

Memorandum

To: ISO Board of Governors

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

Date: October 28, 2015

Re: Regulatory update

This memorandum does not require Board action.

Highlights

- *FERC accepted the ISO's proposed enhancements to the energy imbalance market (EIM)*
- *The ISO responded to FERC's additional questions regarding the ISO's proposal to enhance the energy imbalance market (EIM) with the ability to recognize the EIM entities available balancing capacity to address infeasibilities in its balancing authority area*
- *FERC accepted the ISO's settlement rules for allocating charges assessed by the reliability coordinator, Peak Reliability*
- *The ISO certified NV Energy's readiness to participate in the EIM*
- *FERC approved Phase 1 of the ISO's enhancements to the resource adequacy rules and processes to meet the needs of an increasingly dynamic grid*
- *FERC approved the ISO's tariff revisions to amend its existing capacity procurement mechanism to implement a competitive solicitation process to procure backstop capacity*

Federal Energy Regulatory Commission and related Court of Appeals matters

- **EIM year one enhancements (ER15-1919)**

On October 26, 2015, FERC accepted the ISO's July 1, 2015, tariff amendment, and the August 21, 2015, response to the deficiency letter regarding the ISO's phase one of the EIM year one enhancements, effective October 27, 2015. The year one enhancements modifications improve functionality, allow participation of additional balancing authority areas, address issues encountered during the first year of EIM operations, and comply with FERC directives in FERC's prior order approving the implementation of the EIM.

- **Response to deficiency letter regarding the ISO's available balancing capacity proposal for the EIM (ER15-861-006)**

On October 21, 2015, the ISO responded to FERC's deficiency letter on its compliance filing regarding accounting for non-contingency reserve capacity. In its July 20, 2015 order, FERC directed the ISO to include EIM tariff enhancements necessary to enable the EIM to automatically recognize and account for non-contingency reserve capacity that participating balancing authority areas use to resolve power balance infeasibilities in their individual areas. The ISO submitted its compliance filing on August 15. In response to the deficiency letter, the ISO clarified that the proposed enhancement creates an automated mechanism for the EIM to recognize and account for reserve capacity that EIM entity balancing authorities hold in excess of those needed to meet contingency reserves requirements pursuant to NERC and WECC standards.

- **Order accepting tariff revisions – Peak Reliability funding (ER15-2441)**

On October 15, 2015, FERC accepted the ISO's tariff revisions to allocate charges the ISO will receive from Peak Reliability for reliability coordinator services. With the bifurcation of WECC, Peak Reliability was formed as an independent company to take over from WECC the reliability coordinator function in the Western Interconnection. The pre-existing tariff provisions regarding settlement of NERC/WECC charges allowed the ISO to pass through the charges for WECC's reliability coordinator services to scheduling coordinators serving load. The tariff amendment was necessary to implement the charges now assessed by Peak reliability. The tariff revisions are effective October 15, 2015.

- **Readiness certification for Nevada Power Company and Sierra Pacific Power Company's participation in the energy imbalance market (ER15-861-005)**

On October 1, 2015, the ISO submitted a filing certifying NV Energy's readiness to participate in the energy imbalance market. In consultation with NV Energy, the ISO determined that, following market simulation and an adequate period of parallel operations, the ISO and NV Energy have met all readiness criteria specified in proposed tariff section 29.2(b)(7). The filing certifies the readiness of the ISO and NV Energy to proceed with NV Energy's participation in the EIM on November 1, 2015, without exception. NV Energy likewise submitted a filing certifying its readiness. The certifications were submitted with

the understanding that FERC has not yet issued an order approving the proposed readiness criteria filed on August 28, 2015. The ISO and NV Energy applied the proposed readiness criteria to the market preparation activities and satisfied such criteria. Because the ISO and NV Energy have satisfied that criteria and agree that NV Energy is prepared and ready to enter financially binding operations and operate as an EIM entity, both entities submitted their respective certifications.

- **Order conditionally accepting tariff revisions – reliability services initiative (ER15-1825)**

On October 1, 2015, FERC accepted the ISO's tariff amendment to implement Phase 1A of its two-phase reliability services initiative, which is intended to enhance the ISO's resource adequacy rules and processes to meet the needs of an increasingly dynamic grid. FERC conditionally accepted the proposed revisions, subject to further compliance, to become effective March 1, 2016, with the exception of the proposed revisions to tariff sections 40.2.4, 40.10.5.1(a), and 40.10.5.1.1, which FERC conditionally accepted effective January 10, 2016. FERC found that the tariff revisions are a just and reasonable set of measures that should facilitate greater participation by all types of resource adequacy resources in ISO's market and ensure that ISO has access to the capacity it needs to reliably operate the grid. FERC found that replacing the standard capacity product with the new resource adequacy availability incentive mechanism will enhance the incentives for resource adequacy resources to fulfill their must-offer obligations, thereby improving the ISO's ability to efficiently and reliably operate the grid. FERC found the ISO's use of the must-offer obligation as the measure of availability is superior to its use of the forced outage metric under its current tariff provisions. FERC agreed that the resource's offer of its capacity into the market is a more robust measure of compliance with its obligations as a resource adequacy resource, ensuring that a resource is not only running, but complying with its obligation to provide capacity to the ISO market.

- **Order accepting tariff revisions – capacity procurement mechanism (ER15-1783)**

On October 1, 2015, FERC accepted the ISO's tariff revisions to amend its existing capacity procurement mechanism tariff authority to, among other things, implement a competitive solicitation process to procure backstop capacity. FERC found that the ISO's proposal to replace its administratively priced capacity procurement mechanism with a competitive solicitation process is a just and reasonable approach to meeting the ISO's operational needs and providing appropriate compensation to needed resources. FERC also found that compensating capacity procurement mechanism capacity based on the results of a competitive solicitation process will result in compensation driven by competitive factors and, therefore, will appropriately reflect both changing market conditions and corresponding fluctuations in capacity prices. FERC further found that the ISO's proposal to implement a soft offer cap of \$6.31/kW-month (\$75.68/kW-year), plus a 20 percent adder should allow sufficient recovery of fixed costs plus return on capital to facilitate incremental upgrades and improvements by resources. FERC accepted the ISO's

proposed revisions for filing, with certain tariff revisions to become effective January 16, 2016, and the remainder to become effective March 1, 2016.

- **Letter order denying motion for clarification - settlement of congestion revenue rights (ER14-2756-001)**

On October 1, 2015, FERC denied the ISO's July 31, 2015, motion for clarification of FERC's October 31, 2014, order accepting a tariff amendment proposed by the ISO concerning the settlement of congestion revenue rights (CRR) charges. On September 1, 2014, the ISO filed proposed tariff revisions to include nodal megawatt limit constraints in its CRR settlement rule to address the rise in the volume of CRRs clearing the monthly auction that could lead to more scheduling coordinators for CRR holders engaging in behavior that requires the ISO to enforce nodal megawatt limit constraints in the day-ahead market. FERC accepted the ISO's tariff amendment, making it effective September 2, 2014. In its July 31, 2015 motion, the ISO sought confirmation of its tariff authority to resettle CRR charges and payments to correct certain administrative errors from the period of May 1, 2014 to September 1, 2014. FERC denied the ISO's request, without prejudice, finding that, while in the October 2014 order FERC accepted the ISO's proposed tariff revisions, FERC did not make any finding regarding the ISO's authority to conduct such resettlements. FERC found that the ISO's July 31, 2015 motion, asking FERC to interpret tariff language that the ISO did not newly propose or seek to modify in this now closed case, essentially constitutes a petition for a declaratory order regarding an issue that is beyond the scope of this section 205 proceeding.

- **Tariff amendment to implement interconnection process enhancements – downsizing (ER15-2752)**

On September 30, 2015, the ISO filed a tariff amendment to address an existing issue with generation interconnection customers using the existing downsizing process to avoid the financial impact of withdrawing their projects. Currently, the financial impact on withdrawing customers is based substantially on the capacity of the withdrawing project. Thus, interconnection customers that would otherwise immediately withdraw instead linger in the queue to downsize their projects and then withdraw at the lowest capacity possible. In this tariff amendment, the ISO proposes to use the pre-downsized capacity to determine the financial consequences of withdrawal. This will prevent interconnection customers from continuing to use the annual downsizing process solely to reduce the amount of financial security at risk upon their withdrawal from the queue, and will assure that similarly situated withdrawing customers are treated similarly. The annual downsizing process will still be available for its intended purpose of allowing customers to “right-size” their projects to a capacity that can be developed economically. This amendment represents the first of four planned sets of tariff revisions resulting from the ISO's 2015 interconnection process enhancements stakeholder initiative. The ISO filed this amendment first and separately to provide notice of the proposed revision before the next generator downsizing window opens on October 15, 2015, and thus requested a waiver of FERC's 60-day notice requirement so the proposed tariff revisions can become effective October 14, 2015.

- **Order on request for waiver and instituting section 206 proceeding - intertie convergence bidding (EL15-98), (ER15-1451), and (ER14-480)**

On September 25, 2015, FERC directed the ISO to remove tariff language reflecting intertie convergence bidding. On April 3, 2015, the ISO requested a waiver of tariff requirements that provided for reinstatement of intertie convergence bidding on May 1, 2015. In support of its request, the ISO submitted a report by its Department of Market Monitoring indicating that reinstatement of convergence bidding at the interties under current circumstances would lead to market inefficiencies. Convergence bids in the ISO market, also known as virtual bids, are financial bids to buy or sell electricity in the day-ahead market without any obligation to physically provide or consume electricity. On April 29, 2015, FERC issued an order granting, subject to further order, limited waiver of the May 1, 2015 reinstatement of intertie convergence bidding to allow FERC to develop a fuller record regarding matters relevant to ISO's request for waiver. In its September 25 order, FERC found that effective as of September 25, 2015, the ISO's tariff provisions reinstating convergence bidding at the interties are unjust and unreasonable, and directed the ISO to submit a compliance filing within 30 days, which was filed on October 26, 2015.

- **Order accepting tariff revisions – existing transmission contracts and transmission ownership rights (ER15-2204)**

On September 14, 2015, FERC accepted the ISO's tariff revisions to modify its validation process for self-schedules supported by existing transmission rights or transmission ownership rights to avoid creating artificial congestion and to ensure efficient use of the ISO-controlled transmission grid. FERC accepted the ISO's proposed tariff revisions for filing, effective September 15, 2015. On September 15, 2015, the ISO filed a petition for limited waiver requesting a temporary suspension of the effectiveness of the tariff revisions accepted in the order until October 27 because it planned to implement the tariff revisions as part of its 2015 fall software release, which was postponed from September 15 to October 27, 2015. FERC accepted the petition on October 26, 2015. As a result of the delay of the fall release, on October 27, 2015, the ISO filed a new petition requesting a tariff waiver to enable it implement this functionality no later than November 4, 2015.

- **Order accepting in part and rejecting in part proposed tariff revisions – commitment cost enhancements phase 2 (ER15-1875)**

On September 9, 2015, FERC accepted the ISO's tariff revisions related to the transition costs of multi-stage generating resources and other clarifying changes. FERC rejected the proposed revisions to the definition of "use limited resources" and accepted the ISO's other proposed tariff revisions, effective September 15, 2015. FERC also dismissed the ISO's request for waiver of FERC's notice requirements as moot. On September 15, 2015, the ISO filed a petition for limited waiver requesting a temporary suspension of the effectiveness of the tariff revisions accepted in the order until October 27 because it planned to implement the revisions as part of its 2015 fall software release, which was postponed from September 15 to October 27, 2015. FERC accepted the petition on October 26, 2015. As a result of the delay of the fall release, on October 27, 2015, the ISO

filed a new petition requesting a tariff waiver to enable it implement this functionality no later than November 4, 2015.

Regulatory Agreements

- **Letter order accepting interconnection agreement – Mesquite Solar, San Diego Gas & Electric, and California ISO (ER15-2499)**

On October 9, 2015, FERC accepted the ISO's non-conforming large generator interconnection agreement (LGIA) between the ISO, Mesquite Solar 2, LLC (Mesquite Solar) and San Diego Gas and Electric Company. The Mesquite Solar LGIA provides for the interconnection of a solar photovoltaic generating facility located in Maricopa, Arizona. The facility will utilize an existing interconnection comprised of two 500 kV generation tie lines between the Hassayampa Switchyard and the Mesquite 230/500 kV Switchyard. FERC accepted the submittal for filing effective October 21, 2015.

- **Planning coordinator agreement between the ISO and the City and County of San Francisco (ER15-2642)**

On September 10, 2015, the ISO submitted for filing and acceptance the Planning Coordinator Agreement dated May 14, 2015, between the ISO and the City and County of San Francisco (San Francisco). The Planning Coordinator Agreement sets forth the terms under which the ISO will serve as the Planning Coordinator for the transmission facilities and generation units owned by San Francisco, and connected to those transmission facilities that are part of the bulk electric system located within the ISO's balancing authority area. Under the Planning Coordinator Agreement, San Francisco will pay the ISO an annual service fee for its services as Planning Coordinator during the initial three year term of the agreement. The ISO requested an effective date of November 2, 2015.

Reports filed

- **EIM price waiver reports (ER15-402)**

On September 22, 2015, the ISO submitted to FERC its report on EIM performance for July 2015. The report was submitted pursuant to FERC's March 16, 2015, order directing the ISO to refine the monthly reports to "assist the Commission and the parties in determining the extent to which the price spikes continue to be caused by transitional issues, and the extent to which they may be triggered by lack of adequate supply in the EIM." On September 25, 2015, the Department of Market Monitoring submitted its assessments of the performance of the EIM, covering July 2015.

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

On September 15 and October 15, 2015, the ISO submitted to FERC its monthly market disruption reports for the periods July 16, 2015 through August 15, 2015, and August 16, 2015 through September 15, 2015. A market disruption is an action or event that causes a failure of the ISO market related to system operation issues or system emergencies.

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

On September 8 and October 7, 2015, the ISO submitted to FERC informational filings containing the rates or formulas used to calculate negotiated default energy bids, custom operations and maintenance adders, and major maintenance adders, that were implemented or modified in the months of August 2015 and September 2015.

- **Transmission access charge informational filing (ER15-2622)**

On September 4, 2015, the ISO submitted an informational filing to provide notice regarding the ISO's revised transmission access charges (TAC). The basis for these revisions to the ISO's TAC rates is to implement revised transmission revenue requirements for Citizens Sunrise Transmission, City of Colton, DATC Path 15, LLC, Pacific Gas and Electric Company, San Diego Gas & Electric Company, Southern California Edison Company, Startrans IO, LLC; Trans Bay Cable LLC, and the cities of Vernon, Riverside, Banning, and Azusa, California. The TAC revisions described in the filing also include revisions to implement the annual transmission revenue balancing account adjustments of the ISO's participating transmission owners for 2014.

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

On August 31 and October 15, 2015, the ISO submitted an exceptional dispatch informational report 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. These reports covered May 2015 and June 2015, respectively. On September 15 and September 30, 2015, the ISO submitted to FERC transactional data including incremental and decremental megawatt volume, duration, and location for exceptional dispatches occurring during the months of July 2015 and August 2015. 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.

California Public Utilities Commission matters

- **Response to NextEra Energy Transmission West application – Suncrest Project (A.15-08-027)**

On October 5, 2015, the ISO submitted a response in connection with NextEra Energy Transmission West, LLC's application requesting a certificate of public convenience and necessity for the Suncrest Dynamic Reactive Power Support Project (Suncrest Project). The ISO identified and approved the Suncrest Project as a public policy-driven project in its 2013-2014 transmission planning process. As a result, the ISO is uniquely situated to provide technical analysis and background information regarding the need for the Suncrest Project. The ISO-identified need for the project is also fundamental to the project objectives identified in the application. Because of this, the ISO notified the CPUC in its response that it plans to present detailed information demonstrating the continued need for the Suncrest Project in the course of the proceeding.

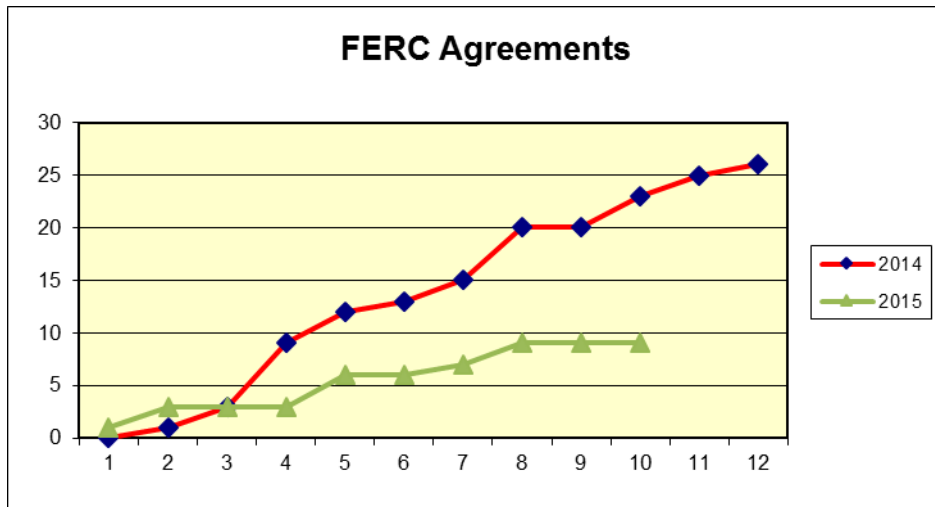
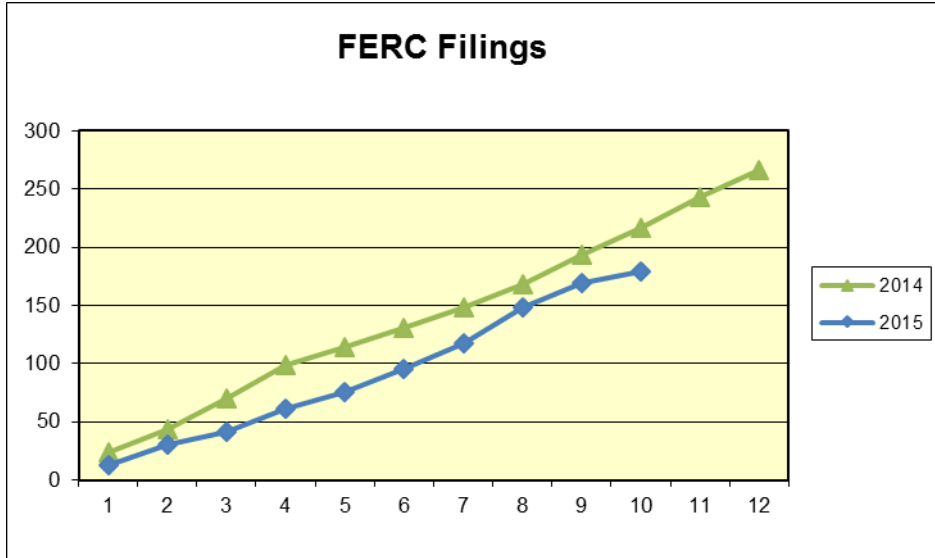
- **Supplemental rebuttal testimony of Robert Sparks – South Orange County Reliability Enhancement Project (A.12-05-020)**

On October 2, 2015, the ISO submitted supplemental rebuttal testimony by Robert Sparks to present the ISO's analysis of Alternative J to the South Orange County Reliability Enhancement Project proposed in the Recirculated Draft Environmental Impact Report. The testimony provided support for the ISO's position that Alternative J as proposed is infeasible because it relies on a non-standard substation design that is not consistent with industry standards. If Alternative J was reconfigured to a standard substation design, the alternative would fail to meet the reliability concerns and objectives identified by the ISO and it would exacerbate other identified reliability concerns in the Southern California Edison service area.

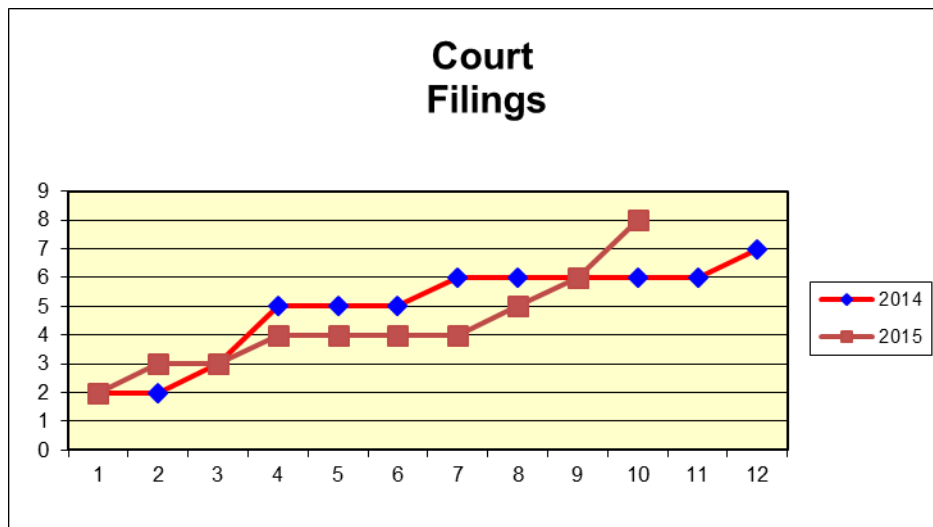
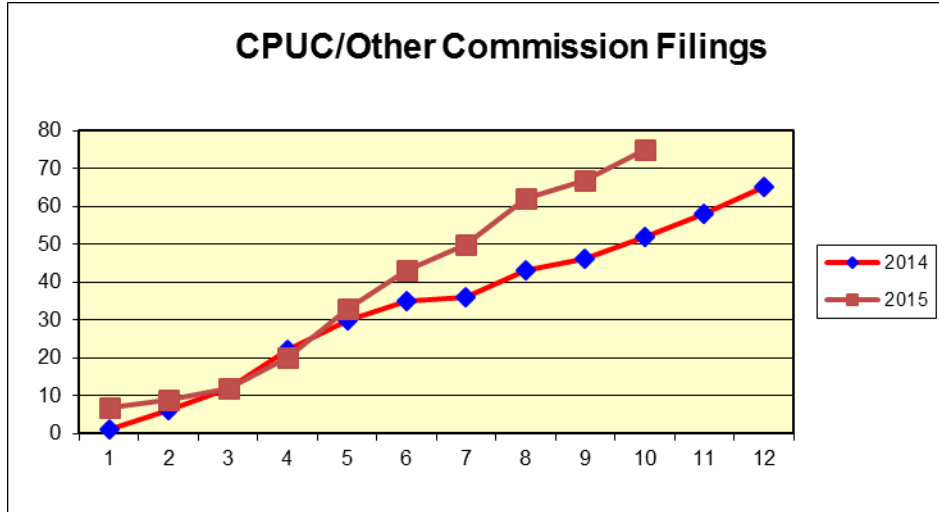
- **Proposed Decision – Demand Response OIR (R.13-09-011)**

On October 16, 2015, the CPUC issued a Proposed Decision and an Alternate Proposed Decision regarding the valuation of load modifying demand response. Both proposed decisions reaffirm the CPUC position that demand response resources should be integrated into the ISO market. The decisions also conclude that event-based load modifying demand response resources have no capacity value at this time.

Regulatory Filings Through October 2015



Regulatory Filings Through October 2015



Regulatory Filings Through October 2015

