

# Memorandum

**To:** ISO Board of Governors

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

**Date:** May 7, 2015

**Re:** Regulatory update

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***This memorandum does not require Board action.***

## **Highlights**

- *ISO proposed to FERC an enhancement to automatically account for operator action and available supply in the energy imbalance market entity's balancing area*
- *FERC granted limited waiver to delay reinstatement of intertie convergence bidding*
- *ISO filed a tariff amendment to modify bid cost recovery provisions related to multi-stage generating resources to appropriately reflect costs associated with operating these resources at their minimum load when they self-commit*

## **Federal Energy Regulatory Commission and related Court of Appeals matters**

- **Tariff waiver – virtual bidding at the interties (ER15-1451 and ER14-480)**

On April 29, 2015, FERC granted the ISO's April 3, 2015, request for a waiver of certain tariff provisions that would otherwise require the ISO to reinstate virtual bidding at the interties. In early April, the Department of Market Monitoring (DMM) completed a report describing potential market inefficiencies resulting from the reinstatement of intertie convergence bidding due to the significantly low levels of liquidity observed in the fifteen-minute market at the interties. DMM's findings prompted the ISO to request a waiver of existing tariff provisions to allow more time to explore the causes of the low liquidity and address the issues. FERC granted a limited waiver effective May 1, 2015, which will be in effect until FERC issues a subsequent order on the merits of the ISO's request. FERC also set a comment period ending May 20, 2015, to allow parties to comment on the ISO's December 2014 and April 2015 reports, for further development of the record in the case.

- **Third party provision of primary frequency response service (RM15-2)**

On April 27, 2015, the ISO submitted comments in response to FERC's notice of proposed rulemaking to foster competition in the sale of primary frequency service. The ISO informed FERC that it does not currently procure primary frequency response

service as a separate ancillary service. The ISO recommended that FERC allow balancing authorities and their stakeholders to develop mechanisms tailored to meet the reliability standard requirement that requires balancing authorities to maintain a minimum frequency response obligation (BAL-003-1), based on their specific circumstances. The ISO also asked FERC to express its intent to support and approve any transmission provider rules necessary and appropriate to monitor and assess performance of resources providing primary frequency response service.

- **Tariff amendment to implement energy imbalance market twelve month transition period (ER15-861 and EL15-53)**

On November 13, 2014, the ISO requested a waiver of tariff pricing parameters that apply when the ISO market systems relax a transmission or power balance constraint to clear the market because of an insufficiency of effective economic supply bids. The waiver enables the ISO to calculate prices in such circumstances based on available economic bids instead of tariff-based parameters. The ISO sought the waiver because learning curve and implementation issues caused the market software to conclude wrongfully that there was in some intervals an insufficiency of available supply to clear demand when, in fact, the balancing authority was sufficiently resourced. On December 1, 2014, FERC granted the waiver for 90 days effective November 14, 2014, and has since extended the waiver, which continues to be in effect. On January 15, 2015, the ISO proposed to amend its tariff to include a twelve-month transition period during which the waiver-based pricing would also be in effect. FERC denied the amendment and established a proceeding to investigate the issues that prompted the ISO to seek a waiver and determine whether any changes are necessary to ensure the pricing in the energy imbalance market is just and reasonable. FERC noted that if the ISO determined the transition period was necessary, the ISO would be required to submit a new tariff amendment requesting the appropriate tariff revisions. FERC also held a technical conference on April 9, 2015, during which the ISO responded to a series of questions related to the issues that prompted the ISO to seek the waiver. The ISO also presented the details of its proposal to adopt an automated feature that will ensure the ISO market systems accurately and timely reflect available capacity and operator actions taken in the energy imbalance market balancing areas. The proposed enhancement will reduce the market clearing infeasibilities caused by issues related to the market systems being misinformed regarding the available supply in the energy imbalance market balancing area. On April 23, 2015, the ISO submitted written comments with FERC describing the proposal in greater detail. Other parties may reply to the ISO comments on May 7, and the ISO and parties may further comment on May 20. FERC will then issue an order mandating the ISO to adopt any measures it deems appropriate, which may include the ISO proposal, to ensure the ISO tariff provisions related to the imbalance energy spikes in the energy imbalance market balancing area are just and reasonable.

- **Order Accepting Order 676-H compliance filing (ER15-526)**

On April 23, 2015, FERC accepted the ISO's order 676-H compliance filing. FERC found that the tariff revisions incorporating the latest version of the Standards for Business Practices and Communication Protocols for Public Utilities adopted by the Wholesale Electric Quadrant of the North American Energy Standards Board satisfactorily, comply with Order 676-H. These provisions are effective May 15, 2015.

- **Joint motion - defer briefing schedule - flexible resource adequacy (ER14-2574)**

On March 20, 2015, the ISO along with the Cities of Anaheim, Azusa, Banning, Colton, Pasadena, and Riverside, California (the Six Cities) submitted a joint motion to defer the briefing schedule established by FERC's February 25 order requesting additional information relating to the must-offer obligations applicable to combined use-limited resources. This was an issue raised in the Six Cities' request for rehearing of FERC's October 16, 2014 order. The ISO contacted the Six Cities following the February 25 Order and proposed revisions of the must-offer requirements that addressed Six Cities' concerns raised in their rehearing request. FERC granted the motion on March 26, 2015. On April 10, 2015, the ISO submitted proposed tariff modifications to resolve the rehearing issue. The proposed modifications will: (1) limit the must-offer obligation of a use-limited combination resource to the flexible capacity amount shown for on the monthly flexible resource adequacy capacity plan; and (2) allow either resource in the combination to meet the must-offer obligation, with the qualification that only one resource in the combination can submit bids each day. On April 27, 2015, the Six Cities submitted comments in support of the ISO's proposal.

- **Tariff amendment to modify bid cost recovery provisions to ensure appropriate treatment of minimum load compensation for multi-stage generators (ER15-1229)**

On March 12, 2015, the ISO submitted a tariff amendment to modify elements of the bid cost recovery provisions related to multi-stage generating resources to reflect accurately costs associated with operating such resources at their minimum load when they self-commit in the day-ahead or real-time markets. The proposed modifications are an extension of existing tariff rules considering minimum load costs for multi-stage generating resources in the ISO's bid cost recovery calculations when the ISO commits such resources in the day-ahead market. The ISO requested waiver of the 60-day notice period and immediate effectiveness of these provisions because of the potential that resources could unduly expand their bid cost recovery payments during the term of the notice period.

## Regulatory agreements

- **Agreement between the ISO and Puget Sound Energy Inc. (ER15-1347)**

On March 20, 2015, the ISO submitted to FERC an implementation agreement between the ISO and Puget Sound Energy Inc., a Washington corporation. The implementation agreement sets forth the terms under which the ISO will extend its existing real-time energy market systems to provide imbalance energy service to Puget Sound pursuant to the ISO's energy imbalance market tariff. Under the implementation agreement, Puget Sound will compensate the ISO for its share of the costs of related system changes, software licenses, and other configuration activities. The ISO requested that FERC accept the implementation agreement effective May 20, 2015, so that Puget Sound can join the energy imbalance market on October 1, 2016.

- **Accepting NextEra Desert Center Blythe Certificate of concurrence for interconnection agreement (ER15-1124)**

On February 25, 2015, the ISO submitted a certificate of concurrence with Service Agreement No. 109, an amended Large Generator Interconnection Agreement among NextEra Desert Center Blythe, LLC, Southern California Edison Company, and the ISO, under SCE's transmission owner tariff. The ISO filed the certificate of concurrence to assent to and concur with the amended agreement and to identify SCE as the designated utility who filed the amended agreement.

## Reports filed

- **Quarterly queue report Q1-2015 (ER08-1317 and ER11-1830)**

On April 30, 2015, the ISO submitted its interconnection queue quarterly progress report for the first quarter of 2015, describing the ISO's progress over the period of January 1, 2015, to March 31, 2015, in processing generator interconnection requests under the ISO's interconnection process.

- **Energy imbalance market pricing waiver (ER15-402)**

On April 24, 2015, the ISO submitted its report on the performance of the energy imbalance market for March 2015. The report is submitted pursuant to FERC's March 16, 2015, order wherein the FERC directed 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 April 2, 2015, the Department of Market Monitoring submitted its assessment of the performance of the energy imbalance market.

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

On March 16 and April 15, 2015, the ISO submitted to FERC its monthly market disruption reports, for the periods January 16, 2015 through February 15, 2015 and February 16, 2015 through March 15, 2015, 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)**

On March 16 and April 15, 2015, the ISO submitted to FERC transactional data including incremental and decremental megawatt volume, duration, and location for exceptional dispatches occurring during the month of January and February 2015, respectively. 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, 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 month of March 2015.

### **California Public Utilities Commission matters**

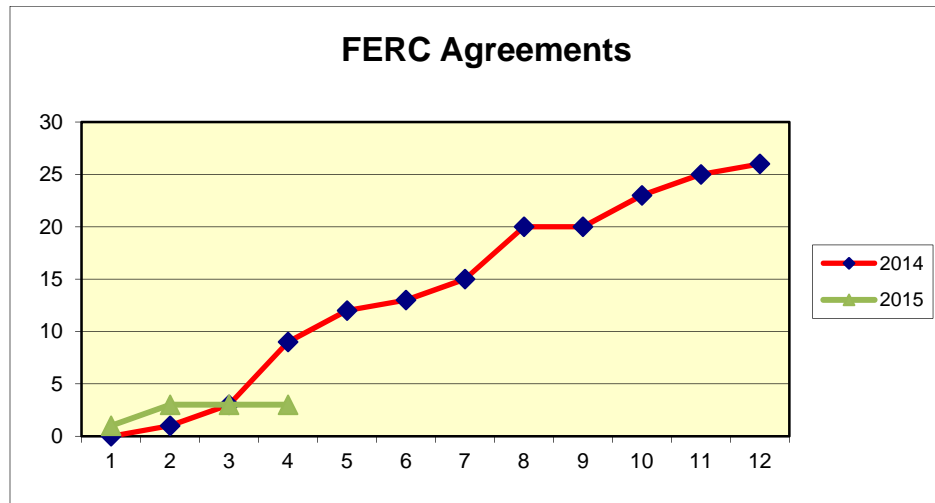
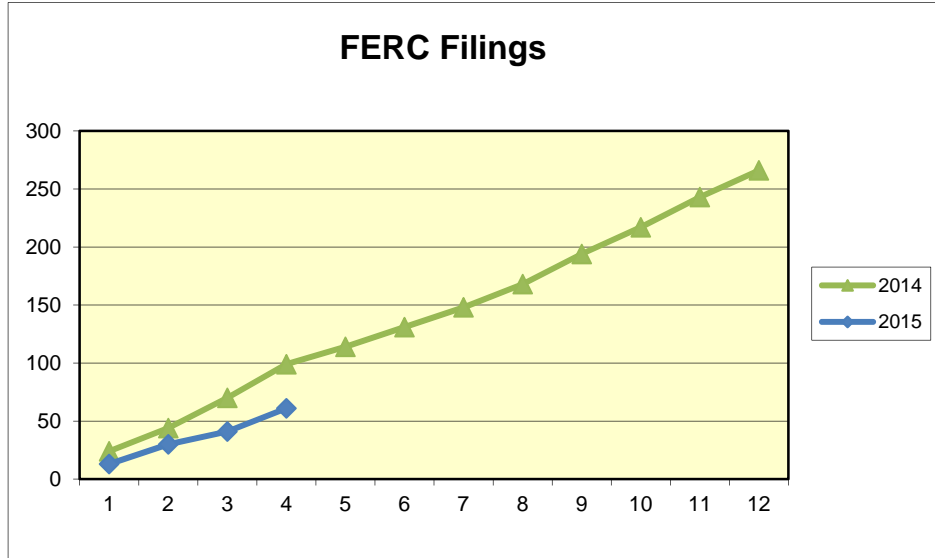
- **SDG&E application for approval of the Carlsbad Energy Center (A.14-07-009)**

On April 6, 2015, CPUC President Picker issued an Alternative Proposed Decision approving 500 megawatts of capacity from the Carlsbad Energy Center project. The ISO submitted comments on April 27, 2015 supporting the Alternative Proposed Decision, and reply comments on May 4.

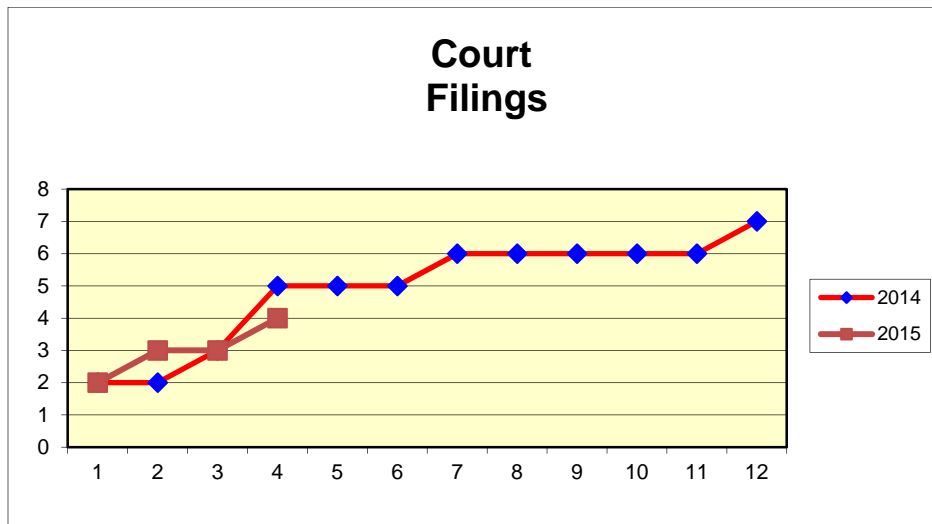
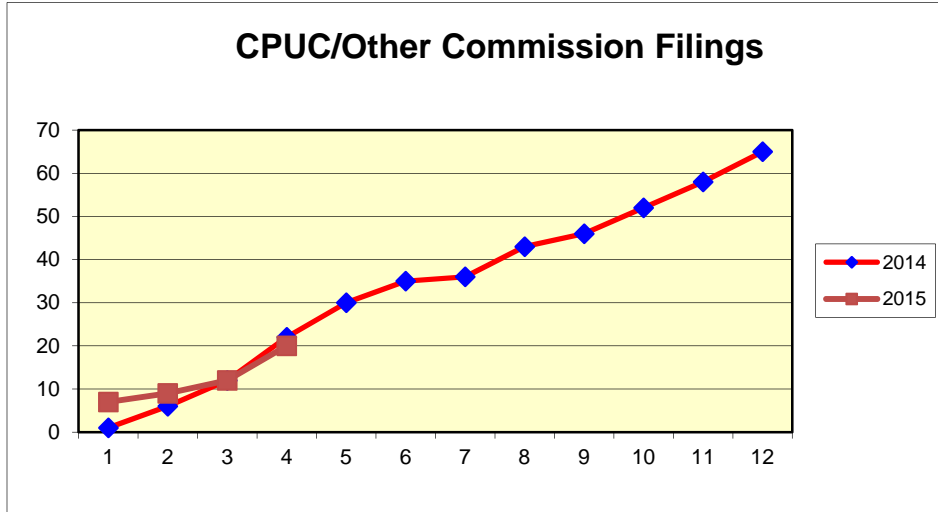
- **Long-term procurement plan (R.13-12-010)**

On March 25, 2015, Administrative Law Judge Gamson issued a ruling discontinuing phase 1a of the long-term procurement plan and outlining the steps to be taken in phase 1b. The ruling indicates that phase 1b will have two separate tracks, one focusing on refining and validating modeling techniques for future long-term procurement plan proceedings and a second track in which the CPUC will review over-generation and flexibility issues with an effort to provide policy guidance to address over-generation in other CPUC proceedings. The ISO will provide additional deterministic modeling on May 8, 2015.

# Regulatory Filings Through April 30, 2015



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