



Commission's disposition of a matter.<sup>6</sup> The protests include many arguments that the ISO could not have anticipated based on PacifiCorp's transmittal letter and to which the ISO therefore had no opportunity to respond. In addition, the protests include erroneous statements that require correction. The ISO's answer will therefore clarify matters under consideration, aid the Commission's understanding and resolution of the issues and help the Commission to achieve a more accurate and complete record, on which all parties are afforded the opportunity to respond to one another's concerns.<sup>7</sup> Accordingly, the Commission should accept this Answer.

## **II. ANSWER**

The ISO has focused this answer on protests that challenge PacifiCorp's proposal on the basis that the extension of the ISO's real-time market is not consistent with or superior to the Commission's *pro forma* open access tariff or is somehow unjust, unreasonable and unduly discriminatory because of structural flaws in the relationship between the ISO tariff and the PacifiCorp tariff. In addition, the ISO offers its perspective on a few miscellaneous issues to correct certain parties' representations concerning how the energy imbalance market operates.

### **A. The Commission Has Found the ISO's Real-Time Market to be Just and Reasonable, and Extension of That Market Will Benefit EIM Market Participants**

Powerex argues that PacifiCorp has not demonstrated that its proposal to adopt the ISO's real-time market for provision of imbalance energy service under its tariff is

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<sup>6</sup> *El Paso Natural Gas Co.*, 82 FERC ¶ 61,052 at 61,200 (1998).

<sup>7</sup> *N. Border Pipeline Co.*, 81 FERC ¶ 61,402 at 62,845 n.16 (1997); *Hopkinton LNG Corp.*, 81 FERC ¶ 61,291 at 62,382 n.4 (1997).

consistent with or superior to the *pro forma* open access transmission tariff.<sup>8</sup> Powerex offers a number of arguments why PacifiCorp has not met its burden. None of these arguments has merit.

As an initial matter, Powerex argues that PacifiCorp has not demonstrated that the ISO's locational-marginal-price-based energy imbalance market is consistent with or superior to PacifiCorp's existing tariff imbalance energy service, which is based on the Commission's *pro forma* open access transmission tariff. This argument is legally unfounded. It would require PacifiCorp to demonstrate *de novo* that the ISO's market design and locational marginal pricing are just and reasonable. PacifiCorp has no such obligation. Powerex ignores that the Commission has repeatedly found the ISO's real-time market to be just and reasonable and consistent with or superior to imbalance energy service under the *pro forma* open access tariff, including when the ISO first instituted a real-time auction market,<sup>9</sup> when the ISO moved to a nodal LMP-based market,<sup>10</sup> and when the ISO instituted 15-minute scheduling.<sup>11</sup> Powerex identifies no changed circumstances that would render these prior orders inapplicable; nor does Powerex demonstrate that the ISO's real time market is unjust and unreasonable. There is no requirement or need for PacifiCorp to "reinvent the wheel" as Powerex insists it must.

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<sup>8</sup> See Powerex at 4-5.

<sup>9</sup> *Pac. Gas & Elec. Co.*, 81 FERC ¶ 61,122 (1997); *Cal. Indep. Sys. Operator Corp.*, 123 FERC ¶ 61,180 at P 25 (2008) (order accepting the ISO's Order No. 890 compliance filing).

<sup>10</sup> *Cal. Indep. Sys. Operator Corp.*, 116 FERC ¶ 61,274 (2006).

<sup>11</sup> See *Cal. Indep. Sys. Operator Corp.*, 146 FERC ¶ 61,204 at P 53 (2014).

The lack of merit in Powerex's arguments can also be gleaned from Commission orders regarding the decisions of utilities to join existing ISOs and RTOs. Although PacifiCorp is not joining the ISO, it is adopting an existing market structure just like a new ISO or RTO member would adopt the ISO's or RTO's market structure. The ISO is unaware of any instance where the Commission has required the new member to demonstrate anew that the ISO's or RTO's market structure is just and reasonable or consistent with or superior to the *pro forma* OATT, nor does Powerex cite to any such case. To the contrary, the Commission has relied on the fact that the ISO or RTO has Commission-approved tariff provisions in place.

For example, when Allegheny Power joined PJM, certain protestors argued that Allegheny's filing provided no information regarding the implications of applying the PJM locational marginal pricing to entities in the PJM West region. The Commission rejected these arguments, ruling simply that PJM would apply its existing Commission-approved locational marginal pricing congestion management system to the expanded area, and that such system satisfied the congestion management function set forth in Order No. 2000 and approved in a PJM order issued on that day.<sup>12</sup> Similarly, when Dominion joined PJM, the Virginia State Corporation Commission requested that PJM's locational marginal pricing model not be implemented in the Dominion zone until it could be demonstrated that the locational marginal pricing rate would be just and reasonable for Virginia ratepayers. The Commission did not require Dominion to provide evidence regarding the specific operation of the PJM model in Virginia. The Commission merely

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<sup>12</sup> *PJM Interconnection, L.L.C.*, 96 FERC ¶ 61,060 at 61,214-15 (2001).

noted that that the PJM tariff provided sufficient protections to address the Virginia commission's concerns.<sup>13</sup> There is no reason PacifiCorp should bear a greater burden.

Powerex offers two reasons why it might not be just and reasonable to apply the energy imbalance market to PacifiCorp's balancing authority areas.<sup>14</sup> Neither of these reasons is valid or requires the Commission to reconsider its prior findings regarding the justness and reasonableness of the ISO's market structure. First, Powerex states that because not all generators in the PacifiCorp balancing authority area will participate in the energy imbalance market, there is no guarantee that PacifiCorp Energy will be bidding the most efficient units into the market. Thus, according to Powerex, there is not sufficient assurance that the market will provide the most cost-efficient source of imbalance energy.<sup>15</sup>

Powerex's argument has two fundamental flaws. First, the facts that Powerex proffers do not provide a basis for distinguishing between the operation of the real-time market in the ISO's balancing authority area, which the Commission has already found to be just and reasonable, and its proposed operation in PacifiCorp's balancing authority areas. While there may be no guarantee that the most inexpensive generation in the PacifiCorp balancing authority area will bid into the market, there is also no guarantee that generators in the ISO balancing authority area will bid into the ISO's real-time market; the only generators that are required to bid into the ISO's markets are those

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<sup>13</sup> *PJM Interconnection, L.L.C.*, 109 FERC ¶ 61,012 at PP 59-60 (2004).

<sup>14</sup> Powerex also makes an argument regarding the manner in which PacifiCorp will calculate imbalance service costs for the purpose of allocating ISO charges to PacifiCorp. Powerex at 13-31. The ISO is only addressing here arguments that implicate the relationship between the ISO and PacifiCorp tariffs.

<sup>15</sup> Powerex at 32.

with resource adequacy contracts. The underlying premise of the ISO's real-time market, and other auction-based markets, is that the existence of substantial demand and the availability of a single price auction will provide a sufficient incentive to draw cost-efficient resources into the market. This principle applies with equal force in PacifiCorp's balancing authority area as it does in the ISO's.

The second flaw in Powerex's argument is that PacifiCorp's existing open access tariff imbalance energy service provides no greater assurance that PacifiCorp will be able to obtain imbalance energy at the lowest possible price than does the imbalance energy market. Stated differently, there is no requirement that resources in PacifiCorp's balancing authority area provide imbalance energy service at the lowest cost. Thus, there is no basis for claiming that the energy imbalance market may be inferior to PacifiCorp's existing imbalance energy service.

Moreover, price is not the only factor in determining whether a rate is just and reasonable. Other concerns are at least equally, and perhaps more, important. For example, locational marginal pricing is more consistent with cost causation than PacifiCorp's existing proxy price-based structure because it takes location into account. As the Commission recognized in approving the ISO's locational marginal pricing markets and rejecting claims that locational marginal pricing would result in rising energy costs, "using a system of locational prices, prices at a given location will reflect the market price of what that power is worth given transmission constraints" and locational marginal pricing "provides a transparent price signal reflecting the marginal cost to supply energy at specific locations."<sup>16</sup> Moreover, the locational marginal pricing

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<sup>16</sup> *Cal. Indep. Sys. Operator Corp.*, 116 FERC ¶ 61,274 at P 62.

market design “promotes efficient trading,” “promote[s] the use of the lowest-cost generation, provide[s] for transparent price signals, and enable[s] transmission grid operators to operate the grid more reliably.”<sup>17</sup> Powerex identifies no unique circumstances surrounding PacifiCorp that would render the Commission’s previous findings regarding the benefits of locational marginal pricing markets inapplicable, distinguish PacifiCorp’s situation from those of the ISO’s participating transmission owners prior to their joining the California ISO, or distinguish PacifiCorp from the numerous transmission owners that have joined other ISOs or RTOs.

Powerex’s second specific contention is that the adoption of the energy imbalance market would undermine or weaken the *pro forma* open access transmission tariff’s incentives to provide accurate schedules.<sup>18</sup> The ISO has addressed these concerns in response to Powerex’s protest of the ISO’s energy imbalance market tariff filing. As the ISO explained there, the ISO has included in its proposal measures to address differences between the ISO balancing authority area and the PacifiCorp balancing authority area in this regard. The Commission will determine in that proceeding if the measures contained in the energy imbalance market tariff provisions are just and reasonable as applied to PacifiCorp’s participation in the energy imbalance market. There is no need for PacifiCorp to provide redundant proof in its filing or to litigate the same issue in two concurrent proceedings. The ISO also notes that the Commission has previously rejected arguments by Powerex that the ISO’s energy imbalance market structure is inferior to the *pro forma* open access tariff because it will

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<sup>17</sup> *Id.* at P 63.

<sup>18</sup> Powerex at 35-37.

not encourage consistent and accurate scheduling.<sup>19</sup> Powerex provides no evidence than would require reconsideration of those prior findings.

Utah Associated Municipal Power Systems (“UAMPS”) argues that the benefits of the energy imbalance market should be further considered prior to implementation, particularly in light of PacifiCorp’s compliance with Order 764.<sup>20</sup> UAMPS also suggests that the benefits that accrue to each of PacifiCorp’s balancing authority areas should be separately considered.<sup>21</sup>

Despite UAMPS arguments, the benefits of an energy imbalance market have been the subject of considerable study, have been widely considered, including by Commission staff,<sup>22</sup> and are more than sufficiently documented to justify the costs of moving forward. The ISO will not retread this ground. The ISO also notes that the benefits PacifiCorp customers may experience upon compliance with Order 764 are not equivalent to the benefits these same customers will experience with the implementation of the energy imbalance market. The ISO has not only implemented scheduling changes in compliance with Order 764<sup>23</sup> but also has gone further and introduced significant additional features, including the settlement of all transactions on

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<sup>19</sup> *Cal. Indep. Sys. Operator Corp.*, 123 FERC ¶ 61,180 at PP 20-25.

<sup>20</sup> UAMPS at 1-8.

<sup>21</sup> *Id.* at 8-10.

<sup>22</sup> See Federal Energy Regulatory Commission staff paper, *Qualitative Assessment of Potential Reliability Benefits from a Western Energy Imbalance Market* (Feb. 26, 2013), available at <http://www.caiso.com/Documents/QualitativeAssessment-PotentialReliabilityBenefits-WesternEnergyImbalanceMarket.pdf>.

<sup>23</sup> *Cal. Indep. Sys. Operator Corp.*, 146 FERC ¶ 61,205 (2014); see also *Integration of Variable Energy Resources*, Order No. 764, FERC Stats. & Regs. ¶ 31,331, *order on reh’g*, Order No. 764-A, 141 FERC ¶ 61,232 (2012), *order on reh’g*, Order No. 764-B, 144 FERC ¶ 61,222 (2013) (“Order No. 764”).

a fifteen-minute basis, as well as enhanced bidding and scheduling for variable energy resources.<sup>24</sup> In its Order approving these changes, the Commission found:

CAISO's proposal to establish 15-minute scheduling and settlement for all transactions, both internal and at the interties, offers numerous benefits in addition to complying with the minimum requirements of Order No. 764. These benefits include: more efficient scheduling of all resources due to more granular forecasts and shortened lead times, consistent settlements of internal and intertie transactions in one market at one price, options for retaining hourly scheduling on the interties to avoid seams issues while other balancing authorities in the West transition to 15-minute scheduling, and more appropriate treatment of VERs than the existing participating intermittent resource program. . . .

[T]he proposed 37.5-minute requirement is an improvement over the current 90-minute deadline and should help to reduce VERs' exposure to imbalance energy costs due to more accurate output forecasts, submitted or generated closer in time to the dispatch interval. Other resources will have the same ability to reduce their exposure to imbalance energy costs by updating their outage information 37.5 minutes prior to the 15-minute interval. Further, . . . this timeline is reasonable given CAISO's need to complete the market run prior to the WECC e-tag deadline of 20-minutes before the operating interval and the general complexity of the CAISO and western markets. Thus, . . . the 37.5-minute requirement is consistent with and superior to the requirements of Order No. 764.<sup>25</sup>

These benefits of settling all transactions on a 15-minute basis will accrue to PacifiCorp customers upon implementation of the energy imbalance market. For example, the availability of forward fifteen-minute market schedules supports variable energy resources being economically dispatched on a five-minute basis. Another benefit accrues to conventional resources with outages. Specifically, once an outage is known, the deviation is settled at the fifteen-minute market price and not the five-minute market price, which has the benefit of committing additional cost effective resources to replace

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<sup>24</sup> See *Cal. Indep. Sys. Operator Corp.*, 146 FERC ¶ 61,204 (2014)

<sup>25</sup> *Id.* at PP 53-54.

the energy lost as a result of the outage. Such benefits are not available through PacifiCorp's Order 764 compliance provisions.

UAMPS presents no evidence to suggest that these Commission-recognized benefits will not materialize. Its speculation that differences between PacifiCorp's balancing authority areas might make a difference is not sufficient to negate the Commission's findings. Any suggestion that further study of the energy imbalance market is required prior to implementation is simply a delay tactic that the Commission should dismiss. The ISO has committed to report metrics to evaluate the benefits of the energy imbalance market going forward. PacifiCorp and its customers will be able to assess this data and evaluate whether continued participation makes economic sense for them.

Deseret Generation & Transmission Co-operative, Inc. d/b/a Deseret Power ("Deseret") argues that the energy imbalance market timelines, which are consistent with the Order 764 timelines implemented by the ISO, would increase rather than reduce the cost of scheduling imbalance energy.<sup>26</sup> Deseret is correct that the timeframe for it to revise its schedule would be reduced, but this is a necessary consequence of the operation of the fifteen-minute market run, which will provide countervailing benefits. Through the fifteen-minute market, the ISO will economically reschedule the entire system, thus ensuring that expected system conditions are met with the most efficient resources. As noted above, the Commission has recognized the overall advantages provided by the fifteen-minute market and determined the ISO's approach to be just and reasonable. Deseret does not show otherwise.

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<sup>26</sup> Deseret at 18-19.

**B. The Tariff Framework Presented by the ISO and Implemented by PacifiCorp Meets All Commission Requirements.**

UAMPs, Bonneville Power Administration (“Bonneville”), Tri-State Generation and Transmission Association, Inc. (“Tri-State”), Deseret, and Powerex suggest that the tariff framework proposed by the ISO and adopted by PacifiCorp does not satisfy the Commission’s requirements or is somehow unjust and unreasonable.<sup>27</sup> Their basic argument is that all rates, terms and conditions of service must be included in a single tariff, and that references to the ISO tariff in PacifiCorp’s tariff are inconsistent with the Commission requirement. They suggest that the proposed framework will require them to follow different stakeholder processes, and that this represents an administrative burden that renders the framework unjust and unreasonable. In addition, they express concern that PacifiCorp’s tariff defers to the ISO tariff in the event of an inconsistency with respect to those matters that are determined under the ISO tariff.

These arguments rest on the erroneous assumption that the cross-references represent tariff provisions governing service provided by PacifiCorp or obligations imposed by PacifiCorp. That is not the case. PacifiCorp is in effect contracting with the ISO to provide the energy imbalance service required by Order No. 888. The ISO is providing the service pursuant to the ISO tariff. Only those entities participating in the energy imbalance market, including PacifiCorp, will be taking service under the ISO Tariff. PacifiCorp’s tariff is therefore complete to the extent it indicates that the imbalance energy service is provided by the ISO.

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<sup>27</sup> UAMPS at 15-18, Bonneville at 21-23, Tri-State at 9-14; Deseret at 5, and Powerex at 76-80.

PacifiCorp's references to the ISO tariff are no different than the references to ISO services in the transmission owner tariffs of the ISO's participating transmission owners. For example, those tariffs provide for the requirement to include ancillary services by stating that the ISO will procure such services.<sup>28</sup> The Commission has found the transmission owner tariffs to be just and reasonable,<sup>29</sup> so there is no basis for concluding that PacifiCorp's tariff is any less just and reasonable.<sup>30</sup> To be sure, PacifiCorp provides more detail in its tariff, but this goes beyond the minimum necessary to comply with Commission requirements; it is simply included for the convenience of PacifiCorp's transmission customers, not because the additional detail is required.

The same is true with regard to the cross-references to customers' obligations. The cross-referenced obligations, with a few exceptions, are obligations imposed on EIM Market Participants by the ISO tariff, not the PacifiCorp tariff. There is no requirement that they be referenced in the PacifiCorp tariff. PacifiCorp has included such references for the convenience of its customers.

The only exception to the points above would be any obligation imposed on non-EIM participants, which apply to those entities through their relationship with PacifiCorp.

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<sup>28</sup> See, e.g., [Pacific Gas and Electric Co. Transmission Owner Tariff, § 6](#), [Southern California Edison Co. Transmission Owner Tariff, § 6](#).

<sup>29</sup> *Pac. Gas & Elec. Co.* 81 FERC ¶ 61,323 (1997).

<sup>30</sup> Another simple example disproving Powerex's claims is the situation where public utility members of ISOs and RTOs incur certain reliability costs (e.g., reliability must-run) due to their membership in the ISO/RTO and pass such costs through to customers through their tariffs on file with the Commission. See, e.g., [Pacific Gas and Electric Co. Transmission Owner Tariff, § 15](#). These public utilities are not required to demonstrate that the ISO/RTO tariff provisions are just and reasonable or that the costs charged by the ISO/RTO pursuant to their tariff are just and reasonable. Likewise, PacifiCorp should not be required to demonstrate that the ISO's energy imbalance market tariff provisions are just and reasonable.

In some cases, for example the operating characteristics to which UAMPS refers,<sup>31</sup> PacifiCorp cannot incorporate them in its tariff because they are contained in an ISO business practice manual, not the ISO tariff. It is the ISO's understanding that PacifiCorp will incorporate these requirements in its business practice when they are published, thus resolving any concerns about use of cross-references.

For these same reasons, it is necessary that provisions in the ISO tariff affecting the operation of the energy imbalance market govern in the case of conflicts with the PacifiCorp tariff. The ISO must conduct the energy imbalance market for all participating balancing authority areas in accordance with *its* tariff. It would not be possible to conduct that market in accordance with a filed tariff if each participating balancing authority could override the applicable market rules in its own tariff. Such a framework would cause inconsistency and confusion.

UAMPS suggests that it would not have the same opportunity to participate in the ISO stakeholder process as other market participants.<sup>32</sup> This reflects a fundamental misunderstanding of the ISO's stakeholder process, which is open and transparent.<sup>33</sup> All interested parties, regardless of their status or participation, can take part in the ISO process as stakeholders. PacifiCorp customers are welcome and have an opportunity to be heard equal to any other party. A simple review of the stakeholder comments on the energy imbalance markets demonstrates this fact.<sup>34</sup> The ISO notices its stakeholder

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<sup>31</sup> UAMPS at 14-15.

<sup>32</sup> UAPMS at 16-18.

<sup>33</sup> See *Cal. Indep. Sys. Operator Corp.*, 133 FERC ¶ 61,067 (2010) (discussing RTO/ISO responsiveness following a technical conference on Order 719 compliance filings).

<sup>34</sup> Stakeholder comments on the ISO's Energy Imbalance Market are available at <http://www.caiso.com/informed/Pages/StakeholderProcesses/EnergyImbalanceMarket.aspx>

meetings, permits participation by phone or the web and allow stakeholders to submit written comments on all ISO issue papers and straw proposals. Stakeholders also have the opportunity to submit written comments to the ISO Board or to appear in person and speak in public comment.

**C. Operation of the Energy Imbalance Market Does Not Impact Transmission Rights of Third Parties.**

The Transmission Agency of Northern California (“TANC”) and others express concern that operation of the energy imbalance market will adversely impact their rights, and that some form of mitigation agreement is required to provide them the further assurances they seek.<sup>35</sup> TANC provides an example purportedly illustrating how lower priced bids in the PacifiCorp balancing authority area could be dispatched at a level exceeding the EIM Transfer limit in order to serve load in the ISO balancing authority area at a lower cost, potentially affecting the transfer capacity to which TANC is entitled.<sup>36</sup>

TANC’s example demonstrates either that it does not understand the operation of security constrained economic dispatch in the ISO’s real time market or that it believes the ISO will not manage EIM Transfer limits in a manner similar to the manner in which the ISO manages internal constraints on the ISO system. As explained in the ISO’s filing, the energy imbalance market will model the EIM Transfer limits as additional constraints in the network model.<sup>37</sup> These additional constraints will be enforced and can bind, thereby restricting EIM Transfers to the available limit regardless of the

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<sup>35</sup> TANC at 8-13.

<sup>36</sup> *Id.* at 8-9

<sup>37</sup> See ISO’s Tariff Amendments to Implement an Energy Imbalance Market, Docket No. ER14-1386-000 (filed Feb. 28, 2014).

amount of lower cost generation on the other side of the additional constraints. In other words, the security constrained dispatch will not allow EIM Transfers to exceed EIM Transfer limits and, therefore, TANC's rights cannot, and will not, be affected.

**D. By Definition Pseudo-Tie Resources Are Located Within the Metered Boundary of an EIM Entity.**

Bonneville is concerned that the definition of "EIM Participating Resource" is not clear because a pseudo-tied resource is not physically located within the balancing authority area to which it is tied, but PacifiCorp has proposed to allow pseudo-tied resources to be EIM Participating Resources based on the ISO tariff.<sup>38</sup> The ISO tariff simply requires that a resource be located within the EIM participating balancing authority area, and that is determined by the applicable reliability standards. The reliability standards require all generators to be located within the metered boundary of a balancing authority area, without reference to their physical location.<sup>39</sup> It is the metered boundary, not the physical location of the resource, that determines whether a resource is within a particular balancing authority area. This makes sense because a pseudo-tied resource is by definition located within the metered boundary of its attaining balancing authority area, not the balancing authority area where it is physically located.<sup>40</sup> Accordingly, the ISO considers pseudo-tied resources to be within the balancing authority area of the energy imbalance market participant, and does not believe further clarification is warranted.

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<sup>38</sup> Bonneville at 12-13.

<sup>39</sup> See [NERC Reliability Standards, BAL-005](#).

<sup>40</sup> See [NERC Glossary of Terms](#).

**E. The ISO Does Not Object to Consolidation if the Commission Believes It Would Facilitate Resolution of the Few Issues that May Be Relevant in Both Dockets.**

The ISO opposed consolidation in its answer to comments and protests filed in response to its tariff amendment to implement the energy imbalance market.<sup>41</sup> The ISO continues to believe consolidation is unnecessary for the reasons stated in that answer. However, questions have been raised in this proceeding regarding whether the rates, terms and conditions of the ISO tariff remain just and reasonable when applied by PacifiCorp under its OATT. Although the ISO continues to believe it is not necessary to consolidate the proceedings to resolve these issues, the ISO would not object if the Commission found it appropriate to consolidate the dockets and issue a single order, provided such does not delay issuance of an order and jeopardize the proposed start date of the expanded energy imbalance market.

**III. CONCLUSION**

For the reasons discussed above, the Commission should accept the ISO's answer and approve the PacifiCorp OATT amendment as filed, subject only to a compliance filing as may be directed by the Commission to clarify matters as appropriate.

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<sup>41</sup> ISO Answer in Docket No. ER14-1386-000 at 94 (filed Apr. 15, 2014).

Respectfully submitted,

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## CERTIFICATE OF SERVICE

I hereby certify that I have served the foregoing document upon the parties listed on the official service list in the captioned proceeding, in accordance with the requirements of Rule 2010 of the Commission's Rules of Practice and Procedure (18 C.F.R. § 385.2010).

Dated at Washington, D.C., this 12<sup>th</sup> day of May, 2014.

/s/ Michael E. Ward

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