

Memorandum

To: ISO Board of Governors

From: Nancy Saracino, Vice President, General Counsel & Chief Administrative Officer

Date: October 31, 2013

Re: Regulatory Update

This memorandum does not require Board action.

Highlights

- *The ISO filed a tariff amendment seeking to 1) lower the energy bid floor; 2) change the bid cost recovery settlement rules to pay bid cost recovery separately for the day-ahead and real-time markets; and 3) modify the payment rules for start-up and minimum load costs*
- *The ISO submitted separate petitions seeking FERC approval to distribute proceeds of penalties collected for violations of the ISO's rules of conduct and forfeited funds collected from generator interconnection customers*
- *The ISO filed a tariff amendment to improve the ISO's ability to administer the generator interconnection queue*
- *FERC approved the first market efficiency enhancement agreement, between the ISO and the Sacramento Municipal Utility District, which provides for locational-based pricing of intertie energy transactions between the two balancing authority areas instead of the default pricing that would otherwise apply to entities in the integrated balancing authority area*

Federal Energy Regulatory Commission and related Court of Appeals matters

- **Amendment to require mandatory registration of multi-stage generators and modify minimum load costs test for bid cost recovery (ER13-2063)**

On October 22, 2013, FERC issued a deficiency letter on the ISO's July 30, 2013 tariff amendment requesting clarification on: 1) how the ISO's commitment and dispatch

processes allow transitions from one configuration to another; 2) how many units and megawatts are represented in the four categories of multi-stage units that will be subject to registration; 3) the potential impacts on reliability; 4) potential for artificial constraints; and 5) whether the ISO can use existing market tools to identify and prohibit the behavior that leads to unwarranted collection of bid cost recovery. Only July 30, 2013, the ISO filed a tariff amendment to require that certain resources, including combined cycle units that can function in multiple operational modes be required to register as multi-stage generating resources. This change was to address issues with resources that have multiple operational modes but are currently using the forbidden region functionality to manage their operations under the multiple modes. The ISO also sought to address issues raised with the inability to access ancillary services from resources with multiple operational modes. In addition, the ISO included a modification to the settlement of minimum load costs for all resources when the resource is not actually operational and online. On October 17, 2013, the ISO filed revisions requesting an extension of the proposed effective date from November 1, 2013 to April 1, 2014. The response to the deficiency letter is due November 25, 2013.

- **Coordination between gas and electricity markets (AD12-12)**

On October 17, 2013, the ISO presented at FERC with other ISOs and RTOs on coordination between natural gas and electricity markets. Brad Bouillon, Director, Day-Ahead Market and Real-Time Operations Support, provided the presentation on behalf of the ISO. Mr. Bouillon's statement focused on an overview of the ISO and gas pipeline operator coordination activities that occurred this past summer and the status of the ISO's coordination efforts with pipeline operators heading into the 2013-2014 winter.

- **Revision to multi-stage resource adequacy bids (ER14-93)**

On October 15, 2013, the ISO submitted a tariff amendment to revise both the manner in which multi-stage generating resources register their unit parameters with the ISO and how the ISO generates bids for multi-stage generating resources with resource adequacy obligations that do not submit bids to meet such obligations. The ISO requested an effective date of December 11, 2013 for this amendment.

- **Petition to distribute forfeited funds collected from generator interconnection customers (ER14-68)**

On October 14, 2013, the ISO submitted a petition seeking the approval of FERC to distribute the proceeds of forfeited funds collected from generator interconnection customers that withdrew from the ISO's generator interconnection queue. Consistent with the ISO's current tariff authority the ISO will allocate the proceeds together with interest to scheduling coordinators for eligible market participants.

- **CalWind generator interconnection proceedings (ER13-1216 and EL14-4)**

On October 11, 2013, CalWind filed a complaint against the ISO arguing that section 25 of the tariff is inconsistent with FERC Orders 2003 and 2006 insofar as section 25 limits the amount of capacity to be reflected in a generator interconnection agreement to the existing capacity. CalWind owns an existing qualifying facility that must now enter into a FERC jurisdictional interconnection agreement. On April 1, 2013, Southern California Edison Company filed an unexecuted generator interconnection agreement when the parties failed to agree on the amount of capacity to be reflected in the agreement. CalWind has an existing qualifying facility with 21.795 MWs of existing capacity. It is asserting a right to an additional 15.5 MWs of interconnection service for capacity that was never developed based on an agreement with SCE that pre-dated ISO inception. SCE and the ISO assert that the maximum amount of capacity that can be reflected in the interconnection agreement is limited to the existing total capacity of the generating facility. This is because tariff section 25 allows existing generators to enter into a generator interconnection agreement based on their existing capability, provided their total capability has and will remain substantially unchanged. The ISO's answer to the complaint is due on October 31, 2013.

- **Petition to distribute penalty assessments (ER14-68)**

On October 9, 2013, the ISO submitted a petition seeking FERC approval to distribute the proceeds of penalties collected for violations of the ISO's rules of conduct. The ISO proposes to allocate the proceeds, together with interest, to scheduling coordinators for eligible market participants.

- **Interconnection process enhancements and clarifications (ER13-2484)**

On September 30, 2013, the ISO filed a tariff amendment to improve the ISO's ability to administer the generator interconnection queue and to address miscellaneous non-substantive typographical and formatting errors. To improve its management of the queue, the ISO proposes to: 1) include a requirement for interconnection customers to pay for actual costs incurred in evaluating modification requests; 2) extend to small generator projects the existing provisions for large generators regarding commercial operation date extensions and other modifications and maximum length of time a project is allowed to remain in the queue; 3) clarify that the transmission owner tenders the interconnection agreement; 4) change the triggering event for tendering the draft interconnection agreement to the study results meeting; and 5) reduce the time for the ISO to provide the final interconnection agreement. The ISO requested that FERC accept these tariff provisions effective December 3, 2013.

- **Transmission access charge informational filing (ER13-2478)**

On September 27, 2013, the ISO submitted an informational filing to FERC to provide notice regarding the ISO's revised transmission access charges. The basis for these

revisions is to implement revised transmission revenue requirements and transmission revenue balancing account adjustments of the ISO's participating transmission owners.

- **Deliverability of distributed generation second compliance (ER12-2643-003)**

On September 26, 2013, the ISO submitted its second compliance filing in response to FERC's September 4, 2013 order conditionally accepting an earlier compliance filing. In its second compliance filing, the ISO addressed FERC's order to further clarify that applications for distributed generation deliverability will be made directly to the transmission provider and the transmission provider will provide a copy of any such application to the ISO. The ISO also made technical corrections to develop the base case model for distributed generation deliverability and to ensure that references to distributed generation facilities encompass facilities in the ISO's generation interconnection queue as well as facilities that have an active interconnection request in an investor-owned utility's queue.

- **Commitment cost tariff amendment (ER13-2296)**

On October 29, 2013, FERC issued an order accepting the ISO's tariff amendment to add major maintenance costs to start up and minimum load and to add grid management charge costs to start up, minimum load and default energy bid calculations. This tariff amendment also lowered the cap on a market participant's ability to register start up and minimum load costs from 200% to 150% of the daily proxy cost calculations. The effective date of the amendment is November 1, 2013. FERC also ordered the ISO to submit a report within one year that evaluates the effectiveness of the 150 percent cap and its effect on cost recovery"

- **Renewable integration market and product review, phase 1 and bid cost recovery (ER13-2452)**

On September 25, 2013, the ISO filed a tariff amendment seeking necessary market design modifications targeted at considering the characteristics of variable energy resources as the state of California moves to increase their presence in the ISO market. The ISO seeks to: 1) lower the energy bid floor; 2) change the bid cost recovery settlement rules to pay bid cost recovery separately for the day-ahead and real-time markets; and 3) modify the payment rules for start-up and minimum load costs, unrecovered energy bid costs, and residual imbalance energy. The ISO requested an effective date of April 1, 2014.

- **Proposed rulemaking on contingency reserve regional reliability standard (RM13-13)**

On September 23, 2013, the ISO submitted comments on FERC's proposed rulemaking to approve regional reliability on contingency reserve. In its comments, the ISO requested that FERC clarify the proposed contingency reserve standard permits non-traditional resources to provide operating reserve-spinning.

- **Downsizing opportunity for generator projects (ER13-218-001)**

On September 25, 2013, FERC accepted the ISO's January 22, 2013, compliance filing on its tariff amendment to provide a one-time opportunity for all customers in the ISO's interconnection queue that entered the queue prior to the fifth cluster to downsize their projects. FERC accepted the ISO's request to make the related tariff revisions effective January 1, 2013.

- **Commodity Futures Trading Commission's minimum criteria for direct participation amendment (ER13-1971)**

On September 9, 2013, FERC accepted the ISO's July 12, 2013 proposed tariff revisions to implement new minimum criteria for direct participation in the ISO market. These revisions are necessary so that transactions in the ISO market will be exempted from regulatory oversight by the CFTC, in accordance with a final order issued by the CFTC on March 28, 2013. The ISO requested FERC accept these tariff revisions effective September 16, 2013.

- **Settlements regarding complaint on market for energy and ancillary services (EL00-95)**

On September 3, 2013, the ISO filed comments in support of the joint offer of settlement involving Arizona Electric Power Cooperative in the refund proceeding. On August 26, 2013, the ISO submitted comments in support of a joint offer of settlement involving Powerex Corporation in the refund proceeding. In its comments in both instances, the ISO requested FERC state in any order approving the settlement agreements that the ISO and its agents will be held harmless in disbursing funds pursuant to the settlement agreements.

- **Rulemaking - communication of operational information between natural gas and electric transmission owners (RM13-17)**

On August 27, 2013, the ISO submitted comments in support of FERC's proposed rulemaking concerning communication of operational information between natural gas pipelines and electric transmission operators. In its comments, the ISO stated it believes generators should inform electric transmission operators of possible fuel disruptions.

Regulatory Agreements

- **Termination of Crocker Solar small generator interconnection agreement (ER13-2455)**

On October 16, 2013, the ISO filed a motion to intervene in the termination of the small generator interconnection agreement between Pacific Gas & Electric, the ISO and Crocker Solar Power, LLC.

- **Mesquite Solar large generator interconnection agreement (ER13-2489)**

On September 30, 2013, the ISO filed a large generator interconnection agreement between the ISO, San Diego Gas & Electric Company and Mesquite Solar 1, LLC, which provides for the interconnection of the 165 MW solar photovoltaic generating facility located near Arlington, Arizona, owned by Mesquite Solar. This generator interconnection would be considered within the ISO balancing authority area though it physically connects to the Hassayampa Switchyard, which is located within the Salt River Project balancing authority area. The implementation of this solution avoided the potential need to complete a new 500 kV switchyard at ISO ratepayer expense. The ISO requested an effective date of January 1, 2014, for this agreement.

- **Bonneville intra-hour scheduling agreement (ER13-2487)**

On September 30, 2013, the ISO filed an amendment to the intra-hour scheduling pilot agreement between the ISO and the Bonneville Power Administration. The agreement provides for an extension of a limited pilot program until the ISO and Bonneville implement FERC order 764, which requires each public utility transmission provider to offer intra-hourly transmission scheduling. The ISO requested an effective date of October 1, 2013, for this agreement.

- **Sacramento Municipal Utility District market efficiency enhancement agreement (ER13-2178)**

On October 15, 2013, FERC accepted the market efficiency enhancement agreement the ISO entered into with the Sacramento Municipal Utility District on August 15, 2013. The agreement sets forth the terms under which the ISO will price SMUD energy bids at the non-default or agreement-specific price consistent with the tariff.

- **Eldorado-Moenkopi interconnection agreement (ER13-2265/ER13-1178)**

On September 18, 2013, the ISO filed a motion to intervene and comments in the proceedings regarding the Eldorado-Moenkopi interconnection agreement between Arizona Public Service and Southern California Edison, and SCE's notice of termination of the related SCE-Arizona transmission agreement. The ISO has a direct interest in these proceedings as the transmission service provider for SCE's rights in the transmission agreement.

- **NextEra Desert Center large generator interconnection agreement (ER14-56)**

On October 8, 2013, the ISO filed an amendment to the large generator interconnection agreement entered into between the ISO, Southern California Edison, and NextEra Desert Center Blythe, LLC relating to the solar generating facility known as the Genesis McCoy Solar Project. This agreement specifies the terms and conditions under which the ISO and SCE will interconnect the Genesis McCoy Solar Project to SCE's Colorado River substation. This project will receive accelerated deliverability consistent with a letter

agreement between SCE and NextEra, which provides for the funding and construction of the interim West of Devers upgrades. These facilities provide interim deliverability for certain generating facilities until the permanent West of Devers upgrades are completed. The ISO requested an effective date of November 1, 2013 for this agreement.

Reports filed

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

On September 16, 2013, the ISO submitted its monthly report of market disruptions that occurred July 16 through August 15. On October 15, the ISO submitted its monthly report of market disruptions that occurred August 16 through September 15. A market disruption is an action or event that causes a failure of the ISO market, related to system operation issues or system emergencies. The ISO reports these market disruptions to FERC on a monthly basis.

- **Exceptional dispatch reports (ER08-1178)**

On September 16, 2013 and October 15, 2013, the ISO submitted transactional data including incremental and decremental megawatt volume, duration and location for exceptional dispatches occurring during the months of July and August 2013, respectively. On August 30, 2013 and September 30, 2013, the ISO submitted megawatt hour data and cost data for exceptional dispatches occurring during the months of May 2013 and June 2013, 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. The ISO submits these two types of exceptional dispatch reports to FERC on a monthly basis.

California Public Utilities Commission matters

- **Order instituting rulemaking to oversee the resource adequacy program, consider program refinements, and establish annual local procurement obligations (R.11-10-023)**

On October 22, 2013, the ISO submitted informal comments to the California Public Utilities Commission staff draft proposals presented at the October 15, 2013 workshop that discussed the qualifying capacity and effective flexible capacity calculation methodologies for energy storage and supply-side demand response resources, and the use of the methodologies for variable energy resources. The ISO believes the staff proposal and modeling assumptions require additional public vetting and development prior to integrating the proposal for variable energy resources, demand response, and energy storage resources.

- **Order instituting rulemaking to enhance the role of demand response in meetings the state's resource planning needs and operational requirements (R.13-09-011)**

On October 21, 2013, the ISO provided comments on the California Public Utilities Commission's request for direction from parties on the merit of bridge funding and the staff pilot proposal. This request is an effort to maintain the stability in the current demand response funding and procurement process while the CPUC transitions to a competitive procurement model and establishes policies for bifurcation of demand-side and supply-side demand response resources. The ISO supports the bridge funding and suggests specific objectives, goals, standards, metrics, and strategies for the staff pilot proposal.

- **Order instituting rulemaking to integrate and refine procurement policies and consider long-term procurement plans (R.12-03-014)**

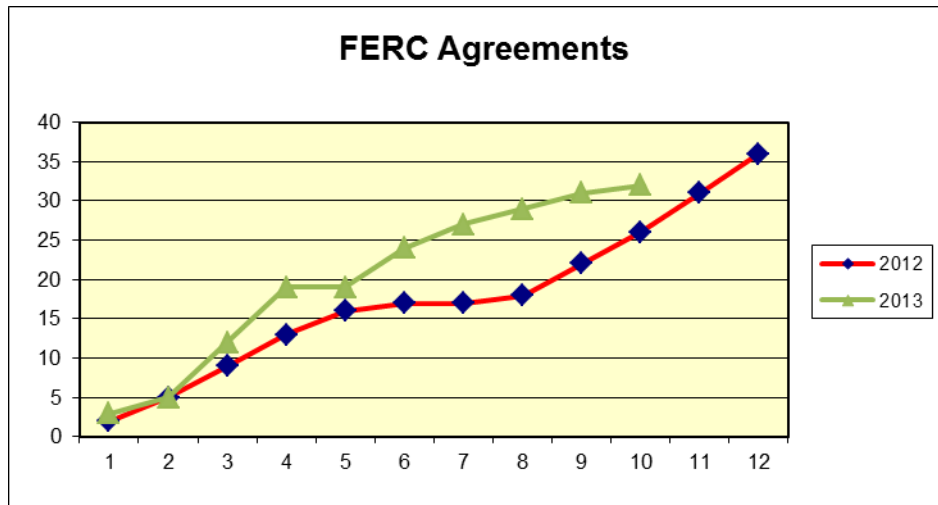
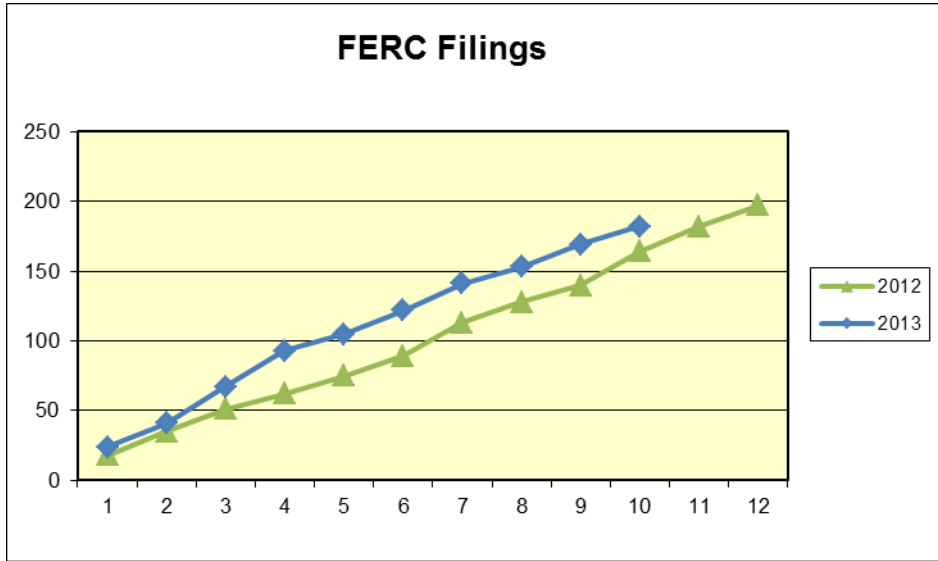
On October 18, 2013, the ISO filed a motion to limit the scope of the track 4 evidentiary hearing. The ISO requests that the California Public Utilities Commission limit the scope of the evidentiary hearing to exclude the ISO's local capacity requirements study methodology, which has already been extensively litigated in the CPUC's decisions in track 1 for the Los Angeles Basin and San Diego local area.

On October 14, 2013, the ISO submitted track 4 rebuttal testimony of Neil Millar, Executive Director, Infrastructure Development, and Robert Sparks, Manager, Regional Transmission – South, which is intended to clarify the ISO's support for the development of preferred resources to help address needs created by the closure of the San Onofre Nuclear Generating Station and how the ISO's study methodology is supportive of developing these resources.

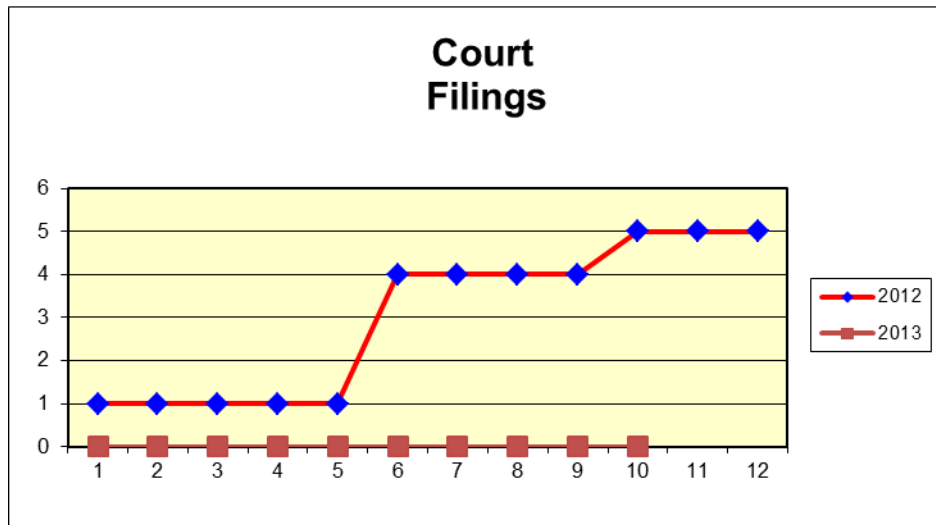
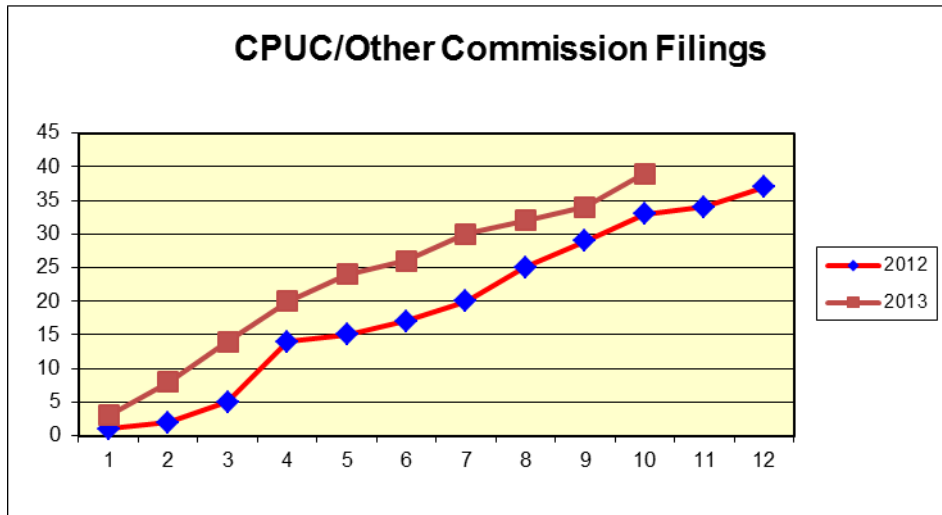
On September 30, 2013, the ISO submitted comments addressing additional issues identified by the CPUC in the September 4, 2013, prehearing conference. These additional issues are related to, among other things, how much capacity of resources authorized in track 1 should be assumed in track 4 and should energy storage procurement be taken into account in track 4. In response, the ISO implored the CPUC to not re-litigate the assumptions previously reached in track 1, and to instead build on them to account for additional local capacity needs.

On September 10, 2013, the ISO submitted comments on the proposed track 2 and track 4 procedural schedules, requesting that track 2 study results are deferred until track 4 study results and any interim or final decisions can inform the systems needs analysis.

Regulatory Filings Through October 2013



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