

Memorandum

To: ISO Board of Governors
From: Nancy Saracino, General Counsel
Date: December 4, 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)

- **Commission Order on Rehearing (ER06-615/ER07-1257)**

On October 15, 2007, the Commission granted the CAISO's request for clarification of the June 25 MRTU Order as follows:

- granted the CAISO's request not to perform security checks as a prerequisite for a market participant's ability to obtain the CRR Full Network Model; and
- granted the CAISO's request for clarification that it may issue Exceptional Dispatches to commit resources outside of Real-Time and for circumstances beyond those that threaten system reliability.

Responsible Attorneys: Anna McKenna, Beth Ann Burns and Sidney Davies

- **Post-Business Practice Manual Technical Conference Comments (ER06-615)**

On November 15, 2007, the CAISO satisfied commitments made at the September technical conference related to its Business Practice Manuals (BPMs). Specifically, the CAISO posted the following updated MRTU BPMs: Full Network Model, Congestion Revenue Rights, Outage Management, Market Instruments, Reliability Requirements, Market Operations, Metering, Compliance Monitoring and the Business Practice Manual for BPM Change Management. In addition, the CAISO submitted 121 pages of comments addressing parties' concerns and filed approximately 100 pages of revised tariff sheets reflecting clarifications we agreed to make in response to parties' comments.

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

- **Joint Quarterly Seams Report for the Third Quarter (ER060615)**

On October 30, in compliance with the FERC September 21, 2006 order directing “the CAISO and neighboring control areas to meet as needed to resolve seams between them” and to “*jointly* report on the progress of these efforts in quarterly status reports filed with the Commission within 30 days of the end of each calendar quarter,” the CAISO filed its joint quarterly reports with Western Area Power Administration (“Western”); Sacramento Municipal Utility District (“SMUD”); Turlock Irrigation District (“Turlock”); the Bonneville Power Administration (Bonneville); and the Los Angeles Department of Water and Power (“LADWP”) regarding seams-related discussions that took place during the third quarter of 2007. The joint status reports identify and, as appropriate, summarize bilateral discussions between the CAISO and neighboring control areas regarding seams issues. In addition, the CAISO also reported on additional seams-related activities and discussions facilitated by the Western Electricity Coordinating Council (“WECC”) during the third quarter of 2007. In its joint status reports, the CAISO reported that no seams issues that required resolution prior to MRTU start-up had been identified.

Finally, a WECC subcommittee known the Seams Issue Subcommittee has issued a report concluding that “no specific seams issues that are created by MRTU or existing seams issues that are substantially worsened by MRTU implementation. Seams issues exist today, particularly between organized markets such as the CAISO and bilateral physical markets that dominate the Western Interconnection. The SIS will continue to monitor, evaluate and propose solutions to all regional seams issues.”

Responsible Attorney: Anna McKenna

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

The CAISO made two compliance related filings. First, on October 26, the CAISO filed modifications to the *pro forma* Reliability Must Run (RMR) Agreement and related MRTU Tariff language to reflect how RMR units will be dispatched under MRTU. Second, on November 5, 2007, the CAISO filed its answer to protests and comments related to interim measures to discourage under-scheduling of demand in the Day-Ahead Market prior to the adoption of Convergence Bidding.

Responsible Attorney: Sidney Davies and Anna McKenna

CRR Implementation Filing (ER07-613)

On October 30, FERC issued its order denying requests for rehearing and clarification of a May 8, 2007 order which conditionally accepted for filing, subject to modifications, the CAISO tariff changes filed on March 9 to enable the CAISO to implement CRRs before the start of the rest of MRTU. The Commission also accepted for filing a compliance filing submitted by the CAISO to reflect tariff revisions directed in the May 2007 Order. This allows CAISO to proceed with the implementation of mechanisms for honoring Existing Rights, Converted Rights and Transmission Ownership rights under MRTU. The Commission denied all rehearing requests with respect to these issues.

Responsible Attorney: Anna McKenna

Caps for Start-Up and Minimum Load Costs under MRTU (ER08-73)

On October 19, 2007, the CAISO filed a tariff amendment to implement caps on Start-Up and Minimum Load Costs under MRTU. Resources located in Local Capacity Areas will be subject to a 200% cap based on projected Proxy Costs. Other resources will be subject to a 400% cap based on projected Proxy Costs.

Responsible Attorney: Sidney Davies

Resource Adequacy Early Effectiveness Amendments (ER08-64)

On October 16, 2007, the CAISO filed with FERC amendments to the currently effective ISO Tariff that would allow the CAISO to perform specific MRTU-related resource adequacy tasks that must be accomplished in advance of the MRTU "go live" date. Thus, the primary purpose of the amendments is to provide for an orderly transition from the currently effective resource adequacy program to the resource adequacy program that will be in effect under MRTU. The CAISO filed its answer to comments and protests on November 23, 2007.

Responsible Attorney: Grant Rosenblum

Billing for NERC/WECC Reliability Costs (ER07-805)

On October 22, 2007, FERC issued an order approving the CAISO's August 24, 2007 compliance filing with modifications. FERC approved the CAISO's proposal to dispense with the quarterly invoicing process for NERC/WECC Reliability Costs, but directed the CAISO to issue a preliminary invoice to Scheduling Coordinators (SCs) in August of each year, as well a final invoice. FERC indicated that this would allow SCs ample time to collect funds from the load serving entities they represent. FERC also approved the CAISO's Billing Services Agreement with WECC and the CAISO's proposed treatment of Unaccounted For Energy for purposes of calculating the amount of costs to be allocated to each SC.

Responsible Attorney: Anthony Ivancovich

Reliability Capacity Services Tariff and Interim Capacity Procurement Mechanism (EL05-146)

On October 29, 2007, the CAISO filed an Answer to the Motion for Reconsideration filed by the Independent Energy Producers ("IEP"). In its motion, IEP asked FERC to require the CAISO to file a new capacity backstop proposal to be effective January 1, 2008. IEP requested that the Interim Capacity Procurement Mechanism (ICPM), which the CAISO is currently developing and intends to implement coincident with MRTU implementation, be instituted on the first of the year rather than timed with MRTU implementation. In its Answer, the CAISO argued that it would be inappropriate to require the CAISO and stakeholders to divert attention and resources away from developing the ICPM, which is needed under MRTU, and commence a new stakeholder process to develop a separate product that will only be in effect for a few months prior to MRTU. The CAISO stated that it would work with stakeholders to develop and file a capacity pricing proposal to be effective by May 31, 2008 should anything delay the expected implementation of MRTU. Finally, the CAISO stated that, if FERC believes that it is necessary to provide additional compensation to Must-Offer generators effective January 1, 2008, FERC should exercise its authority under Section 206 of the Federal Power Act and extend the daily Must Offer capacity payment that is currently in effect until the implementation of MRTU.

Responsible Attorney: Anthony Ivancovich

SGIP/SGIA (ER06-629 and ER06-630)

On November 16, 2007, FERC issued an order regarding the CAISO's February 10, 2006 filing of its proposed standard Small Generator Interconnection Procedures ("SGIP") for the interconnection of Generating Facilities 20 MW and smaller and the accompanying joint filing by the CAISO and the Participating TOs ("PTOs") of a *pro forma* Small Generator Interconnection Agreement ("SGIA"). While FERC granted many of the CAISO's and PTOs' requests for variations from the FERC standard versions of the SGIP and SGIA, it rejected several of the proposed (and uncontested) variations from its standard versions as beyond the appropriate scope of variations that may be made even by an independent entity like the CAISO. The new SGIP and SGIA are effective as of Friday, November 16, 2007, subject to compliance filings required to be made by December 17, 2007.

Responsible Attorneys: Mike Dozier and Grant Rosenblum

Location Constrained Resources Interconnection Petition for Declaratory Order (ER08-33)

On October 31, 2007, the CAISO filed a tariff amendment to implement its location constrained resource interconnection policy. The tariff amendment filing proposes a financing mechanism that will promote the development of interconnection facilities necessary to connect location constrained resources to the grid. Under the proposed financing mechanism, a Participating Transmission Owner would be permitted to include the costs of any Location Constrained Resource Interconnection Facility (LCRIF) that it constructs in its Transmission Revenue Requirement (TRR). As individual generators connect to the LCRIF, each such generator would become responsible for paying its *pro rata* share of the annual costs of the LCRIF on a going forward basis. The LCRIF costs that are collected directly from generators would be collected through the CAISO's access charges, which are comprised of the Transmission Access Charge (TAC) and the Wheeling Access Charge (WAC). This bifurcated funding arrangement would continue until such time that the LCRIF is fully subscribed and the entire revenue requirement of the LCRIF is paid for by the subscribed generation facilities. The proposed tariff amendment addresses the following key matters: (1) the criteria for qualification as a LCRIF; (2) the criteria the CAISO will apply during the transmission planning process to determine whether a proposed LCRIF is needed so as to qualify for inclusion in the CAISO's Transmission Plan; (3) the mechanism to recover the costs of a LCRIF; and (4) the allocation of the costs of a LCRIF.

Responsible Attorney: Anthony Ivancovich

PacifiCorp Termination of PACI Agreement and PG&E Amendment to OCOA (ER07-882, ER07-962 and ER07-1373)

On November 21, 2007, the CAISO and other parties filed an Offer of Settlement and Stipulation that, if approved by the Commission, would resolve all issues in these and several other dockets. If approved, the settlement would become effective January 1, 2008 and remain in effect for a period of 20 years, subject to certain conditions. Parties to the settlement included the CAISO, PacifiCorp, Pacific Gas and Electric Company, the Transmission Agency of Northern California, the Sacramento Municipal Utility District, Powerex Corp., and PPM Energy, Inc. The settlement would put into effect various agreements to facilitate continued reliable operation of the California Oregon Intertie (COI) for the settlement period, including: (i) a Transmission Exchange Agreement and Agreement for Lease of Transmission Capacity that effectively extends the current arrangement for the first four years of the settlement period, followed by a six year transition to a 50/50 sharing of the transmission capacity between PG&E and PacifiCorp in the tenth year of the settlement period; (ii) an Operating Agreement between the CAISO and PacifiCorp to facilitate reliable operations, scheduling and settlement of PacifiCorp's transmission capacity commencing in the fifth year of the settlement period; and (iii) provisions to assure that PacifiCorp becomes a party

to the Owners Coordinated Operation Agreement and the COI Path Operating Agreement commencing in the fifth year of the settlement period.

Responsible Attorney: John Anders

Must-Offer Proceeding (Amendment 60/ER04-835)

On November 20, 2007, the Commission issued its order on rehearing ruling favorably in response to the CAISO's rehearing/clarification requests. Most important of these was our clarification request on the scope of our authority to deny Must-Offer waiver requests. The Commission agreed that the CAISO has authority to deny must offer waiver requests in order to ensure that sufficient Operating Reserves are available to meet reliability criteria. In addition, FERC granted SCE's request to treat commitment costs associated with South of Lugo as a zonal cost for Must-Offer cost allocation purposes.

Responsible Attorney: Sidney Davies

California Crisis Refund Case (EL00-95)

On October 19, the Commission issued an order implementing the appellate court's ruling that it lacks authority to order refunds from municipal utilities and other governmental entities. The Commission's order adopts a simple formula for reducing the refunds that parties otherwise would have received from the municipal utilities. In adopting this formula, the Commission agreed with the CAISO that it should not be required to conduct a second full-system rerun of the refund period, which would have required significant resources and time from the CAISO. In addition, the Commission ordered that municipal suppliers be paid their principal balances in the early part of next year. Those balances have been held by the PX since the crisis.

Responsible Attorney: Dan Shonkwiler

Order No. 890 Compliance (OA08-12)

On October 11, 2007, the CAISO submitted its filing to comply with the non-transmission planning elements of Order No. 890. The CAISO submitted a new Appendix L to its Tariff explaining how the CAISO calculates Available Transfer Capacity. The CAISO also requested that FERC grant the CAISO a partial waiver of the requirement that transmission providers post load data for load-serving entities (LSEs) in their footprint by permitting the CAISO to post such load data for the three former investor-owned-utility regions. With respect to the remainder of the CAISO's Order No. 890 compliance obligations, the CAISO argued that the terms of its existing Tariff and the MRTU Tariff are consistent with or superior to the *pro forma* Open Access Transmission Tariff (OATT) as revised by Order No. 890. The CAISO noted that many of the specific reforms adopted in Order No. 890 are not applicable to the CAISO's service model which differs significantly from the *pro forma* OATT. In particular, the CAISO argued that the numerous changes to Order No. 888 point-to-point and network transmission services adopted in Order No. 890, as well as certain posting requirements related to these services, do not apply to the CAISO's "daily" transmission service model, and FERC should not require the CAISO to adopt them. Further, the CAISO argued that it satisfies the requirement that transmission providers post on their websites all rules, standards, or business practices that relate to the terms and conditions of transmission service. Finally, the CAISO argued that the provisions of its existing Tariff satisfy FERC's directives regarding the inclusion of credit procedures in an Attachment to a transmission provider's OATT.

Responsible Attorney: Anthony Ivancovich

CPUC Matters

Rulemaking to Integrate Procurement Policies and Consider Long Term Procurement Plans (R06-02-013)

On November 20, 2007, Administrative Law Judge Carol Brown issued her Proposed Decision (PD) adopting the utility Long Term Procurement Plans (LTTPs) for the planning horizon 2007-2016 with certain modifications. Issues pertinent to the CAISO include:

- **Implementation of AB 1576 and Repowering:** The PD found that it was premature to consider proposals for implementation of AB 1576 (codified as Section 454.6 of the Pub. Util. Code). AB 1576 gives the owners of aging power plants incentives to repower or replace the plants, in lieu of retiring them, by providing for rate recovery. One of the criteria that a project must meet to be eligible for AB 1576 cost of service rate recovery is that it must be certified by the CAISO as needed for local reliability.
- **MRTU Implementation:** The PD rejected SDG&E's request that the Commission change the CPUC's current requirement that IOUs must justify (in their quarterly reports to the CPUC) any "spot purchases" over a 5% threshold, since MRTU market purchases are defined as "spot purchases". The PD also rejected SCE's request for authority to conduct convergence bidding, based on insufficient details as to how convergence bidding will be conducted at this time. The PD notes that the IOUs can request to modify their LTTPs in the future, on these issues.

Responsible Attorney: Bill Di Capo

Rulemaking Regarding Policies and Protocols for Demand Response and Alignment with CAISO Market Design Protocols (R.07-01-041)

As the Demand Response program evolves it will be important that it consider the CAISO's operational requirements and grid reliability. The CAISO responded to numerous questions from the ALJ and expressed appreciation that the staff proposal includes consideration of "the CAISO's need for accurate information on the amount and conditions for availability of DR in order to incorporate DR into its market design, forecasting and procurement."

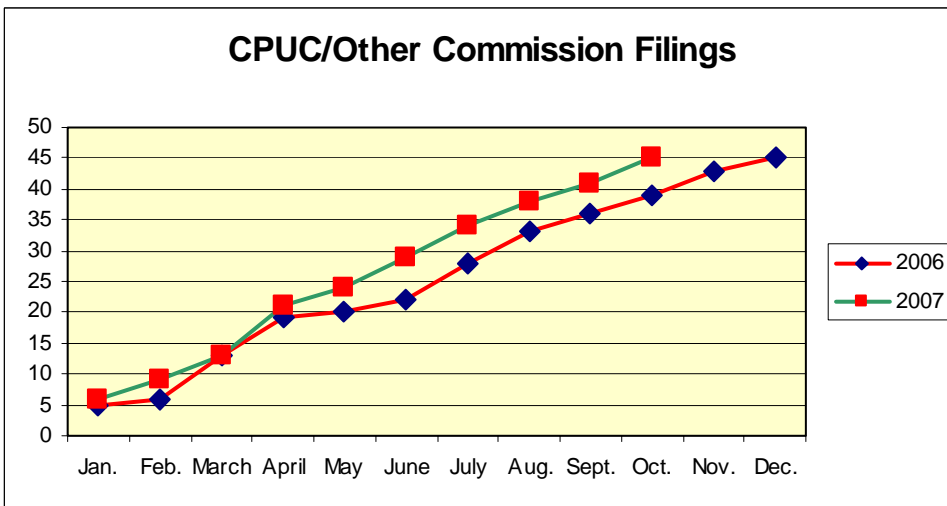
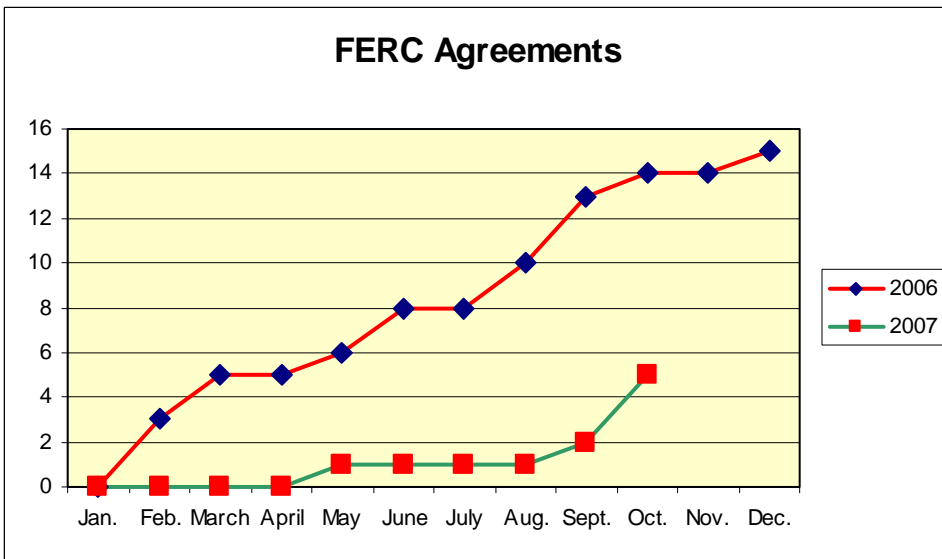
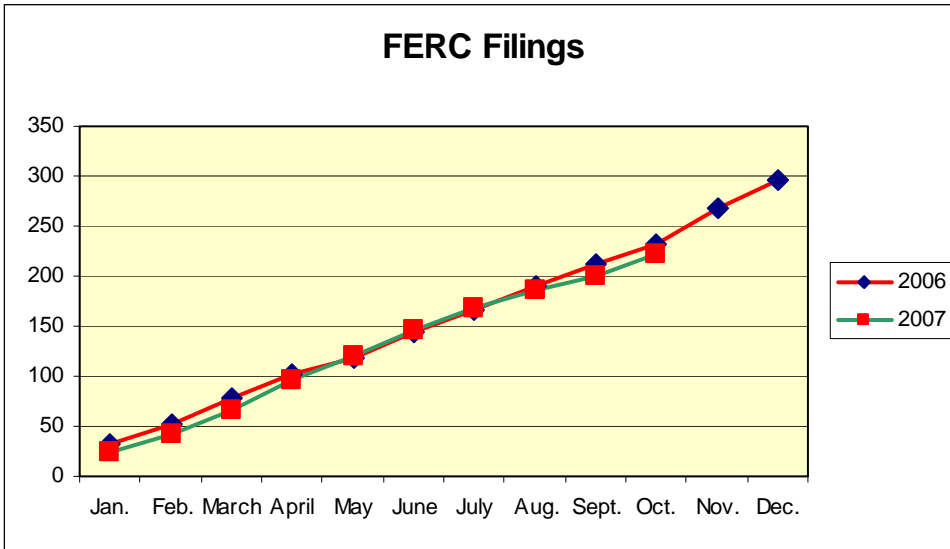
Responsible Attorney: Bill Di Capo

Sunrise Powerlink CPCN Proceeding (A.06-08-010/A.0512-014)

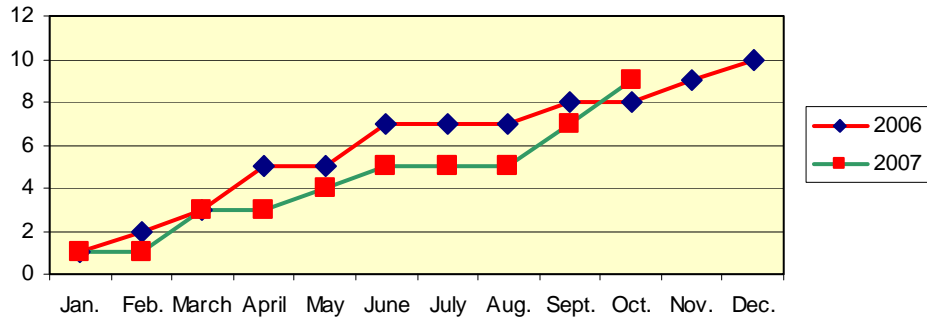
On November 9, 2007, the CAISO filed an opening brief in the CPUC Sunrise Powerlink transmission Certificate of Public Convenience and Necessity proceeding. The brief addressed the CAISO's economic and reliability study results, emphasizing that the transmission project will provide positive benefits to CAISO ratepayers and will provide SDG&E with valuable access to renewable generation. Specifically, the CAISO argued that based on its analysis, Sunrise is needed to meet SDG&E's reliability needs, will provide significant net economic benefits, and is a critical component to SDG&E meeting its renewables portfolio standard requirements. The parties also filed reply briefs on November 30.

Responsible Attorney: Judi Sanders

FILINGS THROUGH OCTOBER 2007



Court Filings



Total Filings

