

Memorandum

To: ISO Board of Governors

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

Date: May 21, 2014

Re: Regulatory Update

This memorandum does not require Board action.

Highlights

- *FERC approves the ISO's new fifteen minute market enabling the ISO to more efficiently and economically integrate renewable resources in its market*
- *FERC approves the ISO's filing in compliance with FERC Order No. 764 mandating the availability of fifteen minute scheduling*
- *FERC approves the ISO's filing in compliance with Order No. 1000 establishing regional planning requirements, including process reforms and cost allocation mechanisms*
- *ISO files for transition of the United States Department of Energy National Nuclear Security Administration load and transmission facilities associated with the Nevada National Security Site from the NV Energy balancing authority area to the ISO balancing authority area*
- *FERC accepts implementation agreement with PacifiCorp for the energy imbalance market*

Federal Energy Regulatory Commission and related Court of Appeals matters

- **Order granting tariff waiver petition - Price corrections (ER14-1318)**

On May 12, 2014, FERC granted the ISO's request for a limited, one-time waiver of section 35.2 of its tariff, which requires that price corrections for each trading day be completed no later than the fifth calendar day following the trading day. The waiver authorizes the ISO to correct prices for certain hours on January 9, 13, 15 and 26, 2013, which are erroneous as posted due to a defect in the software used in price calculations.

- **Request for rehearing – Competitive transmission improvements (ER14-1206)**

On April 30, 2014, the ISO filed a request for rehearing of FERC's March 31 order which required the ISO to provide interest at the FERC rate for refunds to project sponsors on the difference between a project sponsor's deposit submitted with its proposal and the costs of studying that proposal. The ISO sought rehearing requesting that FERC allow interest to be at the actual interest earned, which is lower than the FERC rate.

- **Order conditionally accepting competitive transmission improvements amendment (ER14-1206)**

On March 31, 2014, FERC issued an order conditionally accepting the ISO's January 30, 2014, proposed tariff revisions to the phase 3 competitive solicitation procedures of its transmission planning process in order to clarify the process, implement improvements and respond to issues raised by stakeholders. FERC conditionally accepted the proposed revisions, subject to a compliance filing. The ISO revised its tariff to make its transmission planning process more open to nonincumbent transmission developers. Among the proposed tariff revisions was the introduction of a third phase of the transmission planning process during which ISO would open a bid window for project sponsors to submit applications for each transmission solution eligible for competitive solicitation. FERC directed the ISO to modify its tariff to require it to refund to the project sponsor the difference between the deposit and the study costs, including interest calculated at the statutory FERC rate.

- **Reliability demand response resource compliance filing (ER11-3616/ER13-2192)**

On March 28, 2014, FERC issued an order accepting the ISO's August 19, 2013, compliance filing in response to FERC's July 18, 2013 order on compliance and rehearing in which FERC directed the ISO to resubmit its reliability demand response resource tariff revisions with a cost allocation that complies with FERC Order No. 745. The tariff revisions became effective May 1, 2014.

- **Revisions to price corrections (ER14-1216)**

On March 27, 2014, FERC issued an order accepting the ISO's January 30, 2014, tariff revisions to improve the accuracy and certainty of ISO market prices by proposing to change the current five calendar day limitation on price corrections to three *business* days after the applicable day-ahead market and five *business* days after the applicable real-time market. The revisions became effective May 1, 2014.

- **Resource adequacy one-for-many manual substitution (ER14-1206)**

On March 27, 2014, FERC issued an order accepting, subject to modification, the ISO's January 30, 2014, tariff revisions to make clear that resources with available capacity from

a single resource may substitute for multiple resource adequacy resources on a forced outage or de-rate, and to set forth the terms under which such multiple substitutions may occur. The proposed revisions became effective April 1, 2014.

- **Market redesign and technology upgrade (ER06-615)**

On March 24, 2014, the ISO filed a motion to seeking a permanent waiver, or in the alternative an extension, of the obligation from FERC's September 2006, April 2007, and June 2012 orders in this proceeding to implement market design elements to: 1) assess whether and how to develop more flexibility in connection with ancillary services substitution; 2) implement two-tier allocation of real-time bid cost recovery uplift; 3) implement bid cost recovery changes to account for units running over multiple operating days; and 4) implement multi-hour constraints in the residual unit commitment process.

- **Gas prices tariff waiver (ER14-1440)**

On March 21, 2014, FERC issued an order granting the ISO's March 6, 2014 petition for limited waiver of tariff provisions to allow the ISO to use updated natural gas price data for market execution and settlement purposes when natural gas prices for the affected trading day significantly exceed the applicable tariff-based gas price index. Natural gas prices faced by the ISO's electric suppliers in recent months leading up to the waiver request had been uncharacteristically volatile and peaked at unprecedented levels. The waiver expired on April 30, 2014, and conditions did not reoccur necessitating utilizing the waiver.

- **Post-emergency bid cost recovery tariff amendment (ER13-2063/ER14-1004)**

On March 20, 2014, FERC issued an order accepting the ISO's tariff revisions submitted on July 30, 2013 to require that certain resources, including combined cycle units that can function in multiple operational modes, be required to register as multi-stage generating resources. The tariff revisions became effective May 1, 2014.

- **Compliance with FERC Order No. 764 (Docket No. ER14-495)**

On March 20, 2014, FERC issued an order conditionally accepting the ISO's tariff revisions submitted on November 27, 2013, to implement reforms regarding fifteen minute scheduling and the provision of meteorological and forced outage data mandated in the FERC's Order No. 764. This filing, to comply with Order No. 764, was submitted in connection with a companion ISO filing submitted the prior day under section 205 of the Federal Power Act in Docket No. ER14-480 to implement ISO market enhancements related to Order No. 764. The ISO explains in the compliance filing that the market design changes contained in the November 26 tariff filing are consistent with or superior to the intra-hour scheduling requirements of Order No. 764. The ISO submitted its compliance filing on April 21, 2014. The tariff revisions became effective May 1, 2014.

- **Real-time market design enhancements related to Order No. 764 (Docket No. ER14-480)**

On March 20, 2014, FERC issued an order conditionally accepting the ISO's tariff revisions submitted on November 26, 2013, to enhance its real-time market design to allow the ISO to more effectively and efficiently integrate large amounts of variable energy resources into the resource fleet serving ISO customers, to align its market design with certain reforms mandated in the FERC's Order No. 764, and to address identified inefficiencies in the ISO's real-time market that will also facilitate reinstatement of convergence bidding on the interties. The tariff revisions became effective May 1, 2014. The ISO submitted its compliance filing on April 21, 2014.

- **FERC Order No. 1000- regional second compliance filing (ER13-103)**

On March 20, 2014, FERC issued an order conditionally accepting the ISO's August 16, 2013, second compliance filing in connection with the regional requirements of FERC Order No. 1000. Phase 1 of Order No. 1000 established regional planning requirements, including process reforms and cost allocation mechanisms.

Regulatory Agreements

- **Silicon Valley Power metered subsystem aggregator agreement (ER14-1790)**

On April 28, 2014, the ISO filed an amendment to the metered subsystem agreement with Silicon Valley Power to align that agreement with the fifteen minute market. The ISO requested an effective date of May 1, 2014, to coincide with the fifteen minute market effective date.

- **Northern California Power Agency metered subsystem aggregator agreement (ER14-1789)**

On April 28, 2014, the ISO filed an amendment to the metered subsystem agreement with Northern California Power Agency to align that agreement with the fifteen minute market. The ISO requested an effective date of May 1, 2014 to coincide with the fifteen minute market effective date.

- **NV Energy, energy imbalance market implementation agreement (ER14-1729)**

On April 16, 2014, the ISO filed an energy imbalance market implementation agreement between the ISO and NV Energy. The agreement sets forth the terms under which the ISO will extend its existing real-time energy market systems to provide imbalance energy service to NV Energy. The ISO requested an effective date of June 16, 2014.

- **NV Energy adjacent balancing authority operating agreement (ER14-1705)**

On April 11, 2014, the ISO filed an amendment to the adjacent balancing authority operating agreement with NV Energy. The mutually agreed to amendment reflects the planned transition of the United States Department of Energy National Nuclear Security Administration load and transmission facilities associated with the Nevada National Security Site from the NV Energy balancing authority area to the ISO balancing authority area, as well as the interconnection of a 138 kV transmission line from the Innovation switchyard to the Mercury Switching Center. The ISO proposed the amendment be made effective on June 11, 2014.

- **PacifiCorp energy imbalance market implementation agreement (ER14-1350)**

On April 8, 2014, FERC issued a letter order accepting the ISO's February 21, 2014, first amendment to the implementation agreement with PacifiCorp for the energy imbalance market. The mutually agreed to amendment accounts for additional costs expected to be incurred by the ISO on behalf of PacifiCorp to include enhanced functionality associated with base schedule aggregation in the energy imbalance market design. The amendment is effective as of April 23, 2014.

- **Imperial Irrigation District dynamic transfer balancing authority operating agreement (ER14-1512)**

On April 9, 2014, FERC issued a letter order accepting the ISO's March 14, 2014 dynamic transfer balancing authority operating agreement with the Imperial Irrigation District to commence dynamic transfers between the ISO and the Imperial Irrigation District consistent with the dynamic transfer provisions of the tariff. The agreement is effective May 15, 2014.

- **Winter 2013-2014 operating and market performance (AD14-8)**

On April 2, 2014, the ISO submitted a prepared statement of Brad Bouillon, ISO Director – Day-Ahead Market and Real-Time Operations Support, focusing on two events occurring in December 2013 and February 2014 that impacted the ISO system. The prepared statement discussed: 1) the steps the ISO took to prepare for cold weather events as well as operating conditions leading into the day-ahead electricity market; 2) the ISO actions in the day-ahead timeframe as well as real-time; 3) the ISO's coordination with natural gas pipeline operators, market participants and participating transmission owners; and 4) the lessons learned from these experiences.

- **Transmission control agreement amendment (ER14-1634)**

On April 1, 2014, the ISO filed an amendment to its transmission control agreement to the protocols set forth in Appendix E that are applicable to the San Onofre Nuclear Generating Station jointly owned by Southern California Edison Company and San Diego Gas & Electric Company. Because these protocols were incorporated into a separate agreement, the proposed change seeks to replace the specifically identified protocols set forth in Appendix E with a cross-reference to the separate agreement or

any successor agreement covering these issues. The ISO requested an effective date of June 1, 2014.

- **Elk Hills net scheduled participating generator agreement (ER14-1647)**

On April 1, 2014, the ISO filed a net-scheduled participating generator agreement between the ISO and the Elk Hills Power Project. The agreement provides for the ISO to model and dispatch the Elks Hills facility on a gross basis, rather than a net basis, while preserving the net settlement rules applicable to net-scheduled resources. The ISO requested an effective date of June 1, 2014.

- **Competitive transmission improvements (ER14-1206)**

On March 31, 2014, FERC issued an order conditionally accepting the ISO's January 30, 2014, tariff revisions to clarify and enhance the ISO's transmission planning process. In particular, the tariff changes will allow for the implementation of process and policy enhancements to the project sponsor competitive selection process that takes place during phase 3 of the ISO's transmission planning process if eligible transmission solutions are identified and approved in phase 2. The revisions to the tariff are effective April 1, 2014. FERC also identified one issue to be addressed in a second compliance filing. On April 30, 2104, the ISO sought rehearing on that issue as well as filing amended tariff language.

Reports filed

- **Informational report on settlement adjustments (ER04-835) and (EL04-103) (EL04-103)**

On May 12, 2014, the ISO filed an informational report to provide FERC and parties with updated information concerning the need to republish corrected versions of the cost allocation reports, that were originally published on June 13, 2012, and to reissue corrected versions of the CDs that were previously distributed on December 20, 2013. As a result of an error identified in the dispute review process following issuance of the CDs containing the settlement data, the ISO determined that it had not reclassified all of the Miguel and South of Lugo commitments from local to zonal during the refund effective period established by FERC.

- **Department of Market Monitoring 2013 Annual Report (ZZ14-4)**

On May 1, 2014, the ISO filed the "2013 Annual Report on Market Issues and Performance" prepared by the Department of Market Monitoring of the ISO. This report is filed pursuant to Section 5.2 of Appendix P of the tariff.

- **Bid cost recovery resettlement report (EL12-73)**

On April 24, 2014, the ISO filed a report in compliance with FERC's June 5, 2013 order, in which the Commission conditionally approved the ISO's request for approval for the

resettlement of bid cost recovery payments from April 1, 2009 through March 25, 2011. The ISO submitted a report detailing the resettlement amounts and requested confidential treatment of commercially sensitive settlements data submitted in the filing.

- **Market disruption reports (ER06-615)**

On March 18, 2014, the ISO submitted its monthly report of market disruptions that occurred January 16 through February 15. On April 15, the ISO submitted its monthly report of market disruptions that occurred February 16 through March 15. A market disruption is an action or event that causes a failure of the ISO market, related to system operation issues or system emergencies. The ISO reports these market disruptions to FERC on a monthly basis.

- **Exceptional dispatch reports (ER08-1178)**

On March 18 and April 15, 2014, the ISO submitted transactional data including incremental and decremental megawatt volume, duration and location for exceptional dispatches occurring during the months of January and February 2014. On March 31, 2014 and April 30, 2014, the ISO submitted megawatt hour data and cost data for exceptional dispatches occurring during the months of December 2013 and January 2014. 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 and major maintenance adders (ER06-615)**

On April 7, 2014, the ISO submitted an informational filing containing the rates or formulas used to calculate negotiated default energy bids and major maintenance adders that were implemented or modified in the month of March 2014.

California Public Utilities Commission matters

- **Order instituting rulemaking to oversee resource adequacy program (R.11-10-023)**

On April 4, 2014, the ISO submitted its preliminary 2014 flexible capacity needs assessment detailing the preliminary system flexible capacity needs as well as the flexible capacity needs attributable to CPUC jurisdictional load serving entities.

- **Order instituting rulemaking to enhance the role of demand response in meeting the State's resource planning needs and operational requirements (R.13-09-011)**

On May 6, 2014, the ISO submitted initial testimony responding to demand response topics raised by the CPUC in an April 2, 2014 scoping memo. The ISO's witness John Goodin, ISO Regulatory Policy Manager, discussed the differences between load modifying and supply-side demand response, and that only supply-side demand response should receive resource adequacy payments. The ISO's witness Neil Millar, ISO Executive Director – Infrastructure Development, described the steps that the ISO has taken to determine demand response characteristics needed to provide local capacity, and other topics.

Regulatory Filings Through May 2014





