

Memorandum

To: ISO Board of Governors

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

Date: March 19, 2015

Re: Regulatory update

This memorandum does not require Board action.

Highlights

- *FERC rejected energy imbalance market transition period, and set a technical conference on pricing*
- *FERC accepted revised energy imbalance market administrative charge*
- *ISO submitted comments in response to FERC's invitation for comments concerning price formation in organized markets*
- *ISO submitted its second filing in compliance with FERC's Order 1000 interregional requirements directive*
- *FERC accepted the ISO's compliance with FERC's order on the ISO tariff amendment introducing a pro forma approved project sponsor agreement*

Federal Energy Regulatory Commission and related Court of Appeals matters

- **Tariff amendment to implement energy imbalance market twelve month transition period (ER15-861)**

On March 16, 2015, FERC rejected the ISO's proposed tariff amendment to provide a 12-month transition period for each new entity joining the energy imbalance market (EIM). Under the proposed amendment, to section 29.27 of the tariff, during the transition period the ISO would have (1) waived the pricing parameters in sections 27.4.3.2 and 27.4.3.4 of its tariff; and (2) set the flexible ramping constraint relaxation parameter specified in tariff section 27.10 for the new EIM entity's balancing authority area between \$0 and \$0.01. These were the pricing rules in effect during the waiver that FERC previously granted, and had extended until March 16. FERC, however, in denying the proposed 12 month

transition period, granted a limited extension of the waiver currently in place, from March 16, 2015, until the refund effective date, approximately mid-June. During the extension of the waiver, the energy imbalance market pricing rules will remain as they were during term of the prior waivers. FERC also instituted a proceeding under section 206 of the Federal Power Act to investigate the justness and reasonableness of the existing energy imbalance market pricing tariff provisions related to price spikes in PacifiCorp's balancing authority area. FERC directed its staff to hold a technical conference to explore the pricing tariff provisions.

- **Tariff amendment to eliminate fixed energy imbalance market administrative charge (ER15-850)**

On March 13, 2015, FERC issued a letter order accepting the ISO's amendment to revise the base and minimum administrative charges assessed to participants in the energy imbalance market, effective January 15, 2015. Under the revision, to tariff section 29.11(i), the ISO will charge the EIM entity scheduling coordinators the existing minimum EIM administrative charge, which applies the \$0.19/MWh rate to the sum of: (1) five percent of the total gross absolute value of supply of all EIM market participants; and (2) five percent of the total gross absolute value of demand of all EIM market participants. FERC found that the tariff revisions more closely align the EIM administrative charges that the ISO assesses with its original intent in developing these charges.

- **Comments - Price formation technical workshops (AD14-14)**

On March 6, 2015, the ISO submitted comments in response to FERC's notice inviting post-technical workshop comments on price formation. In this proceeding FERC identified specific goals concerning price formation in organized markets, including the goal of committing resources economically scheduled through market processes. The ISO explained how its market structure addresses various price formation issues and discussed the activities it is undertaking to improve the energy and ancillary service price formation process. The ISO advised that it has briefed its Board of Governors, in February 2015, on its annual roadmap, which includes a number of efforts to enhance efficient and transparent price formation in the ISO's energy and ancillary service markets. These efforts include, among others, an initiative to develop a flexible ramping product and market enhancements to secure and compensate capacity to address post-contingency re-dispatch to bring the system within operating limits within 30 minutes.

- **Outage management system (ER14-2372)**

On February 25, 2015, the ISO filed a notice of effective date on its tariff revisions to enhance the outage management process. The ISO notified FERC that its outage management system went operational on February 27, 2015, and that the tariff revisions would be implemented as of that date.

- **Compliance filing – flexible resource adequacy capacity requirements amendment (ER14-2574)**

On February 24, 2015, FERC issued an order partially accepting the ISO's November 17, 2014, compliance filing in response to FERC's October 16, 2014 order on flexible resource adequacy capacity requirements. FERC ordered the ISO to submit a second compliance filing to clarify that use-limited resources are exempt from the ancillary services bid requirement in the real-time market.

- **Technical conference on environmental regulations and electric reliability, wholesale electricity markets, and energy infrastructure (AD15-4)**

On February 19, 2015, the ISO submitted a prepared statement by Mark Rothleder, ISO Vice President – Market Quality and Renewable Integration, in response to FERC's inquiry regarding the potential implications of compliance approaches to the Clean Power Plan rule proposed by the Environmental Protection Agency. In his statement, Mr. Rothleder specifically addresses mitigation strategies to address concerns that may arise with using more variable energy sources, including the use of a broader regional dispatch.

- **Order 1000 interregional requirements (ER13-1470)**

On February 18, 2015, the ISO submitted its second filing in compliance with FERC's Order No. 1000 interregional requirements directive. This second compliance filing responds to FERC's December 18, 2014 order directing the ISO to submit tariff language indicating how it will determine regional benefits, in dollars, resulting from a proposed interregional transmission project for purposes of interregional cost allocation. The ISO's interregional transmission planning tariff provisions will become effective October 1, 2015.

- **Pro-Forma approved project sponsor agreement (ER14-2824)**

On February 12, 2015, FERC order accepted the ISO's tariff revisions regarding a *pro forma* approved project sponsor agreement. These further tariff revisions were made in compliance with FERC's November 7, 2014 order on its proposed tariff amendment introducing the agreement. The *pro forma* agreement is effective November 10, 2014.

- **Pay for performance year 1 changes (ER15-554)**

On January 30, 2015, FERC accepted the ISO's December 2, 2014 tariff revisions to reduce the monthly minimum performance threshold for resources providing regulation services from 50 to 25 percent, and to use a monthly accuracy measurement that reflects a weighted average of fifteen-minute accuracy measurements, using instructed mileage as the weight. The approved revisions are designed to reduce the number of regulation resources that may not meet the minimum performance threshold and thereby have to recertify their capacity or face disqualification. FERC's order requires the ISO to submit two informational reports.

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

On January 28, 2015, FERC issued an order accepting the ISO's December 20, 2013 compliance filing on tariff revisions to improve the ability to administer the generator interconnection queue and to address miscellaneous non-substantive issues. This filing responded to FERC's November 26, 2013 order conditionally accepting the tariff revisions. The tariff revisions are effective December 3, 2013.

Regulatory Agreements

- **NextEra Desert Center Blythe large generator interconnection agreement (ER15-1124)**

On February 25, 2015, the ISO filed a certificate of concurrence with respect to the large generator interconnection agreement among NextEra Desert Center Blythe, LLC, Southern California Edison Company, and the ISO. Southern California Edison filed the original agreement, and rather than file a duplicate, the ISO filed a one-page certificate of concurrence. The agreement and the certificate of concurrence are effective February 19, 2015.

- **Agua Caliente Solar large generator interconnection agreement (ER15-1028)**

On February 12, 2015, the ISO filed a certificate of concurrence with respect to an amendment of the large generator interconnection agreement among Agua Caliente Solar, LLC, Arizona Public Service Company, Imperial Irrigation District, San Diego Gas & Electric Company, and the ISO. Arizona Public Service Company filed the original agreement and rather than file a duplicate, the ISO filed a one-page certificate of concurrence. The agreement and certificate of concurrence are effective October 21, 2014.

- **Granite Wind large generator interconnection agreement cancellation (ER15-893)**

On January 22, 2015, the ISO filed a notice of cancellation of its certificate of concurrence with Southern California Edison Company's filing of the large generator interconnection agreement between Granite Wind, LLC, Edison, and the ISO. The cancellation is effective March 16, 2015.

Reports filed

- **Energy imbalance market pricing waiver (ER15-402)**

On March 6, 2015, the ISO's Department of Market Monitoring submitted reports providing an independent assessment on the performance of the energy imbalance market, pursuant to FERC's December 1, 2014 order granting the ISO's waiver related to pricing parameters

in the energy imbalance market. On February 19, 2015, the ISO submitted its reports also in compliance with the FERC's order, providing data on, and an assessment of, the performance of the energy imbalance market during the term of the waiver. The reports provide data demonstrating progress towards identifying and eliminating problems giving rise to the waiver petition, and describes a variety of software and procedural steps that have been taken by the ISO and PacifiCorp to improve energy imbalance market performance, along with additional future improvements to the performance of the energy imbalance market being pursued.

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

On February 18, 2015, the ISO submitted to FERC transactional data including incremental and decremental megawatt volume, duration, and location for exceptional dispatches occurring during the month of December 2014. 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 February 9, 2015, 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 in the month of January 2015.

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

On February 13, 2015, the ISO submitted to FERC its annual report evaluating demand response participation in the ISO for 2014. This report is submitted pursuant to FERC's June 25, 2007 order requiring annual reports, and summarizes participation in the ISO's participating load program and proxy demand resource program.

- **Centralized capacity markets in regional transmission organizations and independent system operators (AD13-7); and Winter 2013-2014 operations and market performance in regional transmission organizations and independent system operators (AD14-8)**

On February 18, 2015, the ISO submitted to FERC its report on fuel assurance issues, as required by FERC's November 20, 2014 order. In its report, the ISO described its fuel assurance strategy and the variables that inform that strategy. The ISO recommended that the Commission forbear from imposing a uniform rule for fuel assurance. Instead, the ISO recommends that the Commission assess best practices in each region, and take into account regional differences in reviewing and approving any market mechanisms of rule changes developed by individual independent system operators or regional transmission organizations.

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

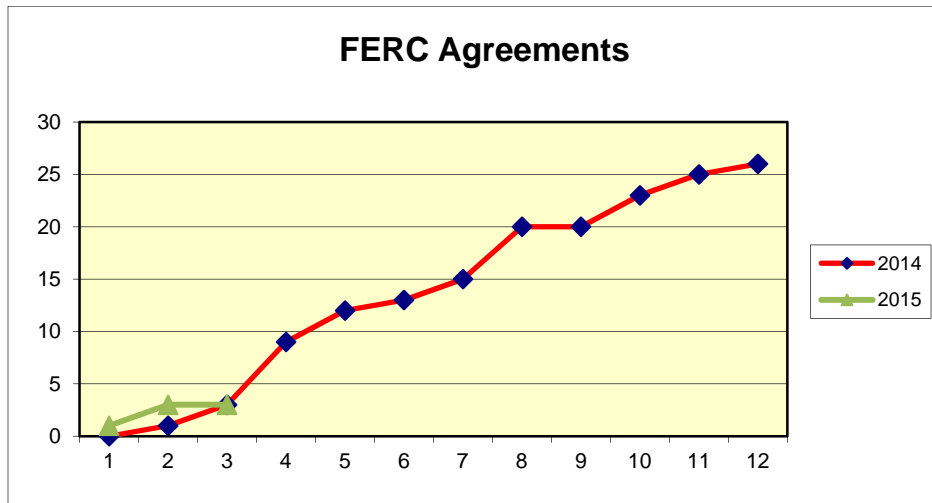
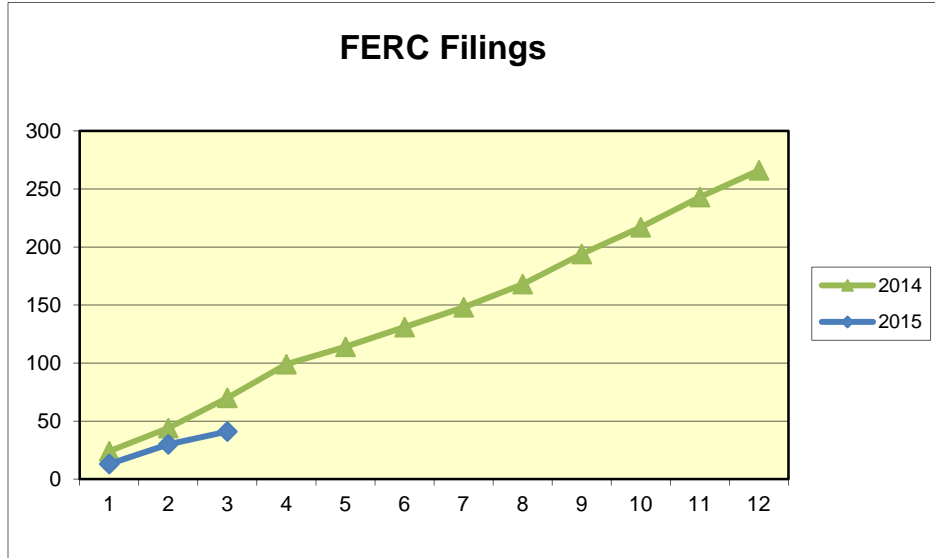
On February 18, 2015, the ISO submitted to FERC its monthly market disruption reports, for the periods December 16, 2014 through January 15, 2015. A market disruption is an action or event that causes a failure of the ISO market related to system operation issues or system emergencies.

California Public Utilities Commission matters

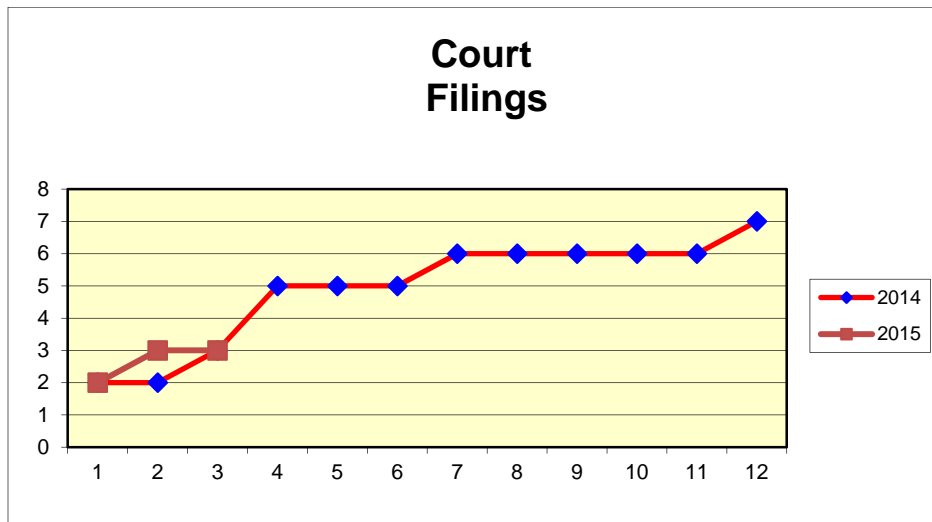
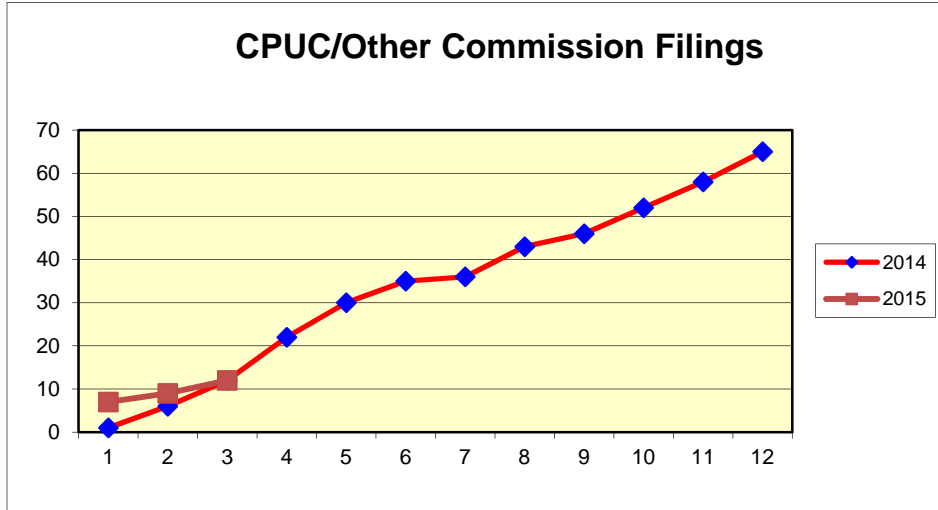
- **Demand response (R.13-09-011)**

On February 12, 2015, the CPUC issued Decision 15-02-007 accepting a recommendation by the ISO and other parties which maintained the CPUC's previous decision to bifurcate supply-side and load-modifying demand response programs beginning in 2018. The decision also preserved the working group construct to address remaining integration, operations and valuation issues related to demand response.

Regulatory Filings Through March 2015



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Regulatory Filings Through March 2015

