

Memorandum

To: ISO Board of Governors

From: Roger Collanton, Vice President, General Counsel & Chief Compliance Officer

Date: December 7, 2016

Re: Regulatory update

This memorandum does not require Board action.

Highlights

- *FERC accepted phase 2 of the Aliso Canyon electric-gas coordination interim enhancements*
- *ISO filed in compliance with FERC Order Nos. 827 and 828 related to new generator interconnection requirements*
- *FERC accepted Dynamic Scheduling Host Balancing Authority Operating Agreement between the ISO and APS*
- *ISO filed request for rehearing of FERC's order rejecting the ISO's refund report related to commitment costs (Amendment No. 60)*
- *FERC denied complaint filed by HORUS Central Valley Solar*
- *CPUC adopted policy guidelines to assess time-of-use periods for future time-of-use rates and energy resource contract payments*
- *FERC accepted the ISO's local market power mitigation tariff amendment*
- *ISO filed new administrative pricing policy*
- *FERC accepted new bidding rules and commitment costs rules*

Federal Energy Regulatory Commission and related Court of Appeals matters

- **Tariff amendment to maintain for one year electric-gas coordination enhancements of the Aliso Canyon gas storage facility (ER17-110)**

On November 28, 2016, FERC accepted the ISO's tariff amendment to maintain in effect for an additional 12 months certain measures FERC previously approved to address market and operational issues arising from the inoperability of the Aliso Canyon gas storage facility. This will ensure that for the next 12 months the ISO will continue to have the tools it needs to mitigate reliability and market distortion risks posed by the expected limited operability of Aliso Canyon. FERC requires some modifications, and the ISO will submit a compliance filing with the appropriate tariff language that will be in effect after the 12 month period expires.

- **PMin re-rate consistency filing (ER17-416)**

On November 25, 2016, the ISO filed amended tariff language to align with FERC-approved policy that the ISO update the minimum load costs for use in its markets when a generator re-rates its minimum load amounts through the ISO outage management system, and compensate resources consistent with those updated costs. The new tariff provisions ensure that in evaluating whether a generator has reached its minimum load amounts, which is a requirement for qualification of start-up and minimum load costs, the ISO will consider the minimum load amounts as updated through the outage management system consistent with the FERC-approved policy. No stakeholder has opposed or otherwise expressed concerns about the tariff revisions submitted to FERC.

- **Administrative pricing policy enhancements tariff amendment (ER17-415)**

On November 23, 2016, the ISO amended its tariff to enhance its administrative pricing policy, and to clarify and update tariff provisions that apply to emergency operations. The proposed changes provide greater transparency and more appropriate pricing logic depending on the interval and how many intervals are missing, and whether the day-ahead market or the real-time market is involved. The ISO also proposes to reorganize, streamline, and clarify certain sections to improve the readability and logical flow of the emergency tariff provisions. Lastly, consistent with guidance provided in a prior FERC order, the ISO proposes to clarify that in the event of an "uncontrollable force," a market participant is not held harmless from the financial consequences of binding market results.

- **FERC order accepting bidding rules and commitment costs tariff amendment (ER16-2445)**

On November 21, 2016, FERC accepted the ISO's bidding rules and commitment costs tariff amendment, to be effective November 30, 2016. FERC accepted ISO's proposed bidding enhancement measures: (1) to allow scheduling coordinators to rebid commitment costs in the ISO's real-time market if they were not committed in the day-ahead market or residual unit commitment process; (2) to ensure that ISO's short-term unit commitment

process does not commit resources that did not submit bids into the real-time market unless they were scheduled or committed in the day-ahead market or had a real-time must-offer obligation; and (3) to allow scheduling coordinators to seek after-the-fact recovery of unrecovered commitment costs that exceed the commitment cost bid cap as a result of actual marginal fuel procurement costs pursuant to a filing submitted to FERC. FERC's approval is subject to the ISO submitting an informational report by October 1, 2017.

- **Request for clarification or, in the alternative, request for rehearing of FERC's order regarding the ISO's refund report related to commitment costs (ER04-835 and EL04-103)**

On November 21, 2016, the ISO requested clarification or, in the alternative, rehearing of FERC's October 20, 2016, order rejecting the ISO's informational refund report filed on December 20, 2013. The information refund report detailed the issuance of refunds related to commitment costs, as per a FERC order in November 2007. The ISO requests that FERC clarify that it did not intend in the October 20 order to negate its prior refund directive, or in the alternative to grant rehearing to reverse its statement that it did not order refunds in Docket Nos. ER04-835 and EL04-103.

- **FERC order accepting tariff amendment regarding local market power mitigation (ER16-1983)**

On November 8, 2016, FERC accepted the ISO's proposed tariff revisions to modify its local market power mitigation procedures used in its five-minute real-time dispatch process. The tariff revisions are intended to improve the accuracy of such mitigation, addressing situations where the ISO currently under-mitigates in the real-time dispatch process, which produces distinct unit dispatches and locational market prices for discrete five-minute increments, to be effective January 30, 2017.

- **FERC order denying HORUS Central Valley Solar 1, LLC and HORUS Central Valley Solar 2, LLC's complaint**

On November 1, 2016, FERC denied a complaint filed by HORUS Central Valley Solar 1, LLC and HORUS Central Valley Solar 2, LLC. The complaint alleged that: (1) the ISO was interfering with HORUS's compliance with the interconnection procedures of Western Area Power Administration for its direct interconnection with the Administration as an energy-only resource; and (2) that the ISO was violating its own tariff by requiring HORUS to go through a second set of interconnection procedures and studies under the ISO tariff. FERC rejected these allegations and denied the complaint. FERC agreed with the ISO that HORUS was interconnecting to Western's interconnection facilities to the ISO controlled grid, and therefore had to interconnect pursuant to the ISO tariff.

- **Tariff amendment to modify the definition of Load Serving Entity (ER17-218)**

On October 28, 2016, the ISO amended its tariff definition of load serving entity to include an end user that has the right under state or local law to serve its own load through the

direct purchase of wholesale energy and exercises that right. Currently, the tariff identifies one such entity, the State Water Project of the California Department of Water Resources, as a Load Serving Entity. Through this amendment the ISO would create a generally applicable rule that treats all similarly situated entities the same. The revision also acknowledges that parties engaging in certain unregulated retail transactions permitted under state law are not load serving entities solely because they take part in such transactions. Finally, the revision removes an errant reference to California law that should have been removed when Valley Electric Association, Inc., joined the ISO Balancing Authority Area.

- **Motion for clarification and request for rehearing – Frequency Response (ER16-1483)**

On October 17, 2016, the ISO requested clarification or, in the alternative, rehearing on FERC's September 16, 2016, order accepting revisions related to NERC's Reliability Standard BAL-003-1.1 – *Frequency Response and Frequency Bias Setting*. The tariff provisions authorize the ISO to procure transferred frequency response from other balancing authorities in the Western Interconnection. The ISO requested clarification that a balancing authority may support a contract to provide transferred frequency response to the ISO during a specific compliance year based on the balancing authority's annual frequency response measure under Reliability Standard BAL-003-1.

- **Compliance with FERC orders on new generator interconnection requirements (Order Nos. 827 and 828) (ER17-114)**

On October 14, 2016, the ISO amended its tariff to comply with FERC Order No. 827 and Order No. 828. These orders establish new interconnection requirements for non-synchronous resources to provide reactive power capability as well as frequency and voltage ride through capability for all small generating facilities. Newly interconnecting non-synchronous generators that have not executed a facilities study agreement as of the effective date of the final rule (September 21, 2016) must provide dynamic reactive power within a certain range. In addition, generating facilities of no more than 20 MW must design their facilities to ride-through abnormal frequency and voltage events and not disconnect during such events.

Regulatory Agreements

- **Transferred frequency response service agreements (ER17-408)**

On November 22, 2016, the ISO filed two transferred frequency response service agreements. One was with the City of Seattle (through Seattle City Light), and the other with Bonneville Power Administration. FERC authorized the ISO to procure transferred frequency response from other balancing authority areas in the Western Interconnection as a means to comply with reliability standards requirements (BAL-003-1.1). The contract prices for Seattle and BPA to provide transferred frequency response is less than the

estimated cost the ISO market would incur to secure additional frequency response capability through the procurement of additional regulation up.

- **Planning Coordinator Agreement with Metropolitan Water District of Southern California (ER17-170)**

On October 24, 2016, the ISO submitted to FERC for filing a Planning Coordinator Agreement with Metropolitan Water District of Southern California (MWD) dated July 21, 2016. The agreement sets forth the terms under which the ISO will serve as the planning coordinator for the transmission facilities owned by MWD and that are part of the bulk electrical system located in the ISO's balancing authority area. Under the agreement, MWD will pay the ISO an annual service fee for its services as planning coordinator during the initial three year term of the agreement

- **FERC Order accepting Dynamic Scheduling Host Balancing Authority Operating Agreement with Arizona Public Service Company (ER16-2485)**

On October 17, 2016, FERC issued a letter order accepting the Dynamic Scheduling Host Balancing Authority Operating Agreement between the ISO and Arizona Public Service Company (APS).

Reports filed

- **Market disruption reports (ER06-615 and ER07-1257)**

On October 17 and November 15, 2016, the ISO submitted to FERC its monthly market disruption reports for the periods of August 16 – September 15, 2016 and September 16 – October 15, 2016, respectively. A market disruption is an action or event that causes a failure of the ISO market related to system operation issues or system emergencies.

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

On October 17, 2016, October 31, 2016, and November 15, 2016, the ISO submitted exceptional dispatch informational reports on: (1) the price impact of exceptional dispatches as required by FERC in its September 2, 2009 order in this proceeding; and (2) an analysis of the degree of mitigation as required by tariff section 34.9.4. The Chart 1 data reports covered September 2016 and October 2016. On October 31, 2016 the ISO submitted an exceptional dispatch informational Chart 2 report for July 2016. 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 cannot be addressed by the ISO market.

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

On November 7, 2016, the ISO submitted to FERC an informational filing containing the rates or formulas used to calculate negotiated default energy bids, custom operations and maintenance adders, and major maintenance adders, that were implemented, modified or terminated for the month of October 2016. The ISO also submitted a supplemental report on November 18, 2016.

- **Informational report: Energy Imbalance Market – Enforcement of Transmission Constraints of NV Energy, Inc. (ER15-2281)**

On November 10, 2016, the ISO submitted an informational report to FERC portraying the enforcement of transmission constraints of NV Energy, Inc., in the energy imbalance market. Pursuant to the November 19, 2015, order, the ISO, and NV Energy have been coordinating in the enforcement of transmission constraints in the NV Energy balancing authority area. The list of all constraints NV Energy has modeled in their system and identifies whether each constraint is currently enforced or not, together with a classification of the reason for the constraints not enforced is displayed in this report.

- **Informational report: Energy Imbalance Market – Available Balancing Capacity Report (ER15-861)**

On November 10, 2016, the ISO submitted an informational report to FERC of the ISO's adoption of available balancing capacity (ABC) functionality so that the energy imbalance market automatically recognizes and accounts for capacity an EIM entity identifies as available to maintain reliable operations in its own balancing authority area and that is not otherwise bid into the market. The ISO's available balancing capacity enhancement was implemented on March 23, 2016. The ISO is to submit a quarterly informational report for the first year after the ISO implements the ABC functionality. The quarterly informational reports are to provide information on the performance of the ABC functionality and provide the same information the ISO provides in its monthly informational reports submitted during an EIM entity's first six-month transition period. The ISO will continue to file the quarterly report until the first year of ABC operation is complete.

California Public Utilities Commission matters

- **Reply comments on the proposed decision adopting policy guidelines to assess time periods for future time-of-use rates and energy resource contract payments (R.15-12-012)**

On November 28, 2016, the ISO submitted reply comments to the CPUC and recommended that the CPUC: 1) set the grandfathering sunset date six months from the issuance of the final decision, and 2) not extend the grandfathering policy to other load modifying technologies and customers.

- **Comments on proposed decision adopting policy guidelines to assess time periods for future time-of-use rates and energy resource contract payments (R.15-12-012)**

On November 21, 2016, the ISO filed comments with the CPUC on the Proposed Decision Adopting Policy Guidelines to Assess Time Periods for Future Time-of-Use Rates and Energy Resource Contract Payments issued by the Commission on November 1, 2016. The ISO supports the Proposed Decision as it provides a process by which the CPUC can update time-of-use periods on a regular basis, while taking into account the rapidly changing shape of the net load curve. The Proposed Decision takes several steps toward adopting time-of-use rates that better meet system demands.

- **Direct testimony of Robert Sparks (A.15-03-003)**

On November 18, 2016, the ISO submitted the direct testimony of Robert Sparks to the CPUC. Robert Sparks' testimony is to explain why the ISO identified the Mesa 500 Kv substation project (Mesa Loop-In Project) as a needed project in the 2013-2014 transmission planning process and discuss its review of certain project alternatives identified in the Final Environmental Impact Report. Mr. Sparks opined that the CPUC should approve SCE's proposal.

- **Administrative Law Judge McKinney's Decision adopting policy guidelines to assess time-of-use periods for future time-of-use rates and energy resource contract payments (R.15-12-012)**

On November 1, 2016, Administrative Law Judge McKinney issued a decision adopting policy guidelines to assess time-of-use periods for future time-of-use rates and energy resource contract payments. ALJ McKinney ordered that the CPUC's Policy Guidelines Applicable to the Design, Implementation, and Modification of Time-of-Use (TOU) Time Intervals Reflected in Rates is adopted for use in designing, implementing, and modifying the base time intervals reflected in the design of TOU rates applicable to Pacific Gas & Electric, Southern California Edison and San Diego Gas & Electric, respectively, applicable in either a general rate case phase 2 or a rate design window proceeding.

- **Notice of ex parte communication (A.12-05-020)**

On October 27, 2016, the ISO filed an ex parte notice regarding a meeting on October 24, 2016, with advisors from at Commission's office in San Francisco to discuss San Diego Gas & Electric's request for a certificate of public convenience and necessity for the South Orange County Reliability Enhancement Project.

- **Commissioner Picker's ruling on Track 3 issues**

On October 21, 2016, Commissioner Picker at the CPUC issued his ruling on Track 3 issues. Track 3 will consist of three sub-tracks. Sub-track 1: Distributed Energy

Resources Adoption and Distribution Load Forecasting; Sub-track 2: Grid Modernization Investment Guidance; and Sub-track 3: Distribution Investment Deferral Process. Items identified for Track 3 by the January 27, 2016, *Scoping Memo and Ruling* that are not germane to these sub-tracks will be eliminated from the scope.

- **Opening comments on proposed decision and alternative proposed decision re South Orange County Reliability Enhancement Project (A. 12-05-020)**

On October 17, 2016, the ISO filed opening comments with the CPUC on the proposed decision of ALJ Farrar and the alternate proposed decision of President Picker regarding the South Orange County Reliability Enhancement Project (SOCRE). The ISO supports the alternate proposed decision's conclusion to grant San Diego Gas and Electric's application for a certificate of public convenience and necessity for the SOCRE and encouraged the CPUC to reject the proposed decision.

- **Informal comments on proposed analytical framework (R.16-02-007)**

On October 14, 2016, the ISO submitted informal comments on the CPUC staff questions related to the analytical framework for the integrated resource plan proposed at the September 26, 2016, workshop.

- **Comments on Flex Alert for 2016-2017 winter season (A.12-08-007)**

On October 14, 2016, the ISO filed comments in response to whether the CPUC should direct the Southern California Gas Company to provide funding for wintertime marketing, education, and engagement activities (Flex Alerts) to help reduce the risk of natural gas and electricity curtailments in the LA basin in the upcoming 2016-2017 winter season, due to the ongoing effects of the 2015 natural gas leak at SoCalGas' Aliso Canyon storage facility. The ISO supports ongoing funding for the Flex Alert campaign to continue to mitigate issues impacting reliability with limited the limited operations of the Aliso Canyon gas storage facility in 2017.

- **Notice of ex parte communication (A.15-03-003)**

On October 13, 2016, the ISO filed an ex parte notice regarding two separate meetings with advisors from the offices of President Picker and Commissioner Randolph. The meeting was oral to discuss the status of the permit to construct the Mesa Substation 500 Kv project and was initiated by the ISO and Southern California Edison.

- **Testimony of Nebiyu Yimer (A.14-11-016)**

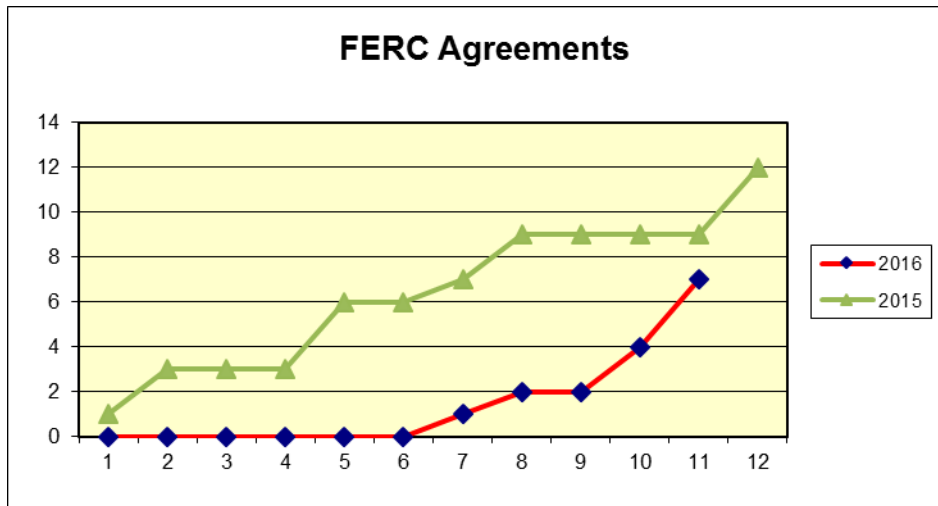
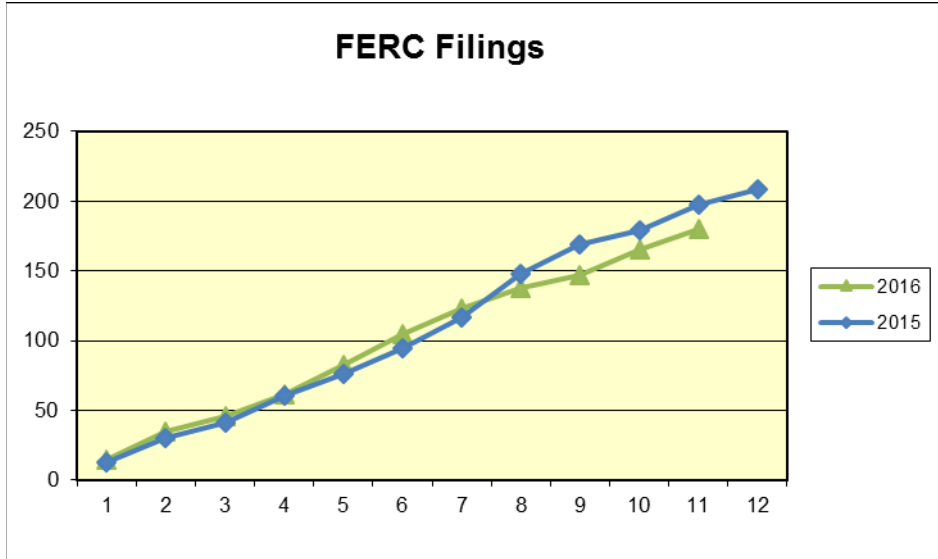
On October 13, 2016, the ISO filed testimony of Nebiyu Yimer to present the results of the ISO's analysis regarding the Moorpark sub-area need. Witness Yimer opined that there is a residual unmet local capacity requirement need in the Moorpark sub-area and recommended that the CPUC approve the contracts for the local capacity requirement needs.

California Energy Commission matters

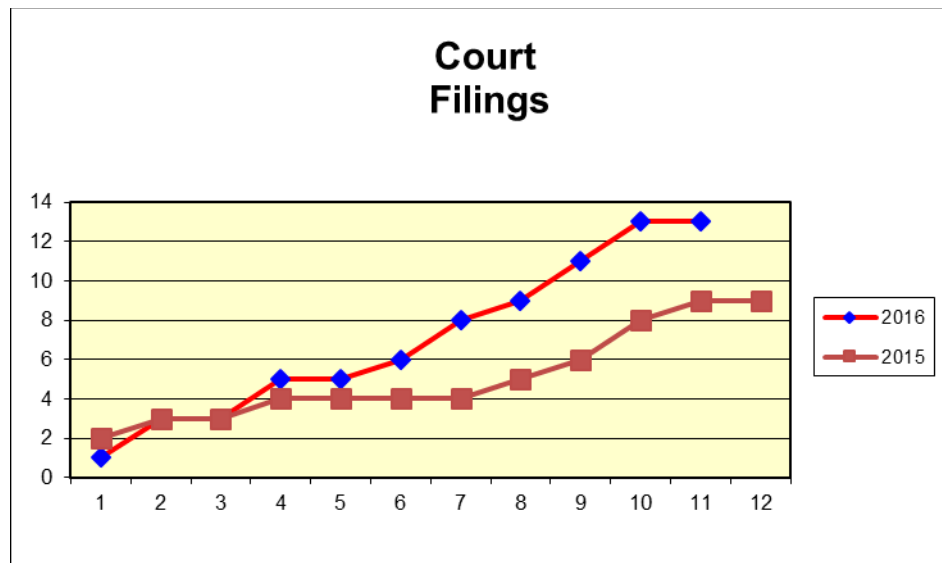
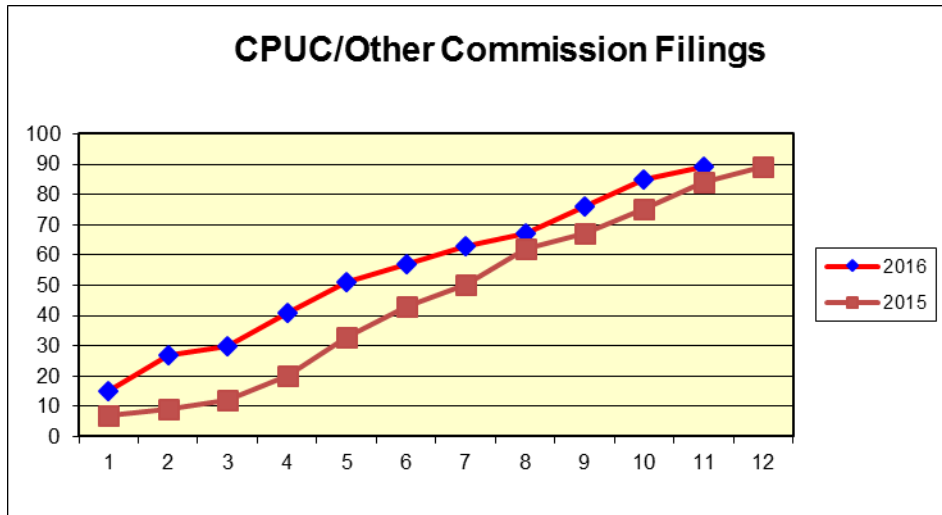
- **Final decision on Huntington Beach Energy Project**

On October 20, 2016, the CEC issued its final decision on the Huntington Beach Energy Project and granted the application for certification for the Huntington Beach Energy Project to construct and operate.

Regulatory Filings Through November 2016



Regulatory Filings Through November 2016



Regulatory Filings Through November 2016

