

Memorandum

To: ISO Board of Governors

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

Date: February 9, 2017

Re: Regulatory Update

This memorandum does not require Board action.

Highlights

- *FERC accepted administrative pricing enhancements*
- *FERC granted limited waiver allowing for later implementation of local market power mitigation enhancements*
- *ISO filed at FERC an energy imbalance market implementation agreement with City of Seattle*
- *ISO filed tariff amendments at FERC to modify congestion revenue right settlement rule for implicit virtual bids*
- *ISO filed tariff amendments at FERC to modify the settlement and billing timeline*
- *FERC accepted transferred frequency response agreements for both Bonneville Power Administration and City of Seattle*
- *FERC accepted a revised tariff definition of load serving entity*
- *FERC accepted a planning coordinator agreement with Metropolitan Water District of Southern California*
- *ISO filed a tariff amendment at FERC to revise its reactive power requirements*

Federal Energy Regulatory Commission and related Court of Appeals matters

- **Order on compliance, clarification, and rehearing re the ISO's filing in compliance with the Frequency Response and Frequency Bias Setting standards (ER16-1483, ER16-1483)**

On February 2, 2017, FERC accepted the ISO's compliance filing, granted two requests for clarification, and denied a request for rehearing on FERC's September 16, 2016, order accepting, subject to condition, proposed revisions to the ISO tariff in compliance with North American Electric Reliability Corporation Reliability Standard BAL-003-1.1 –

Frequency Response and Frequency Bias Setting. Powerex Corp. filed the request for clarification and the NRG Companies and the Western Power Trading Forum jointly filed the request for rehearing and clarification. The ISO also filed a request for clarification or, in the alternative, a request for rehearing and submitted a compliance filing in response to the directives in the September 16 order. FERC granted the ISO's and Powerex's respective requests for clarification that contracts for transferred frequency response may be supported by a balancing authority's frequency response measure, consistent with the performance standard. FERC rejected NRG and WPTF's contention that FERC acted arbitrarily and capriciously by finding that transferred frequency response contains both compliance reporting rights and delivery of physical primary frequency response service.

- **Order on EIM technical conference (ER16-1518)**

On January 31, 2017, FERC issued an order on its staff's technical conference held on October 28, 2016. The technical conference was held to gather additional information regarding technical challenges associated with implementing economic bidding at the energy imbalance market external interties, as required by FERC's June 30, 2016 order on EIM tariff enhancements. FERC acknowledged the concerns and challenges presented by the ISO and other technical conference participants and supports the continued collaborative efforts to achieve solutions. FERC also directed its staff to monitor the ISO's efforts and expects that the ISO will keep FERC apprised of developments.

- **Order on administrative pricing enhancements amendment (ER17-415)**

On January 30, 2017, FERC issued an order accepting the ISO's November 23, 2016, tariff amendment to clarify and update tariff provisions that apply to emergency operations. The ISO also clarified that in the event of an "uncontrollable force," a market participant will not be held harmless from the financial consequences of binding market results.

- **Tariff amendment to implement NERC outages reliability standards (ER17-879)**

On January 27, 2017, the ISO submitted a tariff amendment to conform the ISO's outage coordination tariff provision to Peak Reliability's implementation of NERC Reliability Standard IRO-017-1. The standard has a mandatory April 1, 2017, compliance date.

- **Order granting limited waiver enabling later implementation of local market power mitigation enhancements (ER16-1983)**

On January 27, 2017, FERC granted the ISO's waiver request, enabling it to delay until April 1, 2017 implementation of the local market power mitigation used in the five-minute real-time dispatch process.

- **Order on use of rerated minimum load for purposes of determining start-ups and transitions of resources (ER17-416)**

On January 26, 2017, FERC accepted the ISO's November 25, 2016, tariff amendment to allow the ISO to determine whether a resource has reached its minimum load for purposes

of calculating start-up and transition costs included in the resource's bid cost recovery payments. These changes align these calculations with tariff changes the ISO made in 2016 that allow the ISO to use the minimum load value as rerated in the outage management system as opposed to the value contained in the master file for that resource.

- **Tariff amendment modifying congestive revenue rights and virtual bids settlement rule (ER17-853)**

On January 25, 2017, the ISO filed a tariff amendment to tailor its tariff rules regarding what transactions constitute implicit virtual awards at the interties for purposes of settling congestive revenue rights. The ISO requested an effective date of April 1, 2017.

- **Tariff amendment modifying the settlement and billing timeline (ER17-847)**

On January 24, 2017, the ISO filed a tariff amendment to adjust the timing of the second-to-last recalculation settlement statement, which is currently issued 35 months after the trading day, to 33 months after the trading day. This change will allow market participants more time to review the statement and submit disputes, as several market participants had requested in a prior FERC proceeding. The ISO requested an effective date of May 3, 2017.

- **Order accepting transferred frequency response agreement with Bonneville Power Administration (ER17-408)**

On January 19, 2017, FERC accepted the ISO's November 22, 2016 filing, implementing the ISO's transferred frequency response agreement with Bonneville Power Administration, effective December 1, 2016.

- **Order accepting transferred frequency response agreement – City of Seattle (ER17-411)**

On January 19, 2017, FERC accepted the ISO's November 22, 2016 filing, implementing the ISO's transferred frequency response agreement with City of Seattle, effective December 1, 2016.

- **Deficiency letter on filing related to Orders Nos. 827 and 828 - reactive power requirements for non-synchronous generation (ER17-114)**

On January 12, 2017, FERC issued a deficiency letter requesting additional information on the ISO's compliance filing tariff amendment for FERC Order No. 827 and FERC Order No. 828. Specifically, FERC requested that the ISO provide additional information regarding the definition of "repowering projects," and for the ISO to more clearly define what constitutes a repowering of an existing generator capable of providing reactive power.

- **Petition for limited waiver to delay implementation of RAIM advisory period (ER17-779)**

On January 11, 2017, the ISO filed a petition for limited waiver, requesting a temporary suspension of the effectiveness of the two month advisory period for charges and payments under the resource adequacy availability incentive mechanism. The ISO requested that this advisory period be delayed until April 1, 2017, in order for financially binding RAIM assessments to begin with the April 2017 monthly settlement statements.

- **Compliance filing re Order 825 (settlement intervals and shortage pricing in ISO/RTO markets) (ER17-777)**

On January 11, 2017, the ISO made a compliance filing with FERC Order No. 825 - Settlement Intervals and Shortage Pricing in Markets Operated by Regional Transmission, Organizations and Independent System Operators. FERC Order No. 825 required ISOs to: (1) settle energy transactions in its real-time markets at the same time interval it dispatches energy; (2) settle operating reserve transactions in its real-time markets at the same time interval it prices operating reserves; (3) settle intertie transactions at the same time it schedules intertie transactions, or demonstrates that its settlement and scheduling of intertie transactions is consistent with or superior to the Commission's intertie reforms; and (4) trigger shortage pricing for any interval in which a shortage of energy or operating reserves is indicated during the pricing of resources for that interval. The ISO did not submit any tariff revisions as the ISO determined that its tariff already complied with the requirements of FERC Order No. 825.

- **FERC order definition of load serving entity (ER17-218)**

On December 30, 2016, FERC issued an order accepting the proposed tariff amendment, filed on October 28, 2016, revising the definition of load serving entity to create a generally applicable rule that affords similar treatment for all similarly situated entities. The order further finds, as requested, 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.

- **Order on penalty dispositions (rules of conduct) and WDAT forfeiture funds (ER16-2707)**

On December 19, 2016, FERC approved the ISO's September 26, 2016, filing that sought approval to distribute the penalty proceeds collected for violations of the ISO's Rules of Conduct and certain nonrefundable study deposits stemming from interconnection projects.

- **Comments in support of Crisis Era litigation settlements (EL00-95)**

The three largest investor-owned utilities in California and the State of California continue to reach settlement agreements with entities that supplied electricity to California during the energy crisis of 2000-2001. The ISO routinely files comments supporting these settlement agreements and asking to be held harmless in connection with implementing the

accounting adjustments they require. On December 19, 2016, the ISO filed such comments in support of settlement agreements involving MPS Merchant Services and Merrill Lynch. On December 23, 2016, the ISO filed such comments in support of an amendment to a 2006 settlement involving IDACORP.

- **Tariff amendment related to reactive power requirements – automatic voltage regulator systems (ER17-490)**

On December 5, 2017, the ISO filed a tariff amendment to revise its rules regarding automatic voltage regulation for resources providing reactive power capability. The ISO proposed tariff revisions to clarify technical requirements associated with automatic voltage regulators for resources providing reactive power capability. The proposed requirements are consistent with NERC and WECC reliability standards. The ISO requested an effective date of March 6, 2017.

Regulatory Agreements

- **EIM Implementation Agreement for City of Seattle (ER17-868)**

On January 27, 2017, the ISO filed an EIM Implementation Agreement for the City of Seattle with FERC. The ISO requested an effective date of April 1, 2017. This will allow the ISO to move forward with extension of the real-time energy market to include City of Seattle participation, with a target for implementation on April 1, 2019.

- **Certificate of Concurrence: Western Antelope Dry Ranch LLC (ER17-503)**

On January 12, 2017, FERC accepted the certificate of concurrence filed by the ISO on December 7, 2016, regarding the small generator interconnection agreement entered into among Western Antelope Dry Ranch LLC, Southern California Edison Company, and the ISO. The original small generator interconnection agreement was submitted Southern California Edison Company.

- **LGIA - Arlington Valley Solar II (ER17-746)**

On January 4, 2017, the ISO filed a large generator interconnection agreement among the ISO, Arlington Valley Solar II and San Diego Gas & Electric Company (SDG&E). Arlington Valley Solar II is a photovoltaic generating facility located in Maricopa County, Arizona. The ISO requested an effective date of March 6, 2017. On January 11, 2017, SDG&E filed a certificate of concurrence.

- **Amendment to Dynamic Transfer Balancing Authority Operating Agreement with the Balancing Authority of Northern California**

On December 30, 2016, the ISO filed an amendment to the DTBAOA with BANC. The amendment incorporated SMUD in Schedule 1 of the agreement, and amendments to Section 7.8 were proposed (as this allowed revisions to Schedule 1). The ISO requested an effective date of March 1, 2017.

- **Third amendment to Valley Electric Authority Transition Agreement (ER17-695)**

On December 28, 2016, the ISO filed a third amendment to the Valley Electric Authority Transition Agreement. The third amendment was made in order to assign the obligation to construct a 230kV interconnection from Valley Electric to GridLiance West Transco LLC, while retaining Valley Electric's entitlement to pre-resource adequacy import capacity at the Mead substation. The ISO requested an effective date of March 1, 2017.

- **GridLiance West Transco LLC – Transmission Control Agreement (ER17-694)**

On December 28, 2016, the ISO filed a transmission control agreement for GridLiance West Transco LLC, to be effective March 1, 2017.

- **FERC order accepting planning coordinator agreement with Metropolitan Water District of Southern California**

On December 8, 2016, FERC accepted the ISO's October 24, 2016, planning coordinator agreement with Metropolitan Water District of Southern California. Effective December 26, 2016, the ISO is the planning coordinator for the transmission facilities owned by MWD that are part of the bulk electric system located in the ISO's balancing authority area.

Reports filed

- **Annual report: demand response (ER06-615)**

On January 17, 2017 the ISO filed an annual report evaluating demand response participation in the ISO market for 2016, pursuant to the Commission's June 25, 2007 order in this proceeding, for the period January 1 through November 30, 2016.

- **Informational report: Natural gas and electric coordination (EL14-22)**

On December 19, 2016, the ISO filed a report pursuant to FERC's December 2015 order, regarding the ISO's efforts to improve natural gas and electric coordination, in particular as a result of the gas storage constraints at the Aliso Canyon gas storage facility in southern California. The report also provides information on the time required for the ISO to publish day-ahead market results during 2016, the causes for any delays, and the steps the ISO is taking to mitigate any delays. Finally, this report identifies operational challenges related to gas-electric coordination issues – apart from the constraints at the Aliso Canyon natural gas storage facility – that affected natural gas fired generators in the ISO's balancing authority area during 2016, and discusses mitigation efforts explored by the ISO in connection with these challenges.

- **Informational report – AES Huntington Beach Generating Station, Units 3 and 4 – RMR Agreement (ER13-351)**

On December 12, 2016, the ISO filed an informational report on hours of operation for AES Huntington Beach for the months of September-November, 2016, pursuant to FERC's January 4, 2013 and May 1, 2014 orders.

- **Informational report: Transition period for EIM (ER15-2565)**

When a transmission or power balance constraint is binding, the ISO calculates energy prices based on penalty factors that are pegged to the bid caps. During the first six month transition period of the start of a new EIM, the ISO will not apply the penalty factors when a transmission or power-balance constraint is binding and will instead calculate energy price based on the last economic price signal. FERC required that the ISO and the DMM file monthly reports on the performance of these measures during the transition period. The ISO and DMM have filed the following reports: (1) on January 20, 2017, DMM filed an informational report for Arizona Public Service Co., for October 2016; (2) on January 17, 2017, the ISO filed an informational report for APS, for October 2016; (3) on December 22, 2016, DMM filed an informational report for Puget Sound Energy, for October 2016; (4) on December 15, 2016, the ISO filed an informational report for Puget Sound Energy, for October 2016.

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

On December 15 2016 and January 17, 2017, the ISO submitted to FERC its monthly market disruption reports for the periods of October 16-November 15, 2016 and November 16-December 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 December 15, 2016 and January 17, 2017, 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 data reports covered October 2016 and November 2016. On December 9, 2016, the ISO filed a motion for extension of time of one to two months to file exceptional dispatch informational reports due to a software issue impeding the generation of the version of settlements summaries of the exceptional dispatch reports for August 2016 - January 2017. 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 December 7, 2016, and January 9, 2017, 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, modified or terminated for the month of November 2016 and December 2016.

California Public Utilities Commission matters

- **Comments on preliminary phase 3 resource adequacy proposals (R.14-10-010)**

On January 13, 2017, the ISO filed comments on multiple resource adequacy program proposals in this docket.

- **Opening brief filed in Mesa Loop-In Project (A.15-03-003)**

On December 21, 2016, the ISO filed its opening brief regarding SCE's application for a permit to construct the Mesa 500kV Substation Project, the three potential alternatives to the project, and the project's impact on once-through cooling policy compliance dates. The ISO approved this project in its 2013-2014 transmission planning process to maintain reliability in southern California in the wake of the closure of the San Onofre Nuclear Generating Station. On December 28, 2016, the ISO filed its reply brief to respond to recommendations and comments provided in other entities' opening briefs.

- **Decision in renewables portfolio standard program (R.15-02-020)**

On December 20, 2016, the CPUC issued a decision implementing compliance periods and procurement quantity requirements.

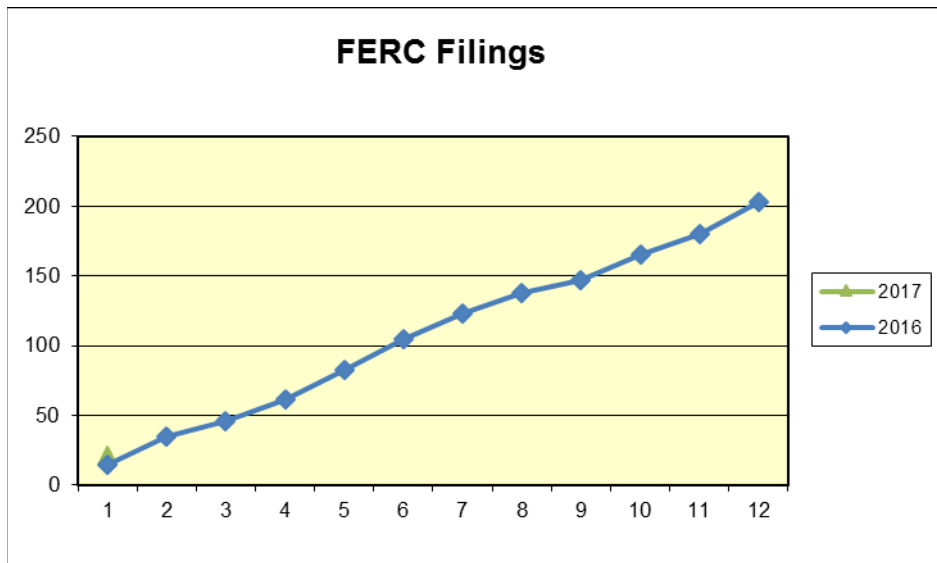
- **Opening comments on the Revised Proposed and Revised Alternate Proposed Decisions – South Orange County Reliability Enhancement (SOCRE) Project (A.12-05-020)**

On December 5, 2016, the ISO filed opening comments urging the CPUC to reject the Revised Proposed Decision, based on numerous factual errors, omissions and erroneous conclusions of law, and adopt the Revised Alternated Proposed Decision. The primary purpose of the SOCRE Project is to address 26 ISO-identified thermal overloads under 13 distinct Category C (now Category P6) contingency events. The ISO has consistently stressed and noted this purpose since the ISO approved the SOCRE Project in the 2010-2011 transmission plan.

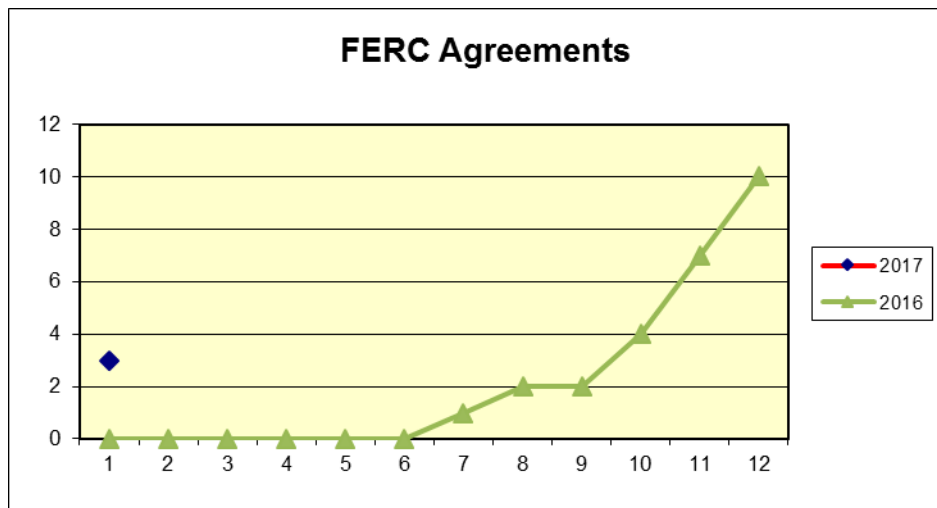
On December 9, 2016, the ISO sent an unsolicited written ex parte communication to all five CPUC Commissioners and their Chiefs of Staff of Energy Advisors seeking to clarify

three topics that were discussed at the December 6, 2016 final oral arguments in this matter, reiterating the critical importance of the SOCRE project, and urging adoption of Commissioner Picker's Alternate Proposed decision.

Regulatory Filings Through January 2017

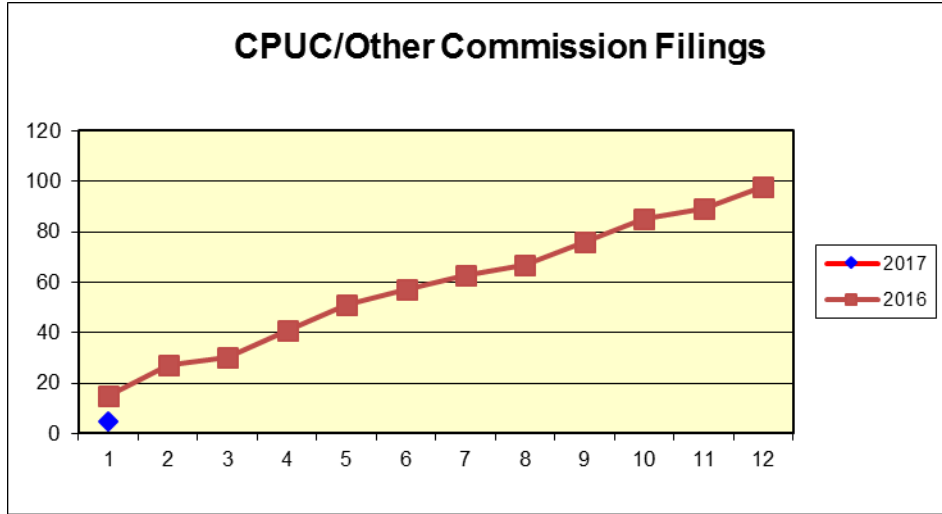


January 2017 total – 21 FERC Filings

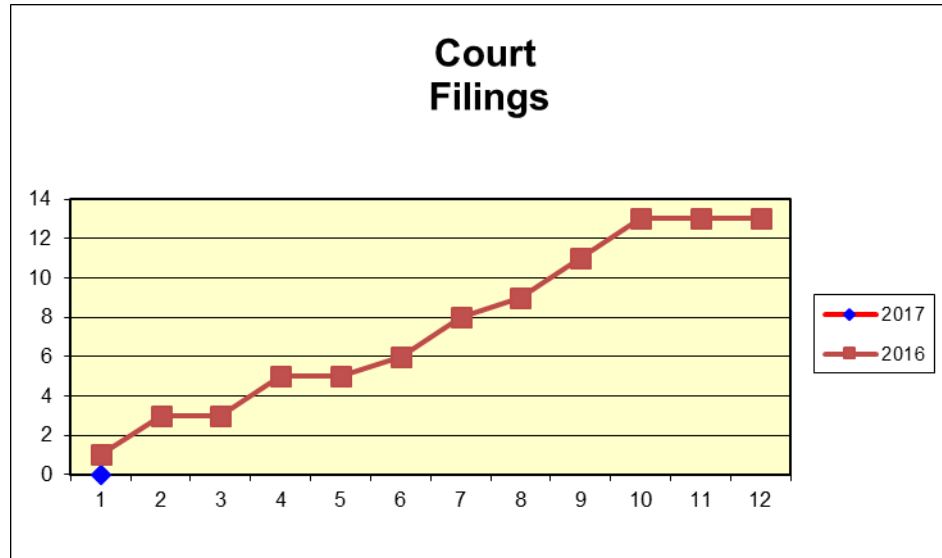


January 2017 total – 3 FERC Agreement Filings

Regulatory Filings Through January 2017

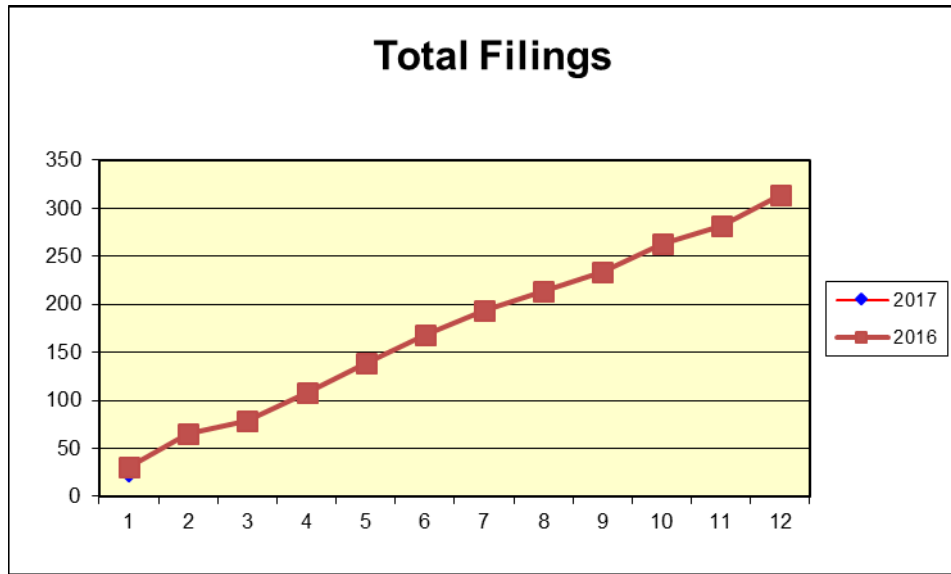


January 2017 total – 5 CPUC Filings



January 2017 total – 0 Court Filings

*Regulatory Filings Through
January 2017*



January 2017 Total – 26 filings