load serving entity definition currently accommodates the California Department of Water Resources by explicitly identifying it as a load serving entity. Management's proposed changes to the definition will more generally cover all such similarly situated market participants.

Management's proposal does not change any congestion revenue rights or resource adequacy tariff provisions; it only ensures that those provisions apply to load serving entities under the revised definition.

POSITIONS OF THE PARTIES

Stakeholders generally support the proposed tariff definition change.

Some stakeholders were initially concerned the proposed definition would involuntarily capture existing transmission contract holders or transmission ownership rights holders that are not serving their own load through wholesale purchases. Other stakeholders were initially concerned that the proposed definition would capture electric generators making unregulated retail sales to end-users on adjacent properties. Management added language to the definition to resolve these concerns.

Powerex asked the ISO to update its tariff to allow non-load serving entity exporters to receive congestion revenue rights allocations because those non-load serving entity exporters also pay transmission access charges. Management believes there are already provisions for exporters to receive congestion revenue rights allocations if they can demonstrate they have an ongoing obligation to serve load and have a contract with a supply resource in the ISO balancing area.

A table providing more detailed stakeholder comments and Management's response is attached.

CONCLUSION

Management requests the Board approve the proposed change to the load serving entity definition in the tariff as discussed above. The new definition will ensure equal treatment under the tariff for previously excluded market participants that are similarly situated to load serving entities under the current definition.