

Memorandum

To: ISO Board of Governors

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

Date: March 17, 2016

Re: Regulatory Update

This memorandum does not require Board action.

Highlights

- *FERC approves revisions to interconnection process*
- *ISO files for authority to facilitate participation of aggregations of distribution-connected or distributed energy resources in the ISO's energy and ancillary services markets*
- *ISO files for authority to correct prices related to post implementation issues*
- *ISO proposes enhancements to the competitive solicitation process through which it selects approved project sponsors to construct certain regional transmission projects included in the ISO's annual transmission plan*

Federal Energy Regulatory Commission and related Court of Appeals matters

- **Order accepting proposed tariff revisions subject to conditions – interconnection process enhancements (ER16-693)**

On March 7, 2016, FERC accepted the ISO's proposed tariff amendment to improve the ISO's generator interconnection process. This was the second and final set of tariff revisions resulting from the ISO's 2015 interconnection process enhancements stakeholder initiative. The approved tariff provisions consist of ten categories of improvements to the interconnection process. These improvements include a requirement that the ISO, rather than the interconnection customer, notify affected third-party systems of proposed generator interconnection requests, and the affected system will have 60 days to verify whether they are actually affected and want to be involved in the interconnection study process. They also include the requirement that commercial viability criteria will be applied to an interconnection customers' request to extend their commercial operation date beyond the limits set forth in the tariff, if the customer wishes to maintain its capacity deliverability status.

- **Tariff amendment – distributed energy resource provider (ER16-1085)**

On March 4, 2016, the ISO submitted a tariff amendment on the distributed energy resource provider initiative to facilitate participation of aggregations of distribution-connected or “distributed” energy resources in the ISO’s energy and ancillary services markets. The ISO requested that FERC accept the tariff revisions within 90 days and make them effective on June 3, 2016.

- **Petition for limited waiver to modify comment date and request shortened comment period – available balancing capacity (ER15-861-008)**

On February 29, 2016, the ISO requested FERC grant a limited waiver and extension of time to allow the available balancing capacity tariff provisions to become effective no later than March 30, 2016. On March 10, FERC granted the request. The tariff revisions were initially accepted by FERC in a December 17 order, with a January 5 implementation date. On January 4, FERC granted the ISO’s request that the available balancing capacity tariff revisions become effective no later than March 1, 2016. The ISO had requested the delay in implementation from January 5, 2016, because of implementation challenges. The additional extension to March 30 was sought to provide additional time for FERC to rule on two separate but related tariff filings made by the current EIM entities, necessary to enable them to submit available balancing capacity to the energy imbalance market.

- **Petition for limited waiver on timing of price correction (ER16-1019)**

On February 26, 2016, the ISO requested FERC provide a limited waiver, suspending the effectiveness of the limitation on timing for price corrections in section 35.2 of the tariff. This tariff provision requires that price corrections for a trading day end no later than three business days after the trading day for the day-ahead market and five business days after the trading day for the real-time market. The ISO requested this waiver to correct prices for various pricing locations and market intervals in the period between October 15, 2014 and April 30, 2015. The pricing errors occurred due to implementation issues after the implementation of two significant enhancements in the fall of 2014: the full network model expansion and the integration of the first energy imbalance market entity.

- **Letter order granting limited waiver to modify effective date – reliability services initiative (ER15-1825)**

On February 24, 2016, FERC issued a letter order granting the ISO’s petition for waiver to delay the effective date of its new reliability services initiative tariff provisions to May 1, 2016. FERC agreed that the ISO’s request was limited in scope, addressed the concrete problem that the ISO cannot effectively implement the tariff revisions by March 1, 2016 due to challenges in preparing new market software for simulation, and that no party will be harmed by the request. FERC also directed the ISO to submit a compliance filing within 15 days of the order, to reflect the May 1, 2016 effective date of the tariff revisions.

- **Tariff amendment to alter implementation date – capacity procurement mechanism (ER16-897)**

On February 4, 2016, the ISO requested that FERC approve: (1) an extension of the duration of the ISO's capacity procurement mechanism tariff authority, from February 28, 2016 to March 31, 2016; (2) a revision of the effective date of the ISO's new capacity procurement mechanism pricing from March 1 to April 1, 2016; and (3) revisions to the effective date of several related tariff amendments that otherwise would have become effective March 1, 2016.

- **Letter order accepting default loss allocation tariff provisions (ER16-305)**

On February 2, 2016, FERC accepted the ISO's tariff revisions filed on November 10, 2015, to maintain the effectiveness of existing tariff provisions to allocate financial default losses across all market participants in accordance with a settlement agreement previously approved by FERC, in Docket No. EL09-62-000. FERC accepted the revisions for filing, effective February 11, 2016.

- **Tariff amendment – competitive solicitation process enhancements (ER16-767)**

On January 27, 2016, the ISO submitted a tariff amendment to enhance the procedures for the competitive solicitation process, through which the ISO selects approved project sponsors to construct certain regional transmission solutions included in the ISO's annual transmission plan. The ISO proposes to enhance the opportunity for project sponsors to collaborate on a joint application at the beginning of the competitive solicitation process (*i.e.*, prior to the due date for submitting project sponsor applications) and to eliminate the collaboration period that occurs after project sponsors have submitted their applications and the ISO has validated them. Among other things, this proposal streamlines the competitive solicitation process, eliminates undue delays, and eliminates a potential unfair advantage that exists under the current process for project sponsors that collaborate and submit a new joint application during the collaboration period.

Regulatory Agreements

- **Order accepting agreement between the ISO and CENACE (ER16-633)**

On February 11, 2016, FERC accepted, effective January 1, 2016: (1) an Adjacent Balancing Authority Operating Agreement between the ISO and the Centro Nacional de Control de Energia-Gerencia de Control Regional Baja California (CENACE), designated as Rate Schedule No. 82; and (2) a notice of termination of the existing Interconnected Control Area Operating Agreement between the ISO and the Comision Federal de Electricidad, designated as Rate Schedule No. 41.

- **Order accepting termination of agreement between the ISO and Imperial Irrigation District (ER16-508)**

On February 10, 2016, FERC issued an order accepting the ISO's notice of termination of an Approved Project Sponsor Agreement between the ISO and the Imperial Irrigation District designated as Service Agreement No. 3008 under the ISO's Open Access Transmission Tariff. The notice of termination was accepted for filing, effective February 22, 2016.

- **Amendment 3 to the second amended and restated City of Riverside metered sub-system agreement (ER16-830)**

On February 4, 2016, the ISO submitted Amendment No. 3 to the Second Amended and Restated City of Riverside Metered Sub-System Agreement between the ISO and the City of Riverside. The amendment memorializes the City of Riverside's right to manage its use limited resources to meet its internal local reliability requirements. The ISO requested an effective date of May 1, 2016.

- **Order accepting adjacent balancing authority area operating agreement between the ISO and Nevada Power Company (ER16-545)**

On February 2, 2016, FERC accepted a third amendment to the Adjacent Balancing Authority Operating Agreement (Amended ABAOA) between the ISO and Nevada Power Company in order to accommodate the project schedule of Nevada Power and San Diego Gas & Electric Company to complete transition of the Merchant Substation, located near Boulder City, Nevada, from the Nevada Power to the ISO balancing authority area. The Amended ABAOA includes proposed changes to its Schedule A balancing authority points of interconnection to reflect the elimination of an intertie and related scheduling point as a result of fully incorporating the Merchant facilities into the ISO BAA. The Amended ABAOA was accepted for filing, effective December 18, 2015.

- **Order accepting EIM implementation agreement between the ISO and Portland General Electric (ER16-366)**

On January 19, 2016, FERC accepted an EIM Implementation Agreement between the ISO and Portland General Electric Company setting forth the terms under which the ISO will extend its real-time energy market systems to provide imbalance energy service to Portland General pursuant to the ISO's EIM tariff provisions. Under the Implementation Agreement, Portland General will compensate the ISO for its share of the costs of related system changes, software licenses, and other configuration activities. The Implementation Agreement was accepted for filing, effective January 20, 2016.

Reports filed

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

On February 12, 2016, the ISO submitted to FERC a status report as required by the Chief Judge's order suspending the proceedings. The ISO reported that there have been no changes since previous status reports, and that the procedural schedule in these proceedings should continue to be suspended pending the outcome of the California refund proceeding.

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

On February 8 and March 7, 2016, 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 for the months of January 2016 and February 2016, respectively.

- **EIM transition period reports – NV Energy (ER15-2565)**

On February 3, 2016, the ISO submitted to FERC its report on the EIM transition period for NV Energy for December 2015. FERC, in its October 29, 2015 order directed the ISO to report on the transition period of NV Energy during its first six months of participation in the energy imbalance market. On February 10, 2016, the Department of Market Monitoring submitted its independent assessment of the transition period of NV Energy, covering December 2015.

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

On February 1 and February 29, 2016, the ISO submitted exceptional dispatch informational reports on: (1) the price impact of exceptional dispatches as required by FERC in a September 2, 2009 order; and (2) an analysis of the degree of mitigation as required by tariff section 34.9.4. These reports covered October 2015 and November 2015. On January 14 and February 16, 2016, the ISO submitted to FERC transactional data including incremental and decremental megawatt volume, duration, and location for exceptional dispatches occurring during the months of November 2015 and December 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.

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

On January 21, February 17, and March 7, 2016, the ISO submitted to FERC its reports on EIM performance for November 2015, December 2015, and January 2016. 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 January 28 and February 29, 2016, the Department of Market Monitoring submitted its assessments of the performance of the EIM, covering November 2015 and December 2015.

- **Report evaluating demand response participation for 2015 (ER06-615)**

On January 15, 2016, the ISO submitted to FERC its annual report evaluating demand response participation for 2015, pursuant to FERC’s June 25, 2007 order. The ISO submitted two versions of the report – a public version that redacts privileged information and a non-public privileged version containing no redactions. The information provided in the 2015 report covers the period from January 1, 2015 through November 30, 2015.

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

On January 14 and February 16, 2016, the ISO submitted to FERC its monthly market disruption reports for the periods November 16, 2015 through December 15, 2015, and December 16, 2015 through January 15, 2016. A market disruption is an action or event that causes a failure of the ISO market related to system operation issues or system emergencies.

California Public Utilities Commission matters

- **Comments on assumptions & scenarios – long-term procurement plan proceeding (R.13-12-010)**

On February 29, 2016, the ISO filed comments regarding the assumptions and scenarios prepared by the CPUC for use in the ISO’s 2016-2017 transmission plan and the CPUC’s future procurement proceedings. The ISO’s comments addressed planning assumptions for additional achievable energy efficiency, the effects of distributed generation, net exports and future renewable portfolios.

- **Comments on flexible resource adequacy requirements – resource adequacy proceeding (R.14-10-010)**

On February 5, 2016, the ISO filed comments addressing the reliability needs for flexible capacity resources. The ISO identified reliability needs based on the following: (1) single-hour net load ramps; (2) the need for a range of upward and downward dispatchable capacity during low net load periods and the transition between low net load periods and three-hour ramps; and (3) five-minute upward and downward deviations during three-hour net load ramps.

- **Testimony on SDG&E and SoCalGas request for revised gas curtailment procedures (A.15-06-020)**

On February 5, 2016, the ISO filed testimony recommending that SoCalGas and SDG&E coordinate natural gas curtailments to electric generation facilities with the operational and reliability requirements of the ISO in order to ensure, to the maximum extent possible, that the ISO can accommodate these curtailments without undermining electric reliability.

- **Comments on proposed decisions on Southern California Edison's request for offers in the Moorpark Sub-Area (A.14-11-016)**

On February 1, February 8, March 3 and March 8, 2016, the ISO issued comments on CPUC proposed decisions regarding Southern California Edison Company's application for approval of its Moorpark sub-area request for offers. The ISO supported SCE's request for offers as a reasonable means of meeting identified local capacity requirements in the Moorpark sub-area.

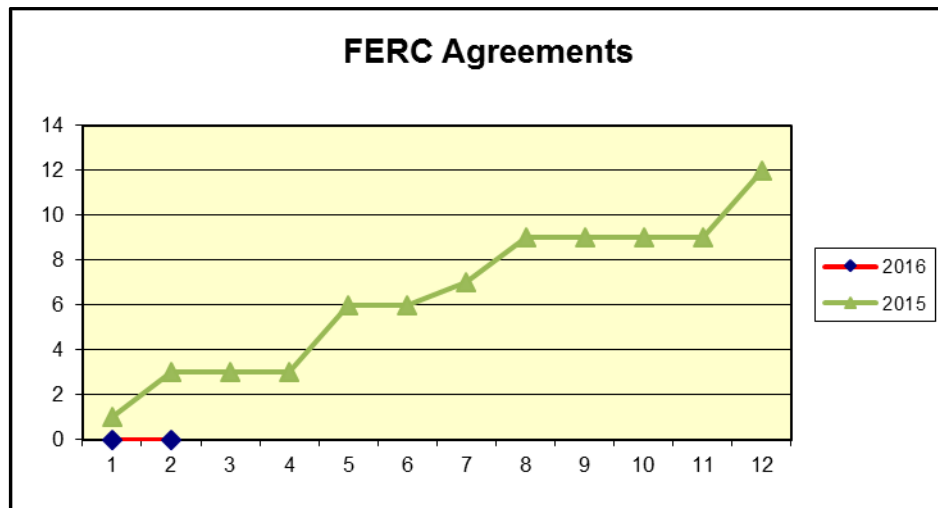
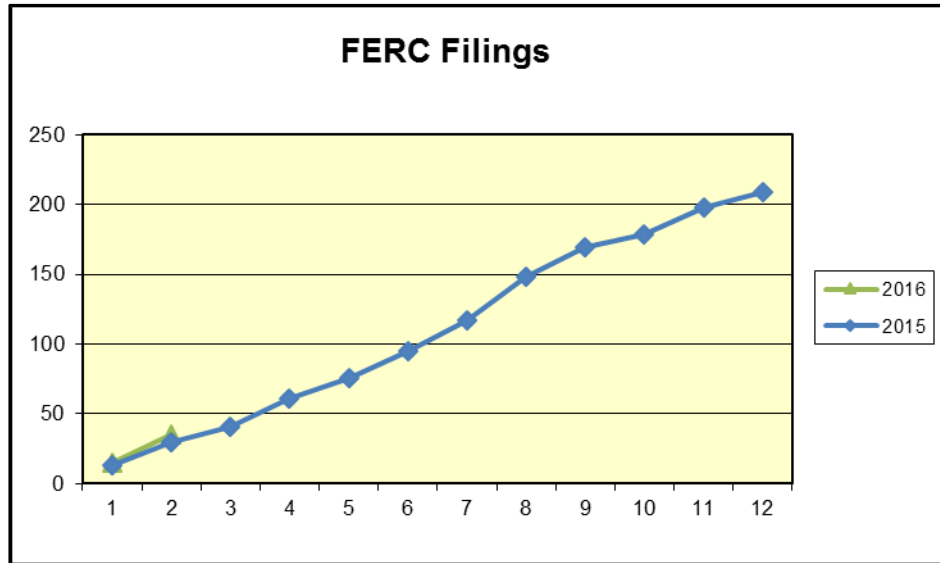
- **Response to request for resource adequacy proposals – resource adequacy proceeding (R.14-10-010)**

On January 29, 2016, the ISO filed comments in the CPUC's annual resource adequacy proceeding recommending that the CPUC align its local resource adequacy requirements with the ISO's Local Capacity Technical Study. The ISO commented on the disconnect between the CPUC's local resource adequacy requirements and the ISO's NERC mandated requirement to reposition the system within 30 minutes of a contingency event.

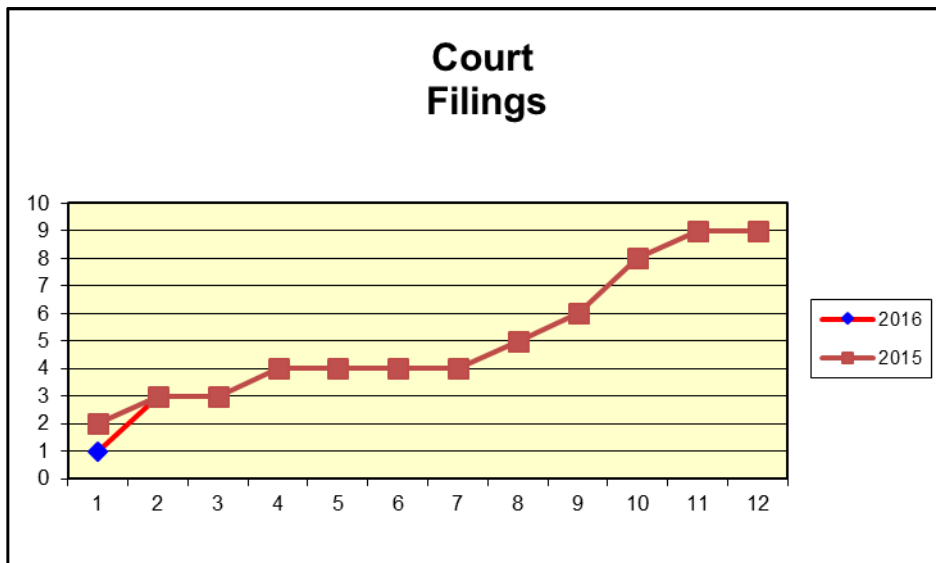
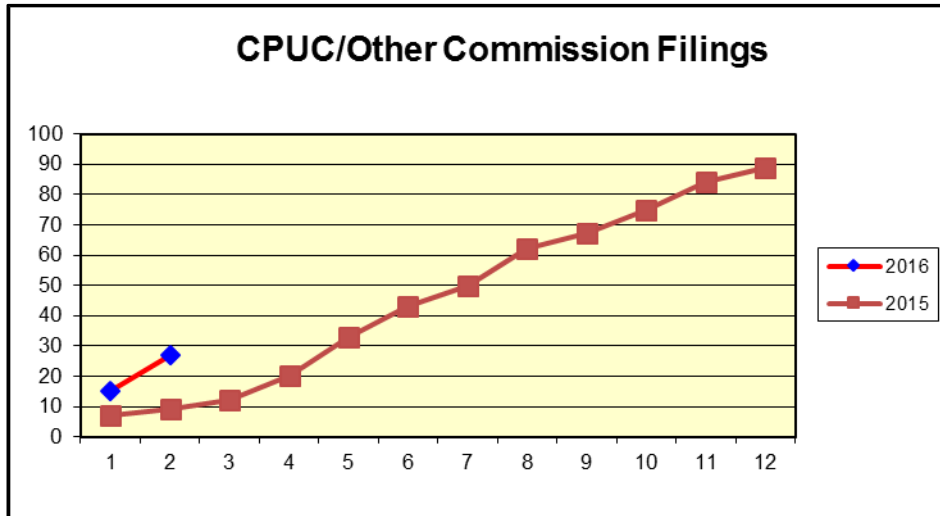
- **Explanation of data, assumptions and analytical methods for proposed time of use rate periods (R.15-12-012)**

On January 22, 2016, the ISO filed an explanation of its proposed time of use rate period recommendations. The ISO leveraged its critical operational experience and analytical capabilities to evaluate the data and inform policy makers about the system's changing needs and how time of use rate periods could be structurally revised for the system's benefit.

Regulatory Filings Through February 2016



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