

Memorandum

To: ISO Board of Governors

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

Date: September 10, 2015

Re: Regulatory Update

This memorandum does not require Board action.

Highlights

- *FERC accepted the implementation agreement between the Arizona Public Service Company and the ISO, effective August 1, 2015.*
- *The ISO amended its tariff to include an enhancement that enables the ISO market to recognize an energy imbalance market entity's available balancing capacity.*
- *The ISO submitted a compliance filing to include in its tariff readiness criteria developed through a robust stakeholder process.*
- *The ISO amended its tariff to provide a six-month transition period for all new energy imbalance market entities.*
- *The ISO amended its tariff to implement settlement process for reliability coordinator charges by Peak Reliability to replace the NERC/WECC charges.*
- *The ISO petitioned FERC for authority to apply its market power mitigation measures to the NV Energy energy imbalance market transfers.*
- *FERC granted the ISO's request for waiver of penalty prices in the energy imbalance market, from November 1 through 13, 2014 that would otherwise apply when a transmission or power balance constraint was relaxed in the market.*
- *The ISO submitted to FERC for acceptance a Market Efficiency Enhancement Agreement between the ISO and Western Area Power Administration allowing for specific intertie pricing.*

Federal Energy Regulatory Commission and related Court of Appeals matters

- **Tariff amendment to implement transition period pricing in a new energy imbalance market entity's area (ER15-2565)**

On August 28, 2015, the ISO submitted a tariff amendment to provide a six-month transition period to provide a necessary, prudent, and limited transition period for new entities that begin participating in the energy imbalance market (EIM) for the first time. During the proposed transition period, the pricing of energy in the balancing authority area of a new EIM entity is not based on the pricing parameters that normally apply when the market optimization relaxes the power balance or transmission constraint in clearing the real-time market. This will prevent price excursions caused by false scarcity as the new EIM entity gains experience in managing its system reliably in the new market environment. The ISO requested a November 1, 2015 effective date.

- **Compliance filing on readiness requirements and criteria for new EIM entities (ER15-861-004)**

On August 28, 2015, the ISO submitted a filing in compliance with FERC's July 21, 2015 order on EIM readiness criteria. In the July 21 order, FERC accepted tariff provisions that require the ISO to conduct readiness activities, including market simulations and parallel operations, but rejected the ISO's proposal to include a requirement that it create readiness criteria. Instead, FERC instructed the ISO to include the readiness criteria itself in the tariff. Consistent with FERC's directives, in the August 28 compliance filing the ISO: (1) included in its tariff specific readiness requirements and criteria that apply to all prospective EIM entities; and (2) clarified certain tariff provisions previously filed on compliance. The ISO developed the readiness criteria through a stakeholder process started earlier this year. The ISO requested that FERC approve the tariff provisions effective March 16, 2015, consistent with the effective date approved by the July 21 order. The criteria will apply to all new EIM entities as of that date.

- **Compliance filing including tariff language in support of the available balancing capacity (ER15-861 and EL15-53)**

On August 19, 2015, the ISO submitted a compliance filing in response to FERC's July 20, 2015 order directing the ISO to include in its tariff provisions in support of the available balancing capacity proposal. The ISO submitted this proposal in its April 23, 2015 comments in response to FERC's investigation into the just and reasonableness of pricing in the energy imbalance market. The ISO proposes to enhance the EIM functionality so that it will automatically recognize and account for capacity available to the EIM entity to maintain reliable operations in its balancing authority area. The proposed solution is just and reasonable because it addresses the structural market design issue that contributed significantly to the price spikes observed after the integration of the first EIM entity last fall. As required by the July 20 order, this filing also addresses comments submitted by parties in this proceeding. The ISO requested a November 1, 2015 effective date.

- **Order granting tariff waiver – flexible ramping constraint relaxation parameter (ER15-2039)**

On August 14, 2015, FERC granted the ISO's petition for limited waiver of the flexible ramping constraint relaxation parameter in section 27.10 of the tariff. As the ISO requested, the waiver is effective June 19, 2015, until the date on which the initial waiver granted in docket ER15-861 expires. Specifically, FERC granted the ISO's request to set the flexible ramping constraint relaxation parameter applicable to the EIM entity balancing authority area between \$0 and \$0.01 whenever the ISO relaxes transmission and system-energy balance constraints while using the pricing mechanism that applies when effective economic bids are sufficient to allow a feasible market solution, as permitted under the waiver previously granted by FERC.

- **Tariff amendment to implement settlement process for reliability coordinator charges – Peak Reliability (ER15-2441)**

On August 13, 2015, the ISO submitted a tariff amendment to implement a settlement process for the Peak Reliability charges for reliability coordinator services. The amendment sets forth the methodology the ISO will use for allocating Peak Reliability's reliability coordinator charges and the process for notifying market participants of the charges. The ISO proposes to allocate the reliability coordinator charges to each scheduling coordinator serving load in the ISO balancing authority area using the most recent NERC/WECC metered demand for that scheduling coordinator. This is the same methodology the ISO currently uses to allocate NERC/WECC charges. The ISO requested that FERC issue an order by October 15, 2015, accepting the tariff revisions.

- **Order granting limited waiver of pricing parameters (ER15-817)**

On July 29, 2015, FERC granted the ISO's petition for limited waiver of the pricing parameters in sections 27.4.3.2 and 27.4.3.4 of the tariff. The waiver is for constraints that are within the EIM entity's balancing authority areas or affect EIM transfers between EIM entity's balancing authority areas for the period of November 1, 2014 through November 13, 2014. FERC concluded that the waiver will not lead to undesirable consequences and noted that no intervenors asserted they will suffer harm from the waiver. On the contrary, FERC found that customers such as Deseret will suffer concrete and significant financial harm if the waiver was not granted.

- **Petition for market power mitigation authority – EIM transfer constraints related to NV Energy (ER15-2272)**

On July 24, 2015, the ISO requested FERC authorization to include EIM transfer constraints between the NV Energy balancing authority area, and (1) the ISO balancing authority area, and (2) PacifiCorp East balancing authority areas in the ISO's local market power mitigation procedures, consistent with section 29.39(d)(2) of the ISO tariff. The Department of Market Monitoring conducted a structural competitiveness assessment and

found that application of market power mitigation when EIM transfer constraints into the NV Energy balancing authority area are binding is necessary to avoid the potential exercise of market power by NV Energy. The ISO requested that the authorization be effective concurrent with the date on which the ISO integrates the NV Energy balancing authority area into the EIM.

- **Compliance filing regarding timing of the close of the ISO day-ahead market (EL14-22)**

On July 23, 2015, the ISO submitted to FERC a compliance filing to demonstrate why it does not need to change the timing of the close of its day-ahead market and publication of market results, notwithstanding FERC's adoption of changes to scheduling practices of interstate natural gas pipelines in Order No. 809. The ISO explained that its current day-ahead scheduling process provides sufficient opportunity for gas-fired resources to secure natural gas and pipeline transportation services. Based on stakeholder feedback, the ISO believes that maintaining the current timing for day-ahead market close and publication of market results is more reliable, more efficient, and less disruptive than the alternative of moving the timing of this process to earlier in the day. There is no evidence that, under normal conditions, natural gas-fired resources participating in the ISO market cannot obtain gas transportation service to support their day-ahead electric schedules.

- **Compliance filing – Order 676H requests for waiver (ER15-531)**

On July 17, 2015, the ISO submitted a filing with proposed tariff revisions in compliance with FERC's May 18, 2015 order on requests for waiver. In Order No. 676-H, FERC directed public utilities to incorporate in their jurisdictional tariffs the latest versions of the business practice standards promulgated by the Wholesale Electric Quadrant of the North American Energy Standards Board (NAESB) and included by reference in FERC's regulations. The ISO sought a waiver of certain of these standards. FERC granted the waiver, and also directed the ISO to make a compliance filing within 60 days to revise section 7.3.3 of the tariff to indicate those standards for which FERC has granted waiver and to cite the May 18 order granting the waiver. The ISO revised section 7.3.3 accordingly. The ISO requested a May 15, 2015 effective date.

- **Compliance filing regarding flexible resource adequacy must-offer obligation (ER15-1919)**

On July 16, 2015, the ISO submitted proposed tariff revisions clarifying language regarding the flexible resource adequacy criteria and must-offer obligation, in compliance with FERC's July 1, 2015 order. In its July 1 order, FERC accepted the ISO's response to a discrete issue regarding the must-offer obligation for two combined use-limited resources that supply flexible resource adequacy capacity. In its February 25 order in this proceeding, FERC had asked for additional information on this matter and initiated briefing procedures to obtain information about: (1) the ISO's ability to dispatch the flexible resource adequacy capacity of combined use-limited resources; (2) ISO system changes that would be necessary to implement a request by the cities of Anaheim, Azusa, Banning, Colton,

Pasadena, and Riverside; and (3) any other reliability impact, harm, or burden that would result from modifying the must-offer obligation as requested. FERC found that the ISO's answer eliminated the need for the requested briefing. In addition, in the July 1 order FERC dismissed as moot the cities' request for rehearing of FERC's October 16, 2014 order that conditionally accepted the ISO's proposed tariff revisions to implement flexible resource adequacy capacity requirements. The ISO requested a November 1, 2014 effective date.

- **Tariff amendment to revise process for self-schedule rules for existing transmission contracts and transmission ownership rights (ER15-2204)**

On July 14, 2015, the ISO submitted a tariff amendment to implement components of its pricing enhancement initiative. Specifically, the ISO proposed to revise 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. These revisions will enhance market outcomes and provide more accurate and appropriate price signals in the ISO market. All stakeholders either supported or did not oppose the revisions. The ISO requested that FERC issue an order by September 14, 2015, accepting the tariff revisions effective September 15, 2015.

Regulatory Agreements

- **Market Efficiency Enhancement Agreement between the ISO and Western Area Power Administration (ER15-2583)**

On August 31, 2015, the ISO submitted to FERC a Market Efficiency Enhancement Agreement dated August 27, 2015, between the ISO and the Western Area Power Administration – Sierra Nevada Region. The agreement sets forth the terms under which the ISO will price Western's and Western customer's energy transactions at the agreement-specific price, instead of the price that would otherwise apply to integrated balancing authority areas such as Western under the tariff. The ISO requested that the FERC accept the agreement effective November 1, 2015.

- **Letter order accepting EIM implementation agreement between Arizona Public Service Company and the ISO (ER15-1802)**

On July 31, 2015, FERC accepted the EIM implementation agreement between the Arizona Public Service Company and the ISO, effective August 1, 2015. The EIM implementation agreement is a bilateral agreement that sets forth the terms under which the ISO will modify and extend its existing real-time energy market systems to provide energy imbalance service to Arizona Public Service Company. The implementation agreement also provides for Arizona Public Service Company to pay the ISO a fixed implementation fee of \$970,000, subject to the completion of specified milestones. The implementation fee is based on the ISO's estimate of the costs it would incur if it were to configure its real-time energy market

to function as an EIM available to all balancing authority areas in the WECC region. FERC found the terms of the implementation agreement are just and reasonable and not unduly discriminatory or preferential.

- **Metered subsystem agreement with the City of Riverside (ER15-2104)**

On July 2, 2015, the ISO submitted an amendment to the metered subsystem agreement between the ISO and the City of Riverside. This amendment adds a new solar resource to the agreement and updates metering and contact information. The ISO requested an effective date of September 1, 2015.

Reports filed

- **Status report on energy crisis proceeding (ER01-889-012, ER01-3013-004, and EL00-95-059)**

On August 13, 2015, the ISO submitted to FERC a status report as required by the Chief Judge's order continuing suspension of the proceedings requiring status reports. The ISO reported that there have been no changes in the conclusion reported in previous status reports, and that the procedural schedule in these proceedings should continue to be suspended pending the outcome of the California refund proceeding.

- **Informational report on the status of bidding rules enhancements initiative (ER15-15)**

On July 31, 2015, the ISO submitted to FERC an informational report regarding the status of the bidding rules enhancements initiative as required by FERC's December 30, 2015 order. The order accepted the ISO's proposed tariff revisions to: (1) increase the daily proxy cost bid cap from 100 percent to 125 percent; (2) eliminate the registered cost option for generating resources other than use-limited resources; and (3) add provisions to allow the ISO to use updated natural gas price data in the day-ahead market when a daily gas price reported by the Intercontinental Exchange on the morning of a day-ahead market run exceeds 125 percent of any natural gas price index calculated for the day-ahead market during the previous night. In its order, FERC noted the ISO's commitment to consider longer-term market design changes for resources' commitment cost bids in conjunction with the bidding rules enhancements stakeholder initiative, stating that this stakeholder process should explore the need for changes to the proxy cost formula to better reflect the non-gas-related variable costs that the ISO stated were currently captured in the "headroom" afforded by the 125 percent proxy cost cap. FERC encouraged the ISO to file tariff revisions resulting from this stakeholder process sufficiently in advance of the 2015-16 winter season and directed the ISO to file an informational report by August 1, 2015, if the ISO had not already submitted relevant tariff revisions. This report satisfies that directive.

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

On July 30, 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 the section 34.9.4 of the tariff. This report covered April 2015. On July 15 and August 17, 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 May 2015 and June 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.

- **Informational report on the status of pricing enhancements initiative (EL14-59)**

On July 27, 2015, the ISO submitted to FERC an informational report providing: (1) the status of the stakeholder process for the pricing enhancements initiative; and (2) a description of the discussions the ISO has engaged in to resolve the interplay between the Uncontrollable Force provision in section 14.1 of the tariff and the ISO's settlement rules. This informational report satisfies a directive issued by FERC in its October 22 order denying Powerex's complaint concerning imbalance energy charges that Powerex incurred when it did not deliver energy in real-time consistent with its day-ahead energy schedule due to an outage of the Pacific DC Intertie. In the report, the ISO informed FERC that the proposed administrative pricing component of the pricing enhancements initiative is targeted for implementation in the spring of 2015. The ISO anticipates it will file the tariff revisions for FERC consideration in the fourth quarter of 2015.

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

On July 15 and August 20, 2015, the ISO submitted to FERC its monthly market disruption reports for the periods May 16, 2015 through June 15, 2015, and June 16, 2015 through July 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.

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

On July 14 and August 6, 2015, the ISO submitted to FERC its report on the performance of the EIM for May 2015 and June 2015. The reports were 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 July 28 and August 21, 2015, the Department of Market Monitoring submitted its assessments of the performance of the energy imbalance market, covering May 2015 and June 2015.

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

On July 7 and August 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 June 2015 and July 2015.

California Public Utilities Commission matters

- **Response regarding distribution resource plans (R.14-08-013)**

On August 31, 2015, the ISO filed a response pursuant to the Administrative Law Judge's July 27, 2015 ruling, regarding the distribution resource plans filed by the jurisdictional utilities pursuant to Public Utilities Code section 769. The ISO commented that the distribution resource plans represent a major milestone toward creating a comprehensive planning and procurement framework for California that encompasses the entire range of distributed energy resources to include renewable generation and storage as well as more traditional resource types. The ISO also noted the need for alignment of a new ongoing distribution resource plan process with other key planning and procurement activities, specifically the California Energy Commission's Integrated Energy Policy Report demand forecast, the California Public Utilities Commission's Long-Term Procurement Plan proceeding, and the ISO's Transmission Planning Process.

- **Motion for party status - West of Devers Upgrade Project (A.13-10-020)**

On August 27, 2015, the ISO filed a motion for leave to become a party to this proceeding. In this proceeding, Southern California Edison requests a Certificate of Public Convenience and Necessity to construct the West of Devers Upgrade Project, for which the ISO identified the need as a part of its generator interconnection process by approving Large Generator Interconnection Agreements. The ISO intends to submit legal and factual evidence regarding the continuing need for the West of Devers project and the sufficiency of the alternatives proposed in the Draft Environmental Impact Report to meet the continuing needs.

- **Integration of demand response reliability programs (R.13-09-011)**

On August 26, 2015, the ISO filed comments pursuant to the Administrative Law Judge's August 6, 2015 ruling requesting party input on the integration of reliability (emergency) demand response programs through the ISO's reliability demand response resource product. The ISO recommended that the CPUC order that: (1) no later than December 31, 2017, utilities will integrate emergency-triggered demand response programs into the ISO market to qualify as resource adequacy capacity, subject to the terms of the settlement agreement and in alignment with the transition to full bifurcation by January 1, 2018; (2) emergency-triggered demand response programs not integrated into the ISO market by December 31, 2017 will not qualify as resource adequacy capacity resources, unless and

until such programs are integrated into the ISO market, subject to the terms and conditions of the settlement agreement; and (3) emergency-triggered demand response programs that have integrated only a portion of the program capacity can count as resource adequacy capacity for the portion of capacity that has been integrated into the ISO market.

On August 14, and July 31, 2015, consistent with the Ruling Requesting Comments Regarding the Cost Effectiveness Protocols and the Valuation Working Group Report issued by the Administrative Law Judge on June 19, 2015, the ISO submitted comments on specific questions related to the demand response programs not integrated into the wholesale market. The ISO supported its load modifying demand response valuation proposal as a coherent and straightforward solution to avoid new conventional capacity by reducing demand forecasts while maintaining reliability by ensuring that demand response is dispatched when the ISO forecasts stressed system conditions.

- **Comments on settlement agreement in Pacific Gas & Electric's 2015 rate design window proceeding (A.14-11-014)**

On August 24, 2015, the ISO filed comments on the settlement agreement on residential time-of-use rate issues in Pacific Gas & Electric's 2015 rate design window proceeding. The ISO supports the settlement agreement as a reasonable first step in better aligning time-of-use rates with grid reliability needs. The ISO commented that the new rates better align with the 4:00 p.m. to 9:00 p.m. peak time-of-use periods identified by the ISO. The ISO commented that as a whole, the time-of-use periods in the proposed rate schedules appropriately reflect the changing needs of the grid to meet net peak loads.

- **Response to Southern California Gas Company and San Diego Gas & Electric application to revise curtailment procedures (A.15-06-020)**

On August 10, 2015, the ISO filed a response to the application of Southern California Gas Company and San Diego Gas & Electric Company for authority to revise their curtailment procedures. The ISO supports proposed changes to the gas curtailment procedures that recognize the interrelationship and interdependence between natural gas pipeline and electric system reliability and the need for natural gas pipeline companies and the ISO to coordinate closely to maintain both gas and electric reliability.

- **Application for approval of Southern California Edison - Moorpark Sub-Station Area - request for offers (A.14-11-016)**

In this proceeding, for the Southern California Edison Company's application for approval of the results of its 2013 local capacity requirements request for offers for the Moorpark sub-area, the ISO had filed testimony on April 8, 2015 concluding that the results of Southern California Edison's request for offers: (1) enhance the safe and reliable operation of Southern California Edison's electrical service area; and (2) is a reasonable means to meet a portion of the identified local capacity requirement need determined by Decision (D.) 13-02-015. On July 22, 2015, the ISO submitted an opening brief, arguing that the Southern California Edison's selected request for offers results are electrically effective means to

partially meet local capacity requirements in the Moorpark Sub-Area. The ISO continues to support approval of the selected resources in order to meet identified local capacity requirements needs, and on August 5, submitted a reply brief which addresses the arguments put forth by parties that oppose approval of Southern California Edison's request for offers. The ISO addressed the following issues: (1) the continuing need for local capacity resources in the Moorpark area, (2) the ability of the selected resources to meet the identified needs, and (3) the propriety of certain discussions between Southern California Edison and the ISO regarding resource characteristics necessary to meet local capacity needs.

- **Flex Alert Program administration transfer proposal (A.12-08-008)**

On July 31, 2015, the ISO filed a proposal to transfer administration of the flex alert program to the ISO. In the Scoping Memo and Assigned Commissioner Ruling dated March 6, 2015, the CPUC established Phase 1 of this proceeding to address questions of possible post-2015 funding sources and program administrators for the flex alert program, and the related question of whether the CPUC should continue to fund the program in 2016. Pursuant to this directive, Pacific Gas and Electric Company, Southern California Edison Company, San Diego Gas & Electric Company, and Southern California Gas Company, and the ISO have worked together to develop a proposal for the transfer of the administration and funding of the flex alert program to the ISO effective in 2016. The transfer proposal is based on certain ISO-proposed conditions that will allow for an orderly transfer of the flex alert program and an effective post-2015 program.

- **Response to applications for rehearing - Carlsbad Energy Center (A.14-07-009)**

On July 14, 2015, the ISO filed a response to the applications for rehearing of decision (D.15-05-051) in this proceeding. The ISO argued that the CPUC's decision appropriately authorizes procurement consistent with the CPUC's decision in Track 4 of the 2012 Long-Term Procurement Plan proceeding (D.14-03-004) and is based upon substantial evidence in the record. In D.15-05-051, the CPUC voted to conditionally approve San Diego Gas & Electric Company's request for authority to partially fill local capacity requirement needs identified in the Track 4 decision. D.15-05-051 authorizes San Diego Gas & Electric to contract with Carlsbad Energy Center, LLC to provide 500 MW of the 800 MW of local capacity requirement needs identified in the Track 4 decision.

- **Application of Southern California Edison for approval of its local capacity requirements - Western LA Basin (A.14-11-012)**

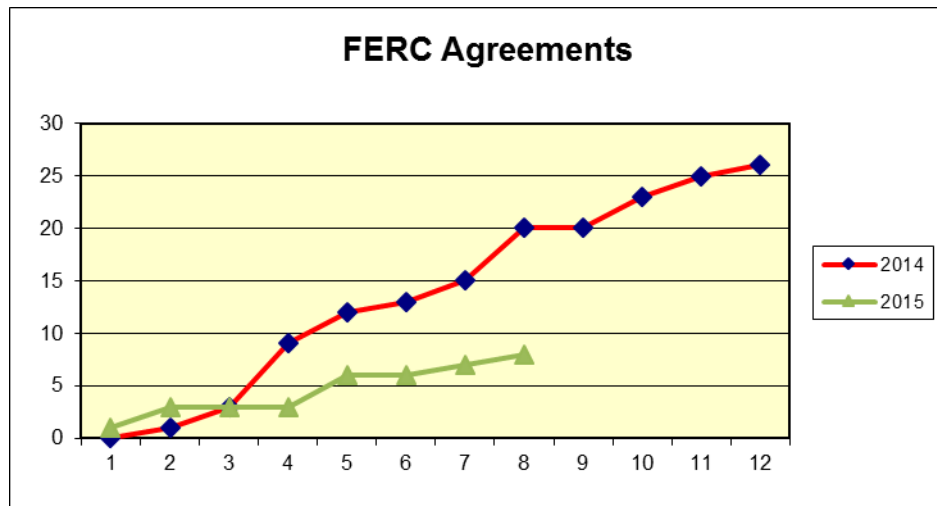
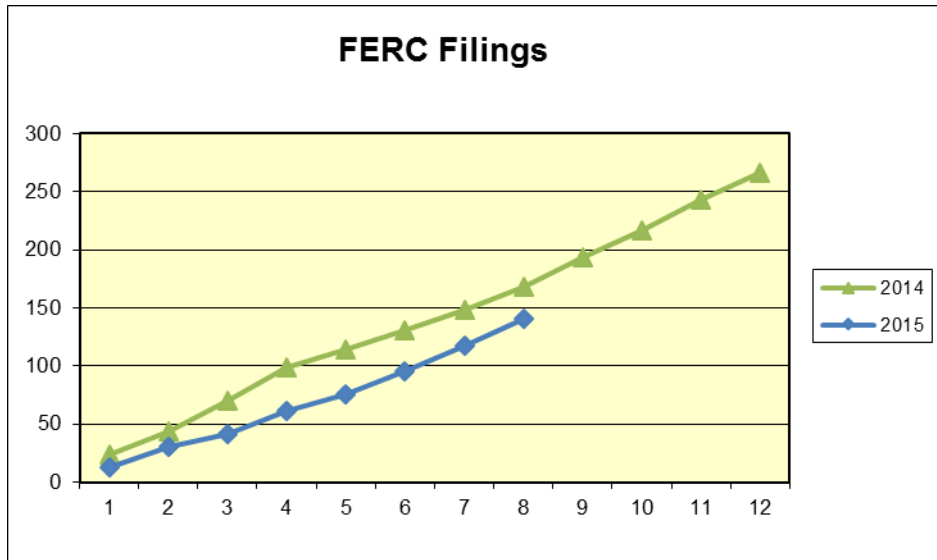
On July 1, 2015, the ISO filed a reply brief consistent with the Assigned Commissioner's Ruling and Scoping Memo issued March 3, 2015, in which the Commissioner established the relevant issues and procedural schedule for Southern California Edison Company's application for approval of the results of its 2013 local capacity requirements request for offers for the western Los Angeles basin. The ISO addressed the following issues in its reply brief: (1) the establishment minimum requirements for local resource adequacy needs; (2) the recommendation that gas-fired generation resources be capped at a maximum capacity of 1,000 megawatts; and (3) the lack of any need to revisit the CPUC's

need determinations in Decisions D.13-02-015 and D.14-03-004. The ISO asserted that Southern California Edison's request for offer requirements for demand response resources were reasonable based on local capacity requirement needs and CPUC precedent.

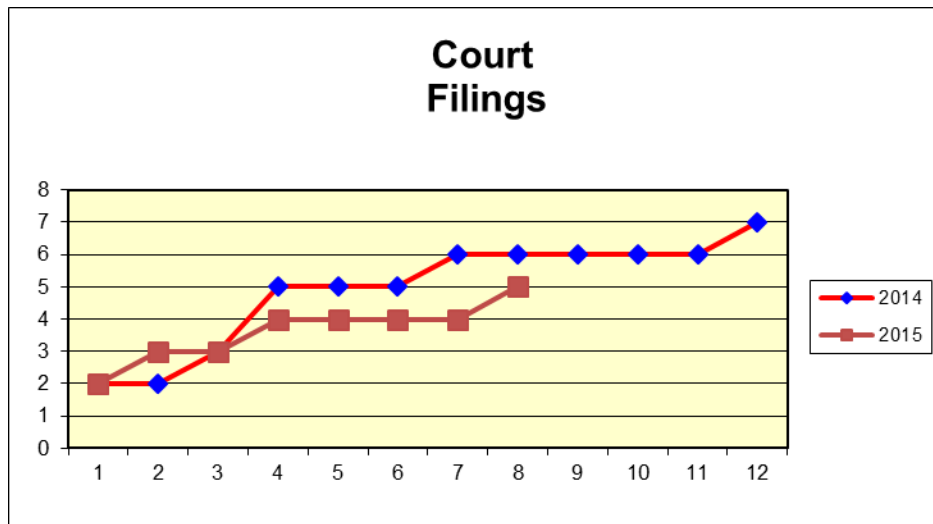
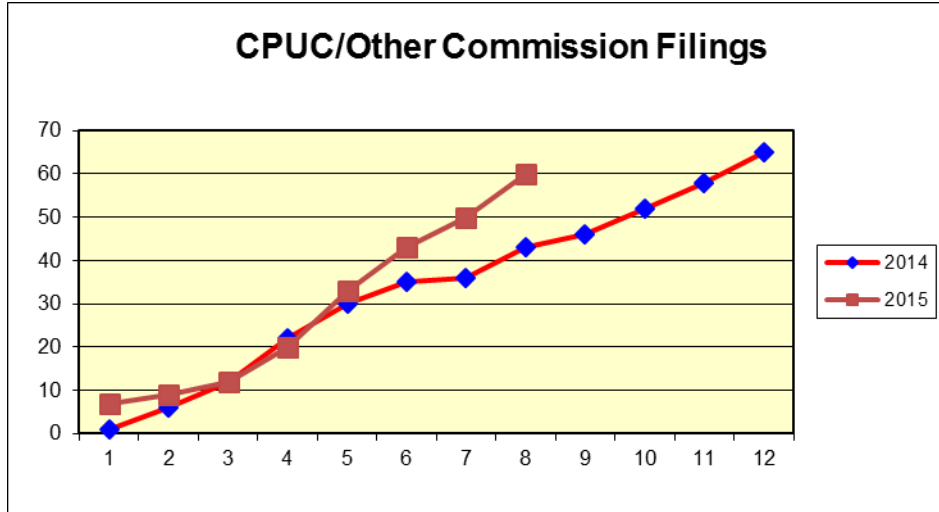
- **Comments on interim variable integration cost adder (R.13-12-010)**

On June 26, 2015, the ISO filed comments on Southern California Edison Company's May 29, 2015 report on production cost simulations for the interim variable integration cost adder. The ISO commented that properly quantifying integration costs is an important step in better guiding future procurement as the state moves forward with increased reliance on preferred resources and energy storage to meet long-term electric needs. The ISO commented that it is important to better understand and improve the methodology presented in the Southern California Edison report. The ISO presented specific issues that need additional explanation and justification before the results of this study can be used for any procurement based decisions.

Regulatory Filings Through August 2015



Regulatory Filings Through August 2015



Regulatory Filings Through August 2015

