

Memorandum

To: CAISO Board of Governors
From: Nancy Saracino, General Counsel
Date: October 9, 2007
Re: Regulatory Update

This is an update of key regulatory activities and requires no Board action.

FERC Matters and Related Decisions of the Court of Appeals

Market Redesign and Technology Upgrade (MRTU)

- **Answer to MRTU Section 205 and Compliance Filing (ER06-615/ER07-1257)**

On October 5, 2007, the CAISO submitted its answer to parties' September 7 comments and protests in response to the CAISO's August 3, 2007 combined compliance and Section 205 filing.

Responsible Attorneys: Sidney Davies, Anna McKenna, Mike Dozier, Grant Rosenblum and Beth Ann Burns

- **MRTU Compliance Filing (ER06-615)**

On October 5, 2007, the CAISO submitted a compliance filing of tariff language relating to the ability of a Load-following Metered Subsystem to use Reliability Must Run resources for Load-following under MRTU.

Responsible Attorney: Sidney Davies

- **FERC Technical Conference on Business Practice Manuals (ER06-615)**

CAISO staff attended a technical conference in Washington D.C. to discuss whether any details in the BPMs might more appropriately be included in the tariff. The CAISO will file post-technical conference comments, including any proposed tariff language, on November 15, 2007.

Responsible Attorneys: Sidney Davies, Anna McKenna and Mike Dozier

- **September 28, 2007 MRTU Filings (ER06-615)**

On September 28, 2007, the CAISO submitted a filing in compliance with the September 21, 2006 order conditionally accepting the MRTU tariff filing and the June 25, 2007 order on compliance filings. Among other things, the CAISO filed tariff language to address potential underscheduling under MRTU prior to implementation of convergence bidding to ensure appropriate incentives for Scheduling Coordinators to schedule in the Day-Ahead in anticipation of their expected Real-Time Demand. As approved by the Board of Governors, the filing requires the CAISO to create confidential weekly reports, includes a bright line rule delineating "persistent" underscheduling and the authority to impose a charge on a Scheduling Coordinator determined to be engaged in underscheduling.

Responsible Attorneys: Anna McKenna, Sidney Davies and Grant Rosenblum

- **Order Granting in Part and Denying in Part Requests for Clarification and Rehearing, and Denying Motion to Reopen the Record (ER06-615/ER02-1656)**

On September 24, 2007, FERC issued an Order on rehearing that accepted the CAISO's position on numerous issues and, importantly, denied a rehearing request and motion to reopen the MRTU record regarding Resource Adequacy issues. In brief, FERC ruled as follows:

- **Honoring Multi-Hour constraints in RUC.** FERC granted CAISO's request for clarification that it would not be required to allow multi-hour block constraints as bidding parameters of System Resources in RUC in Release 2.
- **Market Power Mitigation--Default Energy Bids/Negotiated Rate Option.** FERC conditionally granted CAISO's request for clarification concerning the effect of informational filings of Default Energy Bids developed through the Negotiated Rate Option process and any retroactive adjustment of such rates. FERC agreed to limit any retroactive adjustment to any such rate to the affected generating unit and would not require the rerunning of the entire market (although FERC indicated that it could not commit that it would never order such a rerun).
- **Resource Adequacy.** FERC granted the CAISO's clarification that energy under bilateral contracts can be counted as RA capacity and accepted the CAISO's clarification concerning exports from RA Capacity without any double counting of RA capacity.

Responsible Attorneys: Sidney Davies, Anna McKenna, Mike Dozier, Grant Rosenblum

- **Second Status Report to FERC on the Development of Demand Response**

On September 17, 2007, the CAISO submitted its Second Status Report concerning its efforts to enhance Demand Response in compliance with FERC's June 25, 2007 Order. Among other things, the Report discussed the efforts of the CAISO from January through May 2007 to develop a California Demand Response Initiative to serve as a collaborative process to advance Demand Response and better integrate the Investor Owned Utility products into MRTU, and outlined a new working group process for further Demand Response product development.

The CAISO led the first working group, in collaboration with the California Public Utilities Commission and California Energy Commission, in developing an interim process to recognize existing IOU Demand Response programs in MRTU Release 1. This process was memorialized in a draft User Guide, which is posted on the CAISO's Demand Response Initiative Web page. The second working group will assist in the CAISO's development of additional functionality of MRTU software to highly integrate demand response resources into the CAISO's market design. Proposals for consideration by the second group, the MRTU Post Release 1 working group, have been presented and are discussed in items that CAISO has also posted on its dedicated Web page.

Responsible Attorney: Bill Di Capo

ANOPR re Wholesale Competition in Regions with Wholesale Markets (RM07-19)

In June, FERC issued an Advanced Notice of Proposed Rulemaking that proposed reforms of organized electric markets and wholesale competition. The proposals fall in four areas: market monitoring, responsiveness of ISOs and RTOs to their customers and stakeholders, facilitating long-term contracting, and encouraging use of demand response resources. On September 14, the CAISO submitted comments that generally supported the Commission's proposals, many of which have already been adopted at the CAISO. The CAISO noted that its current governance structure satisfies FERC's proposal that customers and other stakeholders have some form of effective access to the board of directors. The CAISO also addressed the structure of the Department of Market Monitoring and its effectiveness at meeting the FERC conditions for independence.

Responsible Attorney: Dan Shonkwiler

Location Constrained Resources Interconnection Petition for Declaratory Order (EL07-33)

On September 20, 2007, FERC issued an *Order on Request for Clarification and Rehearing* in which it denied the Imperial Irrigation District's ("IID") request for rehearing of FERC's April 19, 2007 granting the CAISO's petition for a declaratory order regarding its proposed financing mechanism for the construction of interconnection facilities to connect location constrained resources to the CAISO Controlled Grid. IID alleged that the CAISO's proposal did not meet cost causation principles, and that the CAISO failed to demonstrate that the proposal was needed to encourage the development of infrastructure necessary to connect renewable energy resources. The Commission rejected IID's claims. FERC stated that the CAISO's existing interconnection policies did not already address the unique concerns of these resources. The Commission also reiterated its findings from the April 19 Order that accessing location constrained resources provides broad benefits to the entire grid.

Responsible Attorney: Anthony Ivancovich

PacifiCorp Termination of PACI Agreement and PG&E Amendment to OCOA (ER07-882 and ER07-962)

On September 13, 2007, the CAISO filed its initial brief in accordance with the Commission's July 30 Order temporarily staying termination of PacifiCorp's Capacity Agreement. The CAISO advocated that PacifiCorp must be a party to the Owners Coordinated Operation Agreement (OCOA) and the California Oregon Intertie (COI) Path Operating Agreement in order for continued reliable operation and planning the COI. Settlement negotiations in these proceedings are ongoing.

In a related proceeding (ER07-1373), on September 14, 2007, the CAISO unilaterally filed an Operations Agreement to address issues anticipated from the possible termination of the Capacity Agreement between PacifiCorp and PG&E, as PacifiCorp would assume responsibility for 47 miles of the PACI from Malin to Indian

Spring that was previously leased to PG&E and under the CAISO's operational control pursuant to the Transmission Control Agreement. The Operations Agreement would govern the operational, scheduling and settlements requirements of the CAISO with respect to PacifiCorp's transmission ownership rights on the PACI in the event the Capacity Agreement terminates.

Responsible Attorney: John Anders

Petition to Waive Sanctions for Failure to Submit Daily Demand Forecasts, ER07-1180

The August report summarized the CAISO's request to waive financial penalties against Scheduling Coordinators for failing to submit daily demand forecasts. Specifically, the ISO asked FERC to waive all such sanctions from May 16, 2006, when the Department of Market Monitoring began investigating missed demand forecasts, through October 18, 2006, based on technical obstacles that frustrated efforts to comply during that period and evidence that Scheduling Coordinators had been making their best efforts.

The Commission granted this request in a letter order issued October 1. In granting the waiver of the penalties, FERC found that the Scheduling Coordinators were still learning to "perfect their compliance" with the ISO tariff in 2006 and noted that compliance since then has been virtually 100 percent.

Responsible Attorney: Dan Shonkwiler

Import Capability Allocation Amendments (ER07-648-000)

On October 1, 2007, FERC accepted for filing changes to the Import Capability Assignment provisions of the CAISO tariff. These changes were made in compliance with the FERC's May 18, 2007 order related to the CAISO's Import Capability Assignment Amendments, which allocate transmission import capability into the CAISO Control Area to Load Serving Entities for resource adequacy reporting purposes.

Responsible Attorney: Grant Rosenblum

CPUC Matters

Rulemaking Regarding Greenhouse Gas Implementation Standards (R.06-04-009)

This is a collaborative proceeding involving the California Energy Commission, initiated to develop joint recommendations for regulation of the electricity sector for submission to the California Air Resources Board (CARB) for its use in establishing greenhouse gas regulations pursuant to AB 32. An En Banc hearing (full CPUC-CEC commissioner panel) was held on August 21, 2007, to consider issues and options related to imposing emission caps and developing markets to trade emission credits for the electricity sector.

The CPUC issued a Final Decision on September 5, 2007, containing recommendations for tracking and reporting under a load based cap, for use if the load based cap is ultimately recommended to the CARB.

Responsible Attorney: Bill Di Capo

New Rulemaking to Consider Establishing California Institute for Climate Solutions (R.07-09-008)

On September 25, 2007, the CPUC issued a new order instituting rulemaking to consider establishing a proposed California Institute for Climate Solutions. The University of California has proposed to establish the Institute to research and develop innovative solutions to climate change. The Commission intends that other parties participate, such as the private research universities Cal Tech, Stanford and USC, and the state universities and community colleges.

Responsible Attorney: Bill Di Capo

Opinion on Future Policy and Pricing for Qualifying Facilities (R.04-04-003/R04-040025)

On September 25, the CPUC published its final opinion concerning future policy and pricing for QFs. The opinion concluded that QFs “should generally be required to comply with CAISO tariff requirements” and expressly found that QFs of 1 MW or greater should be required to comply with the CAISO tariff. Existing QFs, however, would not be required to complete new interconnection studies. The opinion also held that QFs should serve as their own SC with the option of purchasing SC services from the IOUs.

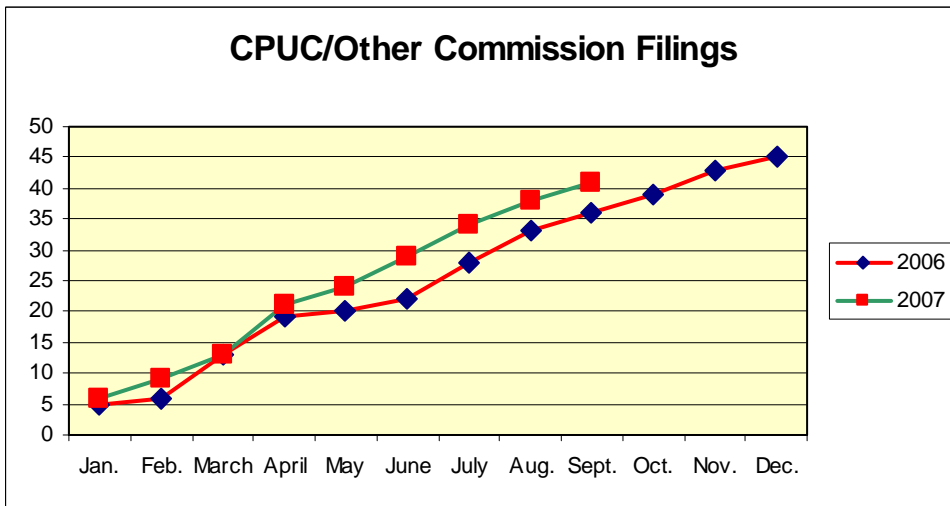
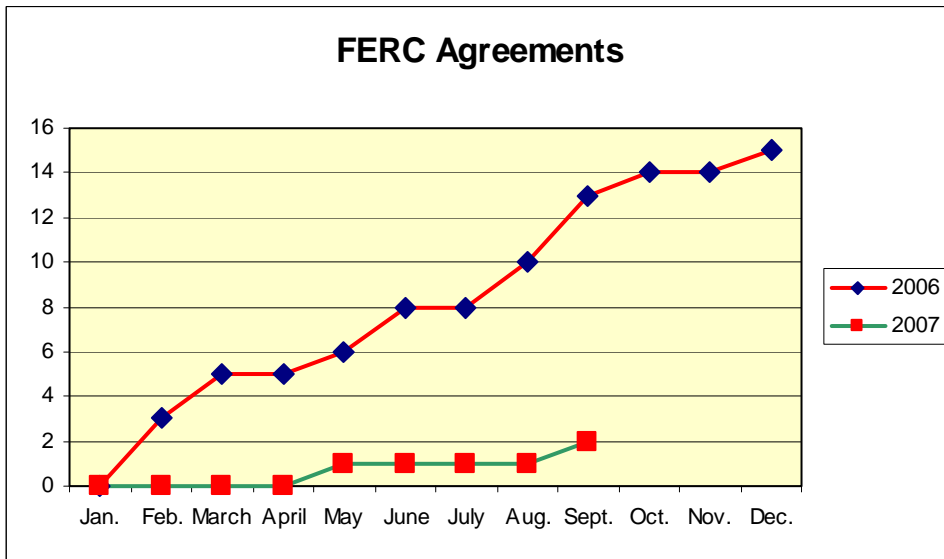
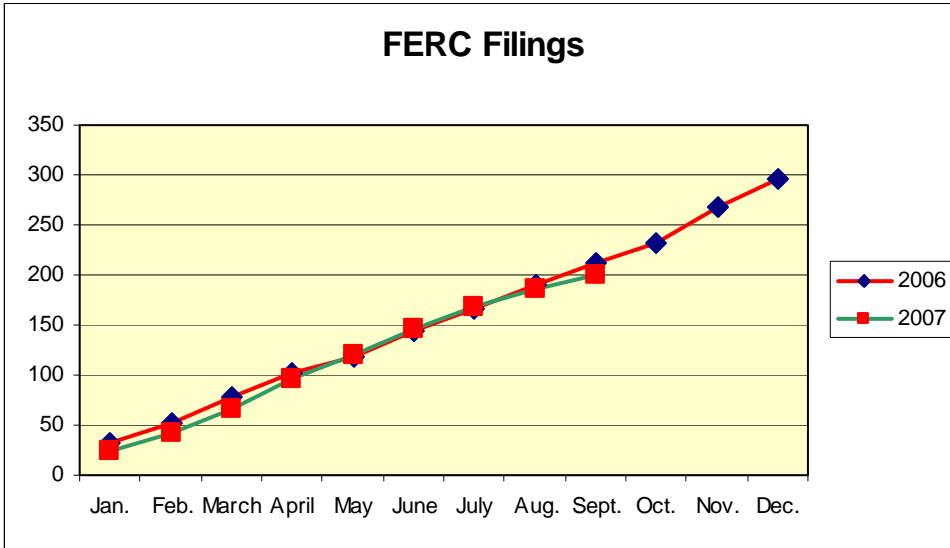
Responsible Attorney: Sidney Davies

Resource Adequacy Proceeding – Track 3 (CPUC Docket No. R05-12-013)

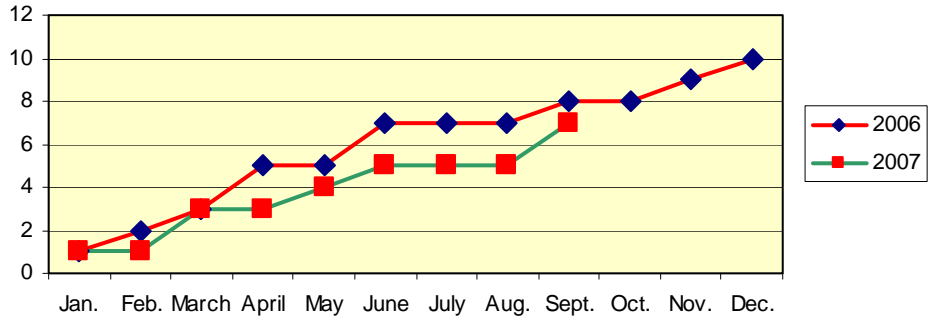
Under Public Utilities Code Section 380, the CPUC, in coordination with the CAISO, is required to develop resource adequacy programs for Load Serving Entities (LSEs) under CPUC jurisdiction. The CPUC’s present resource adequacy program applies to the large investor-owned utilities, electricity service providers, and community choice aggregators. The CPUC initiated Track 3 to extend resource adequacy rules and procedures to “small and multi-jurisdictional” LSEs. Multi-jurisdictional LSEs include investor-owned, vertically-integrated utilities that serve customers in California, but primarily serve out-of-state customers and function as their own control area outside the CAISO footprint. PacifiCorp and Sierra Pacific Power Company are examples of multi-jurisdictional LSEs. An example of a small LSE is Bear Valley Electric Service Company.

On September 28, 2007, the CAISO filed comments with the CPUC on proposals submitted by the small and multi-jurisdictional LSEs to comply with Section 380 resource adequacy mandates. The comments concluded, among other things, that the multi-jurisdictional LSEs should be accorded substantial flexibility in formulating their resource adequacy programs given that their load is outside the CAISO Control Area and reliability between the CAISO and those entities is already governed by existing Interconnected Control Area Operating Agreements. However, the CAISO noted that in order to be able to compare whether California residents served by those entities are receiving service similar to that supported by previously adopted resource adequacy rules, the CPUC should require that the multi-jurisdictional LSEs demonstrate compliance with target reserve margins using CPUC resource counting and demand forecast protocols.

Responsible Attorney: Grant Rosenblum



Court Filings



Total Filings

