

# Memorandum

**To:** ISO Board of Governors

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

**Date:** March 12, 2014

**Re:** Regulatory update

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*This memorandum does not require Board action.*

## Highlights

- *The ISO seeks a temporary waiver of certain tariff provisions to enable it to use more up to date natural gas price indices in calculating natural gas prices used in clearing and settling the ISO markets, during times of gas price volatility.*
- *ISO files tariff amendment in support of its new energy imbalance market to be implemented fall 2014*
- *FERC rejects CalWind Resources, Inc. complaint against the ISO*

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

- **Motion requesting FERC order and requesting effective date for Order No. 764 and renewable integration related market rule changes of May 1, 2014 (ER14-480, ER14-495, ER13-2542)**

On March 10, 2014, the ISO submitted two separate motions to FERC requesting modification of the effective date of two separate tariff amendments. The first relates to the tariff amendment to adopt the fifteen minute market, a market enhancement related to the ISO's compliance with FERC Order No. 764. The proposed tariff amendment was filed on November 16, 2013, and is currently pending before FERC. The ISO requested that FERC: (1) accept the tariff previously filed revisions effective May 1, 2014, instead of the April 1, 2014 effective date originally requested; and (2) issue an order accepting the tariff revisions submitted in the proceedings by March 20, 2014. These actions are necessary to accommodate recent changes to the schedule for implementing the tariff revisions as part of the ISO's spring 2014 release of market enhancements, which was originally scheduled for April 1 but cannot now be implemented until May 1. The second motion pertains to tariff amendments related to market rule changes designed to enhance the integration of renewable resources, approved by FERC on December 19, 2013. In this second motion,

the ISO requested that FERC accept the change in effective date of the previously approved tariff provisions. Because the software deployment of the two tariff amendments is combined in one single spring release, the ISO asked that FERC also rule on the second motion on the same day to enable the ISO to proceed with its spring release in a timely manner.

- **Petitions for limited waiver of tariff provisions, request for shortened comment period, and request for expedited FERC-action (ER14-1440 and ER14-1442)**

On March 6, 2014, the ISO filed two petitions with FERC requesting waiver of two provisions of the tariff, through April 30, 2014, to allow the ISO to use updated natural gas price data for market execution and settlement purposes when natural gas prices for the affected trading day significantly exceed the applicable tariff-based gas price index. Natural gas prices faced by the ISO's electric suppliers in recent months have been uncharacteristically volatile and have peaked at unprecedented levels. Due to the requirement that the ISO calculate gas prices based on multiple price sources, and the timing of those publications, the gas price indices currently used to calculate fuel costs considered in the ISO day-ahead market have the potential to lead to inefficient market outcomes and unrecoverable fuel costs when significant and sudden jumps in the price of gas occur. In the first filing, the ISO requested that FERC issue an order granting the requested waiver as of March 19, 2014 through April 30, 2014. FERC set a shortened comment period with comments due March 13. In the second waiver request, the ISO filed a more limited version of this petition which requests waiver of the same tariff provisions but is limited to updating gas prices solely for use in financial settlements. The ISO requested that FERC issue an order on the second petition by the close of business March 7. The second petition is intended to be a stop-gap remedy to address near-term adverse outcomes pending the issuance of a FERC order by March 19 granting this broader companion waiver petition. FERC set a shortened comment period for March 11 on the second waiver. The ISO will also commence a new stakeholder process in April, to consider longer-term remedies for dealing with the gas pricing issues in the ISO's market.

- **Petition for general tariff waiver by Indicated Suppliers (ER14-1428)**

On March 4, 2014, a group of generators owned by NRG, Dynegy, CalPeak Power, the La Paloma Generating Company and Shell Energy North America, referring to themselves as the Indicated Suppliers, filed a petition with FERC seeking waiver of unspecified tariff provisions to generally allow generators participating in the ISO's market to bill the ISO for "gas procurement and disposal costs that are currently un-recoupable under the ISO's existing tariff provisions." On March 11, the ISO filed an intervention and protest requesting that the Commission reject the Indicated Suppliers' waiver petition on both procedural and substantive grounds. The ISO argued that the Indicated Suppliers failed to meet the requirements of a waiver because they seek to establish new criteria for determining fuel cost inputs into the ISO market and do not explain how those costs are to be allocated. The ISO argued that a waiver that would effectuate a wholesale rewrite of the relevant tariff rules is not an appropriate vehicle for addressing Indicated Suppliers' concerns.

- **Energy imbalance market amendment (ER14-1386)**

On February 28, 2014, the ISO filed a tariff amendment proposing to provide other balancing authority areas the opportunity to participate in the real-time market for imbalance energy that the ISO currently operates in its own balancing authority area. The amendment defines the set of rules and procedures governing this expansion of the real-time market as the energy imbalance market. The ISO requests an effective date of September 23, 2014 for the tariff provisions and definitions and an effective date of July 1, 2014 for the *pro forma* agreements.

- **CalWind Resources, Inc. complaint against the ISO (EL14-4)**

On October 11, 2014, CalWind filed a complaint against the ISO alleging that ISO tariff section 25.1 and 25.2 are inconsistent with FERC Orders 2003 and 2006. Sections 25.1 and 25.2 allow existing generators not previously required to comply with the ISO tariff to enter into a FERC jurisdictional interconnection agreement for their existing capacity without going through the generator interconnection process. CalWind's complaint argued that tariff sections 25.1 and 25.2 were inconsistent with Orders 2003 and 2006 insofar as the tariff limited the right to enter into an interconnection agreement to the existing capacity. On February 21, 2014, FERC issued an order denying CalWind's complaint. FERC found that the ISO's tariff provisions complied with the applicable FERC orders.

- **Renewable energy integration and modification of bid cost recovery rules tariff amendment (ER13-2452)**

On January 22, 2014, the ISO submitted a filing in compliance with FERC's December 19, 2013 order conditionally accepting the ISO's revisions to its tariff to lower the energy bid floor and modify the bid cost recovery settlement rules to pay bid cost recovery separately for the day-ahead and real-time markets, filed on September 25, 2013. FERC accepted the proposed revisions with a minor compliance requirement to remove a catch-all provision giving the ISO authority to resettle unexpected expansion of bid cost recovery payments due to the application of certain scaling factors. In addition, FERC directed the ISO to increase the transparency of its monthly reporting of bid cost recovery costs to include locational information.

- **Market redesign and technology upgrade (ER06-615)**

On February 7, 2014, the ISO filed a motion to permanently waive the obligation from FERC's September 2006 and July 2011 orders in this proceeding to disaggregate the existing default load aggregation points in the ISO balancing authority area. The ISO's analysis of disaggregation of the default load aggregation points indicates that the costs of disaggregation likely would far outweigh the potential benefits for the foreseeable future. Additionally, stakeholders strongly support waiver of the obligation to disaggregate the existing default load aggregation points.

- **Price corrections tariff waiver (ER14-1318)**

On February 12, 2014, the ISO filed a petition requesting a limited, one-time waiver of the time limitation contained in section 35.2 of the tariff, which requires that price corrections for each trading day end no later than the fifth calendar day following the trading day. The ISO seeks this waiver to correct prices for certain hours on January 9, 13, 14 and 26, 2013, due to a software defect, which are erroneous as posted. The ISO did not identify these errors until after the expiration of the five-day window provided in the tariff.

- **Revisions to price corrections (ER14-1216)**

On January 30, 2014, the ISO submitted tariff revisions to improve the accuracy and certainty of ISO market prices by proposing to change the current five-calendar-day limitation on price corrections to three *business* days after the applicable day-ahead market and five *business* days after the applicable real-time market. In addition, the ISO proposes to provide greater detail in its tariff regarding (1) the types of price correction processing and publication issues that the ISO may rectify after the proposed price correction deadline, and (2) the communications to the market concerning price corrections. Finally, the ISO proposes to adjust the closing time for inter-scheduling coordinator trades to allow more time for processing the day-ahead market results. The ISO requested FERC accept the proposed revisions to the tariff effective April 1, 2014.

- **Order 676-G compliance (ER14-720)**

On February 6, 2014, FERC issued a letter order accepting the ISO's December 19, 2013, filing in compliance with FERC's order 676-G in which FERC directed public utilities to incorporate by reference in their jurisdictional tariffs certain business practice standards promulgated by the Wholesale Electric Quadrant of the North American Energy Standards Board and included by reference in FERC's regulations. The revisions to the tariff are effective February 18, 2014.

- **Competitive transmission improvements (ER14-1206)**

On January 30, 2014, the ISO submitted proposed tariff revisions to clarify and enhance the ISO's transmission planning process. In particular, the tariff changes will allow for the implementation of process and policy enhancements to the project sponsor competitive selection process that takes place during phase 3 of the ISO's transmission planning process if eligible transmission solutions are identified and approved in phase 2. The ISO requested FERC accept the proposed revisions to the tariff effective April 1, 2014.

- **Resource adequacy one-for-many manual substitution (ER14-1206)**

On January 30, 2014, the ISO submitted proposed tariff revisions to make clear that resources with available capacity from a single resource may substitute for multiple resource adequacy resources on a forced outage or de-rate, and to set forth the terms under which such multiple substitutions may occur. The ISO requested FERC accept the proposed revisions to the tariff effective April 1, 2014.

## Regulatory Agreements

- **Alta Wind large generator interconnection agreements (ER14-1424)**

On March 4, 2014, the ISO filed certificates of concurrence with respect to large generator interconnection agreements among 1) the ISO, Southern California Edison, and Alta Wind Q97, LLC and 2) the ISO, SCE, and Alta Wind Q153, LLC. The ISO's certificates concur with SCE's filing of the actual agreements. The ISO requests an effective date of April 9, 2014.

- **PacifiCorp energy imbalance implementation agreement (ER14-1350)**

On February 21, 2014, the ISO filed the first amendment to the implementation agreement with PacifiCorp for the energy imbalance market. The mutually agreed to amendment accounts for additional costs expected to be incurred by the ISO on behalf of PacifiCorp to include enhanced functionality associated with base schedule aggregation in the energy imbalance market design. The ISO requests an effective date of April 23, 2014.

- **Termination of Rice Solar Energy's pseudo participating generator agreement (ER14-549)**

On January 29, 2014, FERC issued a letter order accepting the ISO's December 6, 2013 notice of termination of a pilot pseudo-tie agreement to the ISO balancing authority area from the Western Area Power Administration – Desert Southwest Region balancing authority area with respect to Rice Solar Energy's Rice generating facility. This agreement has been previously replaced by a pro forma pseudo-tie participating generator agreement. The ISO requests termination effective May 21, 2013, coincident with the effective date of the pro forma agreement.

- **Replacement of balancing authority area operating agreements between the ISO and Western Area Power Administration Desert Southwest Region (ER14-551) and (ER14-568) and dynamic transfer agreement with Western Area Power Administration Desert Southwest Region (ER14-569)**

On January 24, 2014, FERC issued a letter order accepting the ISO's December 6, 2013, filing of the adjacent balancing authority operating agreement, the concurrently filed notice of termination of its existing interconnected balancing authority area operating agreement, and the dynamic transfer balancing authority agreement between the ISO and Western Area Power Administration Desert Southwest Region. The agreements are effective February 5, 2014.

## Reports filed

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

On February 18, 2014, the ISO submitted its monthly report of market disruptions that occurred December 16 through January 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 February 18, 2014, the ISO submitted transactional data including incremental and decremental megawatt volume, duration and location for exceptional dispatches occurring during the month of December 2013. On January 30, 2014 and February 28, 2014, the ISO submitted megawatt hour data and cost data for exceptional dispatches occurring during the months of October 2013 and November 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 two types of monthly exceptional dispatch reports to FERC.

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

On February 7, 2014, the ISO submitted an informational filing containing the rates or formulas used to calculate negotiated default energy bids and major maintenance adders that were implemented or modified in the month of January 2014.

- **Generator interconnection process reform (ER08-1317)**

On January 30, 2014, the ISO submitted its interconnection queue quarterly progress report describing the ISO's progress over the period October 1, 2013 to December 31, 2013 in processing generator interconnection requests under the ISO's interconnection process.

## California Public Utilities Commission matters

- **Application of San Diego Gas & Electric Company to fill local capacity need (A.13-06-015)**

On January 28, 2014, the ISO replied to comments of other parties to the January 6, 2014, proposed decision approving San Diego Gas & Electric Company's application for approval of a power purchase tolling agreement with Pio Pico Energy Center (Pio Pico) to fill the local capacity need identified by the CPUC in a prior proceeding, A.11-05-023. The ISO argued that the proposed decision correctly finds that the agreement meets the

local capacity needs previously established and the decision to approve the agreement should not be deferred.

- **Order instituting rulemaking to oversee the resource adequacy program (R.11-10-023)**

On February 24, 2014, the ISO filed comments on the CPUC's proposed implementation details for flexible capacity procurement. In its comments, the ISO clarifies its allocation methodology and assessment for backstop procurement, discusses the advantages of the CPUC aligning its proposed flexible capacity categories and counting provisions with the ISO defined flexible capacity categories, requests clarification about resource adequacy showings and validations, recommends retaining the maximum cumulative capacity categories for the next compliance year, and suggests next steps for the 2016 compliance year.

On February 18, 2014, the ISO submitted comments in response to proposals introduced at the phase 3 workshops on January 27, 2014. In its comments, the ISO encourages the CPUC to further consider the proposals before they are finalized and to continue developing the complex effective load carrying capacity methodology and extend consideration of these proposals to undertake that effort. On March 3, 2014, the ISO filed reply comments urging the CPUC to continue work on the effective load carrying capability proposal before it is implemented, and to consider implementing the proposal in measured steps over a multi-year period.

- **Order instituting rulemaking to consider alternative-fueled vehicle programs (R.13-11-007)**

On February 19, 2014, the ISO filed comments supporting the CPUC's initiative to examine how to expand the use of alternative fueled vehicles, including vehicle to grid applications. The ISO encourages the CPUC to examine means for alternative fueled vehicles – especially electric vehicles – to contribute to favorably managing load patterns on the electric grid by establishing tariff rules that align customer charging behavior with grid conditions.

- **Order instituting rulemaking to consider electric procurement policy refinements (E14-02-001)**

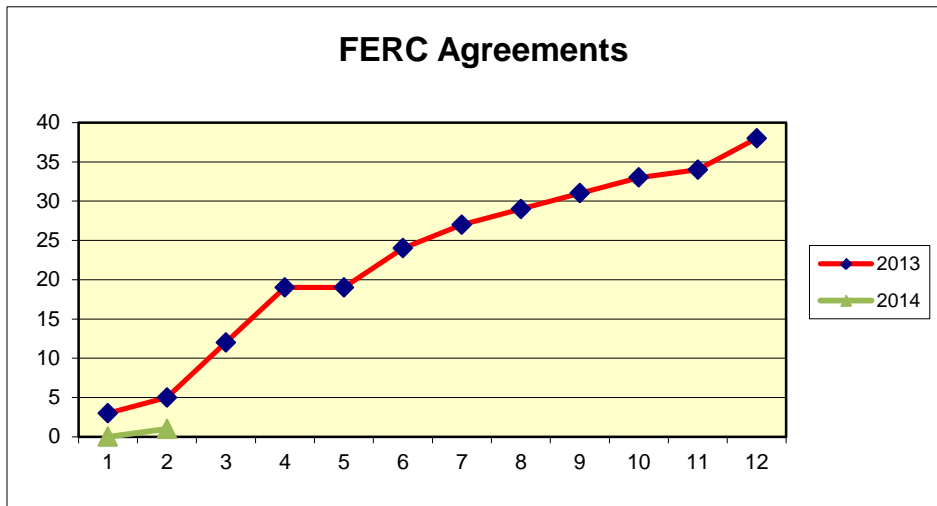
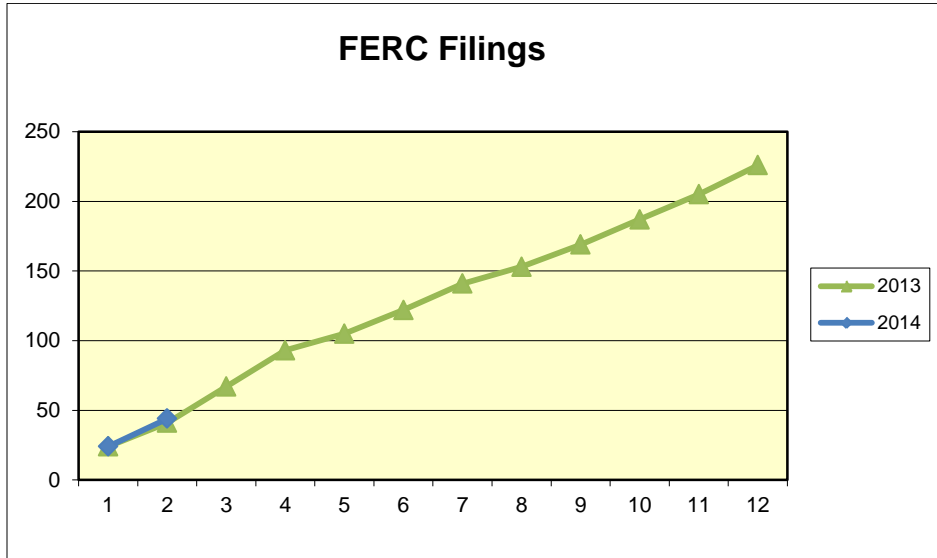
On February 20, 2014, the ISO filed comments focused on ensuring alignment between the scope and schedule of the CPUC rulemaking and the ISO stakeholder process as the joint reliability plan calls for both the ISO and CPUC to consider implementation of various aspects of the plan.

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

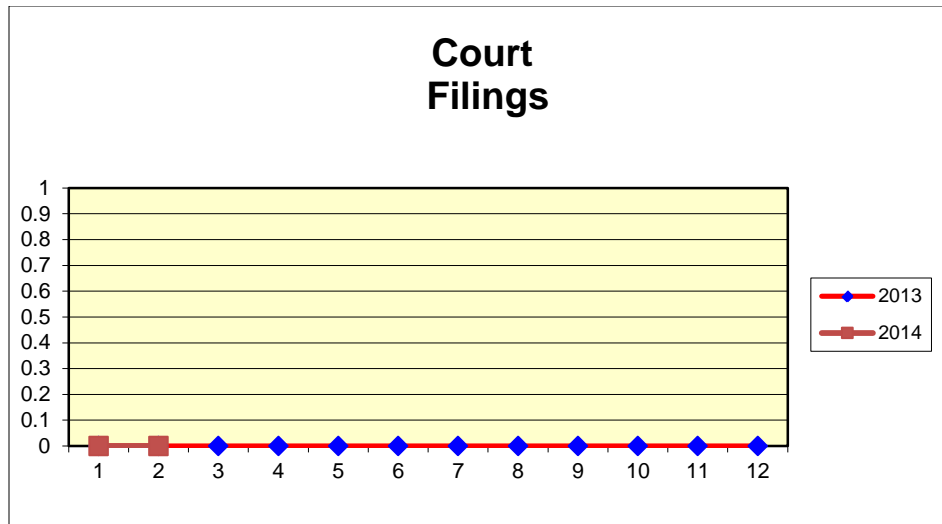
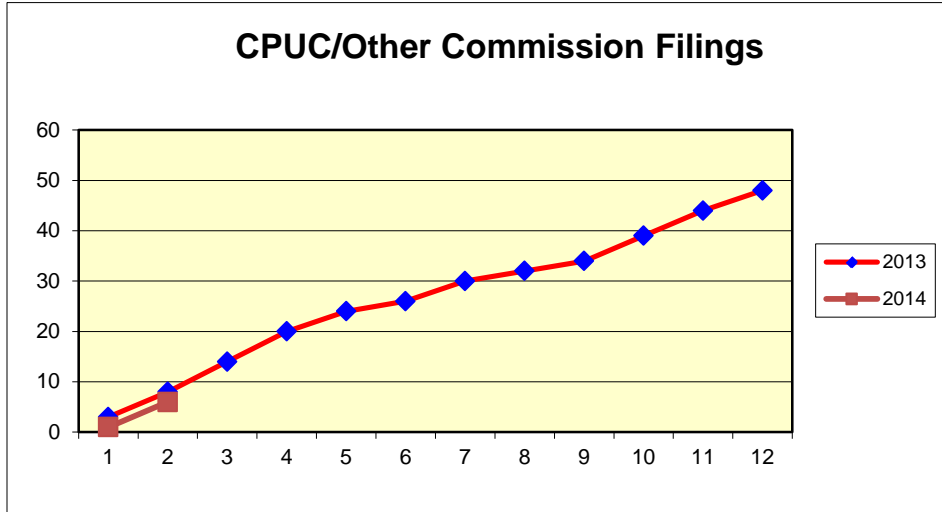
On March 3, 2014, the ISO filed comments in support of the CPUC's proposed decision in track 4 of the long-term planning process proceeding. The ISO believes the decision reasonably balances the diverse interests of the many parties who submitted testimony and otherwise participated in the proceeding. The proposed decision explicitly found that the ISO correctly modeled the assumptions in the scoping memo and that ISO's study methodology and results should be used as the basis for authorizing additional procurement. This finding correctly includes the ISO's power flow modeling, including the limiting contingency for the San Onofre Nuclear Generating Station study area, and the use of the ISO's local capacity technical analysis as the basis for determining local capacity needs



# Regulatory Filings Through February 2014



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