

Memorandum

To: ISO Board of Governors

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

Date: October 19, 2016

Re: Regulatory Update

This memorandum does not require Board action.

Highlights

- *FERC approved energy storage and aggregated distributed energy resource-phase 1 program*
- *FERC granted limited tariff waiver authorizing the Bay Area Rapid Transit to participate in the congestion revenue rights allocation process for 2017*
- *FERC approved pricing enhancements addressing multiplicity of pricing and multiple constraint pricing*
- *FERC approved new frequency response service procurement*
- *FERC denied La Paloma Generating Company complaint against the ISO*
- *ISO filed new bidding rules and commitment costs enhancements*
- *ISO filed Dynamic Scheduling Host Balancing Authority Operating Agreement with Arizona Public Service Company*
- *ISO filed readiness certifications for participation in the energy imbalance market for Puget Sound Energy and Arizona Public Service Company*

Federal Energy Regulatory Commission and related Court of Appeals matters

- **Intervention and comments: SDG&E-Bull Moose Energy large generator interconnection agreement cancellation (ER16-2600)**

On October 7, 2016 the ISO filed an intervention and comments generally supporting SDG&E's cancellation of the Bull Moose Energy large generator interconnection agreement. The ISO and SDG&E indicated their willingness to provide a final opportunity

to Bull Moose Energy to comply with its outstanding requirements and agreed that SDG&E would withdraw the Notice of Cancellation if Bull Moose Energy makes meaningful progress toward commercial operation. If not, then the ISO requests that FERC approve the cancellation notice as filed.

- **La Paloma Generating Company complaint denied (EL16-88)**

On October 3, 2016 FERC denied La Paloma's June 17, 2016 complaint, alleging La Paloma should have received a reliability must run contract because the ISO the generator's outage request and the generators does not otherwise have a must-run obligation. FERC found that La Paloma failed to identify any action or inaction that violated applicable statutory standards or regulatory requirements. La Paloma did not argue that the relevant tariff provisions are unjust and unreasonable or unduly discriminatory, nor did it support any assertion that the ISO's actions were otherwise contrary to the Federal Power Act or any FERC regulation or order. The reliability must-run contract sought by La Paloma is not available under the ISO's existing tariff provisions and therefore neither the ISO nor FERC can grant La Paloma such relief.

- **Letter order accepting revised effective date for reliability services initiative phase 1A (ER15-1825)**

On October 3, 2016 FERC issued a letter order accepting the ISO's filings requesting a revised implementation date of November 1, 2016 for the reliability services initiative phase 1A. This initiative streamlines the ISO's rules and processes regarding resource adequacy to meet the needs of an increasingly dynamic power grid. The phase 1A of the reliability services initiative and the capacity procurement mechanism replacement are related initiatives, developed in parallel and intended for simultaneous implementation.

- **Order on clarification and rehearing of FERC Order No. 827 on reactive power for non-synchronous generation (RM16-1)**

On October 3, 2016 FERC issued an order granting in part and denying in part the ISO's request for clarification and rehearing. FERC clarified that FERC Order No. 827 should not apply to any and all existing non-synchronous generators making upgrades that require new interconnection requests, but that some repowering of existing generators might involve installation of new equipment that substantially alters the existing facility. Order No. 827 does not preclude public utility transmission providers from seeking to define "newly interconnecting non-synchronous generator" as including repowering of an existing generator. Any such tariff revisions must be sufficiently detailed and narrow to clearly define what constitutes a repowering of an existing generator capable of providing reactive power.

- **Post-technical conference comments re competitive solicitation development process (AD16-18)**

On October 3, 2016 the ISO filed competitive solicitation development process post-technical conference comments, and answers to questions posed by panelist groups. The ISO undertakes a collaborative transmission planning process to identify the “more efficient or cost effective” solution to meet identified needs. For all regional transmission solutions in the annual transmission plan that are not upgrades to existing transmission facilities the ISO conducts a competitive solicitation, which is open to all interested entities, to select an approved project sponsor to construct and own the solution. The ISO has conducted nine competitive solicitations. There is a clear trend toward project sponsors proposing binding cost containment measures, and such measures are becoming more robust and creative. The ISO requested that in addressing the issues in this proceeding, FERC allow regions to build on successes with their existing competitive transmission processes. In its comments, the ISO urges FERC to forbear from directing changes to existing transmission planning and competitive solicitation processes that are working effectively, identifying the “more efficient or cost-effective” solutions, spurring competition and cost containment, and promoting the goals of Order No. 1000. Rather, FERC should allow planning regions to work with their stakeholders to assess “lessons learned” and identify appropriate process enhancements.

- **Comments on notice of proposed rulemaking regarding NAESB e-tagging standards (RM05-5)**

On September 26, 2016 the ISO filed comments in response to FERC’s notice of proposed rulemaking regarding North American Energy Standards Board (NAESB) Standard 004-A – Appendix A: e-Tagging Service Performance Requirements and Failure Procedures. To address these issues, the ISO suggested that FERC request NAESB to revise Wholesale Electric Quadrant standard WEQ-004 to allow for alternate methods of communication during e-Tag Authority Service failure.

- **Joint comments with ISO/RTO Council re Notice of Inquiry regarding Cyber Systems in Control Centers (RM16-18)**

On September 26, 2016 the ISO joined comments submitted by the ISO/RTO Council for possible modifications to reliability standards regarding cybersecurity for control centers used to monitor and control the Bulk Electric System in real time. The ISO/RTO Council argued the proposed changes the standards considering total separation of the control centers from the internet was not necessary given the existing standards already provide for sufficient separation and safeguards. The changes considered in the notice of inquiry would not add further safeguards but would require significant and costly changes to the infrastructure.

- **FERC approved tariff amendment for flexible ramping product (ER16-2023)**

On September 26, 2016 FERC issued an order accepting tariff revisions to replace existing flexible ramping constraint with a new flexible ramping product, effective October 1, 2016. The flexible ramping product will allow the ISO to manage the ramping capability necessary for meeting changes in net demand that have become more challenging with the increased participation of variable energy resources. On September 28, 2016, the ISO filed a petition for limited waiver to suspend for one month the effective date of the flexible ramping product tariff provisions accepted by FERC's September 26, 2016 order.

- **ISO filed for approval to distribute funds (ER16-2707)**

On September 29, 2016 the ISO filed for approval to distribute proceeds of penalties collected for violations of the ISO's Rules of Conduct for calendar year 2015, and nonrefundable study deposits for projects interconnecting Southern California Edison, Pacific Gas & Electric and San Diego Gas & Electric distributions systems, for calendar years 2013, 2014 and 2015.

- **Letter order accepting compliance filing regarding distributed energy resource providers (ER16-1085)**

On September 22, 2016 FERC issued a letter order accepting the ISO's June 23, 2016 compliance filing, revising tariff provisions to include: (1) language stating that ISO will impose uninstructed imbalance energy charges on a distributed energy resource provider who fails to follow a dispatch instruction; and (2) its pricing methodology for both single and multiple node aggregations.

- **Order approving frequency response service (ER16-1483)**

On September 16, 2016, FERC approved the ISO's proposed compliance with NERC's reliability standard BAL-003-1.1: frequency response and frequency bias setting, subject to compliance filing and an informational report in six months. FERC directed the ISO to revise its tariff to reflect that the cost of transferred frequency response should not exceed the estimated cost of procuring additional regulation up.

- **Informational report regarding AES Huntington Beach (ER13-351)**

On September 12, 2016, pursuant to FERC's January 4, 2013 order approving the reliability must-run agreement for synchronous condensers at AES Huntington Beach Generating Station Units 3 and 4, and the May 1, 2014 order granting modification of the reporting schedule, the ISO filed an informational report regarding hours of operation for synchronous condensers for the months of June, July and August 2016.

- **Comments and ISO answer to comments on tariff amendment regarding bidding rules/commitment costs (ER16-2445)**

On September 9, 2016 ISO's Department of Market Monitoring, recommended the extension of the rebidding rules, currently in effect on an interim basis under the ISO's May 9 Aliso Canyon filing, pending further assessment of other limitations on rebidding of commitment costs that may be appropriate and how these limits may be directly enforced through the ISO's market software. The Department of Market Monitoring supports the ISO's proposal to allow scheduling coordinators to seek after-the-fact recovery of unrecovered commitment costs, but recommends that prior to implementing this provision on a permanent basis it would be beneficial for the ISO to work with stakeholders to develop more specific guidelines, requirements and methodological details concerning filings for recovery of commitment costs. On September 26, 2016 the ISO filed an answer to Pacific Gas & Electric and Southern California Edison comments regarding their support for extending the effectiveness of the after-the-fact cost recovery mechanism, and the Department of Market Monitor's concerns.

- **FERC orders granting refunds for summer of 2000 affirmed (U.S. Court of Appeals, Ninth Cir., No. 15-73803)**

On September 8, 2016 the Ninth Circuit denied in part and dismissed in part consolidated petitions for review brought by various power companies, and held that FERC did not arbitrarily and capriciously determine that the energy companies committed tariff violations in California during the summer of 2000.

- **Additional information related to crisis era litigation compliance filing, status report, and comments re settlements (EL00-95)**

On August 29, 2016 the ISO filed additional information regarding its May 4, 2016 filing concerning settlement re-run data. On September 8, 2016 the ISO filed a status report regarding ongoing refund calculations, and its compliance filing of May 4, 2016. On September 13, 2016, the ISO filed comments regarding settlement agreement provisions proposed by Commerce Energy, Illinova, MIECO and Allegheny Energy, and protections for the ISO regarding settlement and accounting activities involved in implementing the settlement agreements.

- **HORUS Central Valley Solar 1 and 2 responded to ISO answer to complaint (EL16-104)**

On September 2, 2016, HORUS responded to the ISO's answer to complaint, requesting that the ISO participate in Western Facilities Studies and that the ISO drop its insistence that HORUS comply with ISO interconnection procedures.

- **Order granting limited waiver regarding the Bay Area Rapid Transit status as a load serving entity (ER16-2327)**

On September 1, 2016 FERC granted a limited waiver to treat the Bay Area Rapid Transit District as a load-serving entity for the purposes of eligibility for congestion revenue rights and resource adequacy responsibilities under the ISO's tariff, effective September 2, 2016. The waiver allows the Bay Area Rapid Transit the opportunity to participate in the 2017 congestion revenue rights and resource adequacy processes, which begin in September 2016.

- **Letter order accepting pricing enhancements initiative covering multiplicity of pricing and multiple contingencies (ER16-1886)**

On September 1, 2016 FERC issued a letter order approving ISO's June 6, 2016 tariff amendments intended to refine the ISO's market rules to increase price certainty and the efficiency of prices cleared through the ISO market. The new market rules increase price certainty and the efficiency of prices cleared through the ISO market. Specifically, the ISO (1) modified contingency modeling in its market optimization so that prices will reflect the cost of congestion associated with the most limiting contingency under transmission constraint relaxation conditions; and (2) modified its market software to eliminate conditions that can lead to multiple pricing solutions.

- **Informational energy imbalance market readiness certification for Puget Sound Energy and the Arizona Public Service Company (ER15-861)**

On August 24, 2016 and August 26, 2016 the ISO submitted informational filings certifying that Puget Sound Energy and the Arizona Public Service Company, respectively, met the readiness criteria specified in section 29.2(b)(7) of the ISO tariff and indicating their expected participation in the energy imbalance market as of October 1, 2016.

- **Joint intervenor brief with SCE (U.S, Court of Appeals, D.C. Cir, No. 16-1003)**

On August 26, 2016 the ISO filed a joint intervenor brief with Southern California Edison, supporting FERC in NextEra's appeal of FERC's decision regarding NextEra's construction of interim West of Devers transmission facilities and its desire to receive merchant transmission congestion revenue rights.

- **Order on clarification and compliance re Aliso Canyon (ER16-1649)**

On August 26, 2016 FERC granted the ISO's June 29, 2016 request for clarification of FERC's June 1, 2016 order; section 30.11 already applies to energy imbalance market participants under the terms of the ISO's tariff. FERC also accepted the ISO's compliance filing regarding revisions to the tariff to address limitations in the natural gas delivery system in southern California that could adversely impact the reliability of the electric grid and market operations during the summer of 2016.

Regulatory Agreements

- **Dynamic Scheduling Host Balancing Authority Operating Agreement with Arizona Public Service Company (ER16-2485)**

On August 25, 2016 the ISO filed a Dynamic Scheduling Host Balancing Authority Operating Agreement with the Arizona Public Service Company. The agreement is applicable to the operators of balancing authority areas hosting resources located outside the ISO's balancing authority area that wish to schedule dynamic imports of energy and energy associated with ancillary services (except regulation service) into the ISO balancing authority area. The agreement establishes the framework of operating requirements for the dynamic scheduling functionality and requires the host balancing authority area responsible for the functionality to comply with the applicable provisions of the ISO tariff, including the dynamic scheduling protocols. These protocols contain operating and scheduling provisions that are derived primarily from applicable North American Electric Reliability Corporation policies and Western Electricity Coordinating Council requirements.

- **Order approving revisions to WAPA Dynamic Transfer Balancing Authority Operating Agreement (ER16-2239)**

On September 13, 2016 FERC issued a letter order accepting revisions to the WAPA dynamic transfer balancing authority operating agreement.

Reports filed

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

On August 15, 2016 and September 15, 2016 the ISO submitted to FERC its monthly market disruption reports for the periods June 16-July 15, 2016 and July 16-Aug 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 August 15, 2016 and September 15, 2016 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. These reports covered June 2016 and July 2016. On August 30, 2016 and September 30, 2016 the ISO submitted exceptional dispatch informational reports for May 2016 and June 2016, 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 September 7, 2016 and October 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 August 2016 and September 2016.

California Public Utilities Commission matters

- **Reply comments on proposed decision (R.13-09-011)**

On September 26, 2016, the ISO filed reply comments on the proposed decision on issues raised in opening comments: (1) the structure of demand response auction mechanism resource adequacy contracts, (2) demand response participation rules for net-energy metering customers, and (3) concerns regarding integration of demand response into the ISO's wholesale electricity market.

- **Response to Office of Ratepayer Advocate's request for rehearing – West of Devers Upgrade Project (A.13-10-020)**

On September 23, 2016, the ISO responded to the Office of Ratepayer Advocate's application for rehearing of decision regarding the: (1) the feasibility of the Phased Build Alternative to the Proposed Project; and (2) the substantial evidence that supports the Decision's determination to approve the Proposed Project over the Phased Build Alternative. The Proposed Project provides significant transmission capacity to access an area that is rich in renewable resources. The ISO has consistently demonstrated the need for the Proposed Project in its policy-driven transmission planning process and in this proceeding. The Phased Build Alternative fails to provide adequate capacity to meet the state's long-term renewable energy goals. The ISO recommends that the CPUC reject Office of Ratepayer Advocate's Application for Rehearing and reaffirm the Decision.

- **Comments on Track 3 issues – Resource Adequacy, Annual Local and Flexible Procurement Obligations for 2016-2016 compliance years (R.14-10-010)**

On September 23, 2016, the ISO filed comments regarding the Track 3 resource adequacy issues. The scoping memo identified four broad topics that will be covered in this track of the resource adequacy proceeding: 2018 resource adequacy requirements; durable flexible capacity requirements program; multi-year resource adequacy; and effective load carrying capacity.

- **Response to Administrative Law Judge ruling requesting comments (R.15-12-012)**

On September 12, 2016, in response to the Administrative Law Judge's ruling requesting comments, the ISO provided comments regarding: (1) the information needed in future rate proceedings to reproduce the ISO's time-of-use period report; and (2) instructions that would enable other entities to use the methodology used by ISO for its time of use report in this proceeding.

- **Notice of ex parte communication (A.12-05-020, A.1-04-011, A.15-03-003)**

On September 1, 2016, the ISO filed an ex parte notice regarding communication to CPUC Commissioner, Michel Florio and California Energy Commission Chairman, Robert Weisenmiller following a presentation by Neil Millar on August 29, 2016, at the California Energy Commission's 2016 Integrated Energy Policy Report Commissioner Workshop on Southern California Electric Reliability. The communication was oral, in response to questions raised during the workshop.

- **Informal pre-workshop comments (R.16-02-007)**

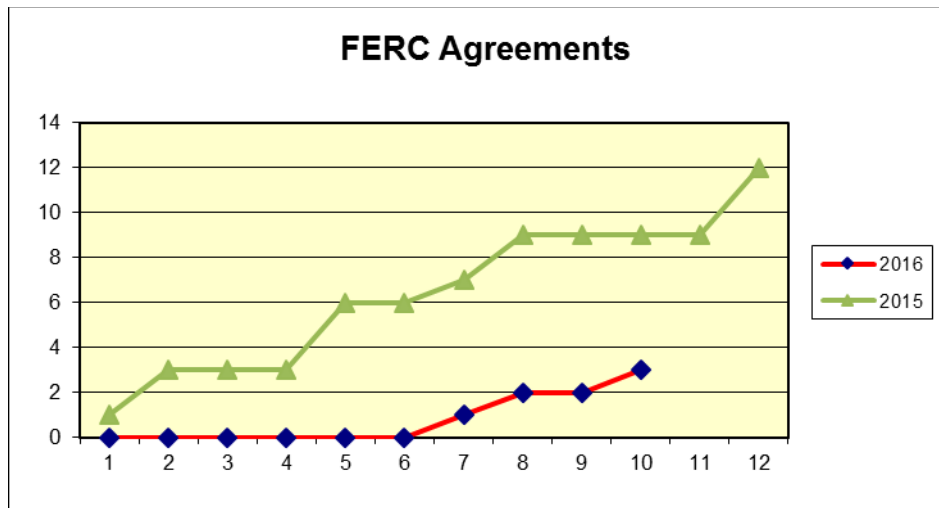
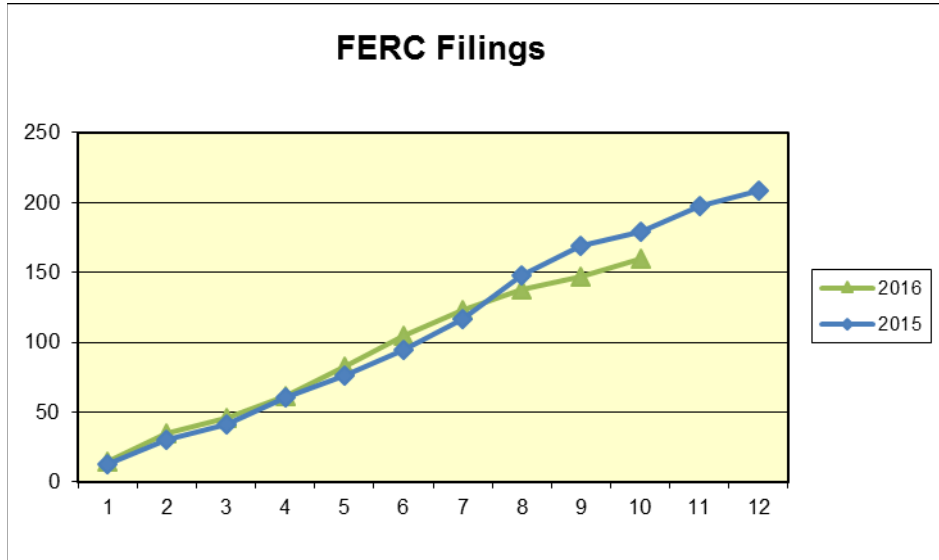
On August 31, 2016 the ISO filed informal comments and responses to questions contained in the Concept Paper provided by the CPUC Staff on the implementation of the SB 350 requirements related to integrated resource plan, focusing on two distinct but interrelated issues: (1) external process alignment and (2) development of assumptions and scenarios and modeling.

- **Comments on assigned commissioner's ruling on Track 3 issues (R.14-08-013/A.15-07-002/003/006)**

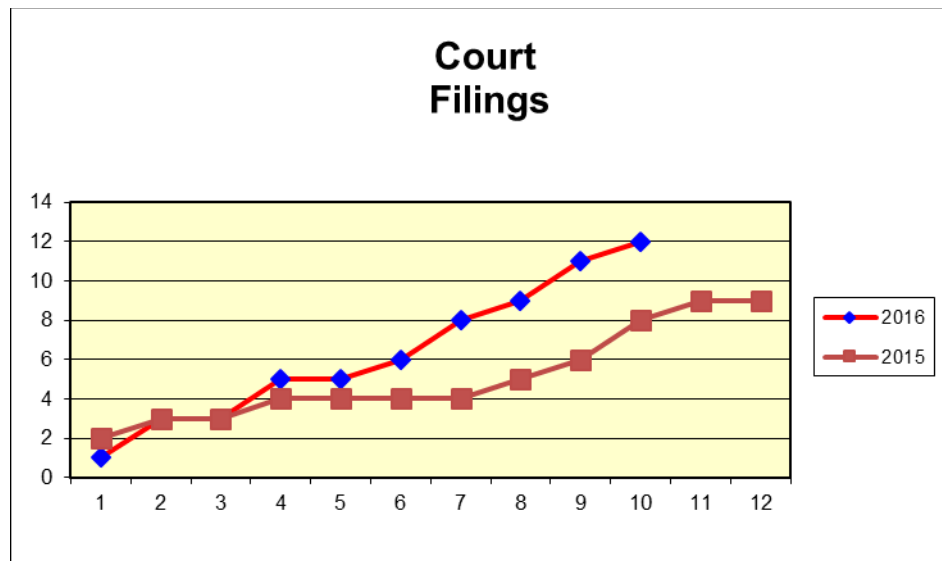
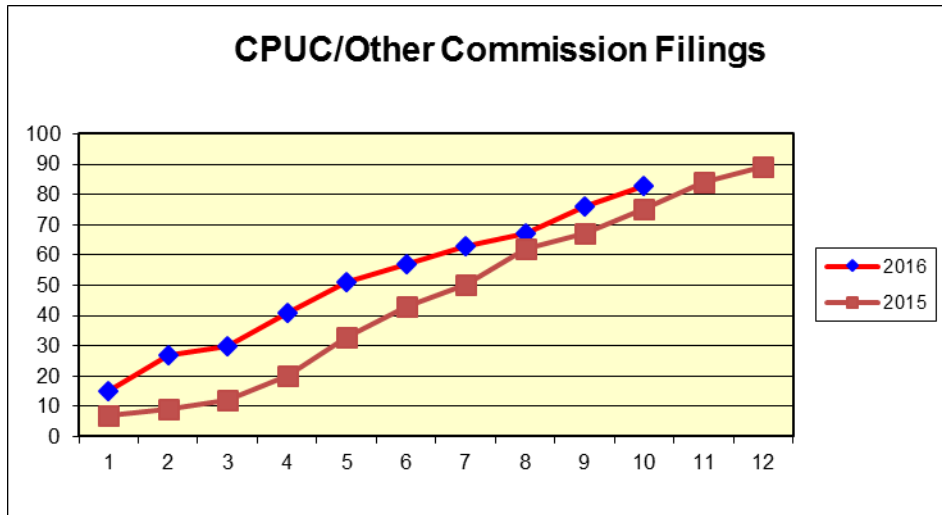
On August 22, 2016 the ISO filed comments generally supporting the consolidation and prioritization of topics proposed in the Ruling, but also recommending the institution a fourth sub-track to address distributed energy resource control and operational considerations in planning. The ISO urged the CPUC to prioritize sub-track 1, regarding distributed energy resource adoption and distribution load forecasting ahead of the other two sub-tracks as it would address critical issues regarding the forecasting of distributed energy resources adoption and coordination with ongoing forecasting and planning activities in the Energy

Commission's Integrated Energy Policy Report, the Commission's long-term procurement plan and integrated resource plan proceedings, and the ISO's transmission planning process. The ISO also recommended prioritizing sub-track 3 to define future distribution planning processes before addressing the grid-modernization issues in sub-track 2.

Regulatory Filings Through October 2016



Regulatory Filings Through October 2016



Regulatory Filings Through October 2016

