California ISO
Your Link to Power

California Independent
System Operator Corporation

Memorandum

To: ISO Board of Governors

From: Nancy Saracino, Vice President, General Counsel and Corporate Secretary

Date: March 17, 2010

Re: **Regulatory Update**

This memorandum does not require Board action.

Federal Energy Regulatory Commission (FERC) matters and related decisions of the Court of Appeals

Tariff amendment filings and orders

- **Proxy demand resource (ER10-765-000)**

On February 16, 2010, the ISO filed its tariff amendments to implement its new demand response product, proxy demand resource. Proxy demand resource facilitates the participation of retail demand in the ISO market in compliance with FERC orders authorizing the new market design as well as directives to all independent system operators and regional transmission organizations from Order No. 719. The product allows loads to be modeled as pseudo-generators for purposes of demand response. The resources will be able to submit bids for energy and ancillary services (as non-spinning reserve) into the day-ahead and real-time market. The ISO requested an effective date of May 1, 2010 for the proxy demand resource product and an earlier date of April 19, 2010 for the *pro forma* demand response provider agreement.

Responsible Attorney: Bill Di Capo

- **Forbidden operating region (ER10-775)**

The ISO submitted proposed tariff language to FERC on February 12, 2010, to reinstate forbidden operating region functionality in the real-time market. This functionality recognizes resources' forbidden operating regions so that resources will be dispatched above or below any such region. The ISO requested an effective date of April 15, 2010. No protests were filed in response to the ISO filing.

Responsible Attorneys: Anna McKenna and David Zlotlow

- **Late payment penalties (ER10-753)**

In December 2008, the Board approved several revisions to the ISO credit policy. Most of these were implemented in 2009. The one exception was the implementation of penalties and possible suspension or termination tariff provisions. On February 5, 2010, the ISO filed proposed tariff amendments to impose penalties on market participants that pay invoices later than the tariff prescribed time limit or post financial security beyond the three day requirement. Penalties apply after the third late payment or posting. In addition, the ISO proposed tariff provisions to permit the ISO to suspend or terminate a market participant after the fifth late payment or posting.

Responsible Attorney: Sidney Davies

- **Convergence bidding (ER10-300; ER06-615)**

In an order issued on February 18, 2010, FERC granted the ISO's motion to extend the implementation date for convergence bidding to February 2011. The order also ruled on the ISO's convergence bidding design proposal. FERC generally accepted the ISO's proposal but found the ISO's proposal to phase out virtual bidding limits at the interties and internal nodes to be overly long. FERC indicated that the ISO needed to provide additional justification for bidding limitations over a shorter period of time in its tariff amendment filing. FERC also requires monthly reports concerning the progress toward the ISO's implementation of convergence bidding by February 2010.

Responsible Attorney: Sidney Davies

- **Scarcity pricing (ER10-500)**

The ISO submitted proposed tariff language to FERC on December 24, 2009 to implement its reserve scarcity pricing design approved by the Board in response to FERC's directive to implement scarcity pricing by April 1, 2010. Several parties have intervened in the FERC proceeding and filed comments. Western Power Trading Forum, Dynegy and J.P. Morgan argued the ISO should establish scarcity premiums in ancillary service sub-regions that match scarcity premiums in the ISO's expanded system region and that the ISO should conduct annual reviews of its scarcity pricing design during the first years of implementation. The ISO filed an answer addressing the issues and is awaiting an order on its proposed tariff language.

Responsible Attorney: Andrew Ulmer

- **Procurement of ancillary services in the hour-ahead scheduling process (ER10-479)**

The ISO submitted proposed tariff language to FERC on December 23, 2009 to allow for the incremental procurement of ancillary services from external non-dynamic system resources in the hour-ahead scheduling process thereby reinstating one of the deferred functionalities. The ISO has requested an effective date of April 1, 2010 for these tariff modifications. No protests were filed in response to the ISO's submittal. FERC accepted the ISO's proposed tariff language on March 3, 2010 be effective as of April 1, 2010.

Responsible Attorneys: Anna McKenna and Andrew Ulmer

- **Eligible intermittent resource amendments (ER10-319)**

On March 1, 2010, the ISO filed a response to FERC's letter requiring additional information regarding the tariff amendments to expand the scope of data required to be provided by wind and solar resources, and potentially other eligible intermittent resources, larger than 1 MW. The ISO provided further explanation and documentation related to a number of areas, including the following information: (1) why 1 MW is an appropriate criterion for additional outage reporting; (2) why additional data reporting is justified for wind and solar resources; (3) how the costs for telemetry, forecasting, and communications equipment required by the proposal are reasonable; (4) why applying the telemetry requirements, forecasting requirements, and forecast fee to intermittent resources not participating in the participating intermittent resource program is reasonable; and (5) how the ISO's proposal to establish exemptions from the requirements is appropriate.

Responsible Attorney: Mike Dozier

- **Integrated balancing authority area (IBAA) tariff amendment (ER08-1113)**

On December 17, 2009, FERC issued an order on rehearing that addresses a number of topics involving market efficiency enhancement agreements that allow entities controlling resources within the Sacramento Municipal Utility District and Turlock Irrigation District integrated balancing authority area with the opportunity to obtain alternative pricing for interchange transactions with the ISO balancing authority area. The order allows signatories to a market efficiency enhancement agreement (MEEA) to self-certify that a resource indentified in the MEEA supported an interchange transaction, and affirms that MEEA signatories provide the ISO with sufficient historical information to model power flows between the IBAA and the ISO. The ISO has submitted tariff modifications to comply with FERC's order. Western Area Power Administration and several IBAA entities filed comments and a protest to the ISO's compliance filing, and the ISO has filed an answer to these comments and protests and is awaiting an order on its compliance filing.

Responsible Attorneys: Anna McKenna and Andrew Ulmer

Regulatory contracts filings and orders

- **ISO-SDG&E agreement for study services for small generator interconnections (Docket ER10-572-000)**

In a letter order issued March 3, 2010, the FERC accepted the agreement between the ISO and SDG&E for engagement of small generator interconnection process study services. The agreement details the terms and conditions under which the ISO initiates requests that SDG&E undertake study work for small generator interconnection studies and for invoicing and payment for such work.

Responsible Attorney: Bill Di Capo

Report filings

- **Participating load pilot report (Docket Nos. RM07-19-001, RM07-19 and ER09-1048)**

On February 18, 2010, the ISO filed a report to FERC concerning summer 2009 pilot programs conducted by PG&E, SCE and SDG&E, in coordination with the ISO and the CPUC. These pilots were conducted in compliance with FERC orders authorizing the ISO's new market design as well as Order No. 719's requirement that independent system operators and regional transmission organizations conduct pilots to assess the technical feasibility and value to the market of smaller demand response resource providing ancillary services. The pilots demonstrated that three different types of retail customers: single larger load consuming commercial and industrial customers (providing up to 5 MW curtailment; PG&E); aggregated residential air conditioning cycling units (providing up to 5 MW curtailment; SCE) and aggregated medium sized (i.e. greater than 200 kW) commercial and industrial customers (providing up to 3 MW; SDG&E) could successfully provide ancillary services to the ISO in the form of non-spinning reserves.

Responsible Attorneys: Bill Di Capo, Dan Shonkwiler

- **Third annual demand response report (ER06-615)**

On March 1, 2010, the ISO filed an answer to comments submitted by the California Department of Water Resources to the ISO's third annual demand response report (for year 2009). DWR filed comments requesting a confidential version of the report and noting that the public version did not provide summary information. The ISO indicated that it could not provide customer specific version of the report and could not provide DWR with a confidential version of the report due to the inclusion of demand response information of other resources. The ISO answer, however, provided summary information that DWR had request and the ISO agreed to include such information in its future reports.

Responsible Attorney: Bill Di Capo

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

On February 16 and March 15, 2010the ISO submitted its monthly market disruption report. A market disruption is an action or event that causes a failure of an ISO market, related to system operation issues or system emergencies. Section 7.7.15 of the tariff authorizes the ISO to take one or more of a number of specified actions in the event of a market disruption, to prevent a market disruption, or to minimize the extent of a market disruption.

Responsible Attorney: Anna McKenna

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

In response to FERC's September 2, 2009 order, the ISO submitted two monthly exceptional dispatch reports. On February 16, 2010 and March 15, 2010, the ISO submitted transactional data including incremental and decremental MW volume, duration and location for exceptional dispatches occurring during the months of December 2009 and January 2010, respectively. On February 26 the ISO submitted MW hour data and cost data for exceptional dispatches occurring during the month of November 2009.

Responsible Attorney: Sidney Davies

Other FERC proceedings

- **Stakeholder responsiveness technical conference (ER09-1048)**

FERC Order No. 719 required independent system operators and regional transmission organizations to evaluate their operations in several areas, including responsiveness to their stakeholders. In the compliance dockets of the individual ISOs and RTOs, several commenters expressed concern about perceived problems with board transparency and responsiveness to stakeholders and customers. In response to these concerns, FERC held a technical conference on February 4, 2010 to discuss the issue of stakeholder responsiveness in more depth. The ISO participated in the technical conference. On March 8, 2010, the ISO submitted written comments in response to the technical conference explaining the ISO's stakeholder responsiveness and responding to the concerns that led to FERC holding the technical conference.

Responsible Attorneys: Anthony Ivancovich and David Zlotlow

- **Green Energy Express incentive rate filing (EL09-74)**

On February 18, 2010, FERC issued an order denying Green Energy Express LLC's (GEET) request for rehearing of its November 23, 2009 order. FERC affirmed its prior determination that GEET did not demonstrate that its proposed transmission project satisfied the Federal Power Act Section 219 requirement that the project either reduce the cost of delivered power by reducing congestion or ensure reliability. FERC also affirmed its prior determination to condition GEET's recovery of abandoned plant costs (and other rate incentives) on approval of the project in the ISO's planning process. FERC found that GEET's objections to the ISO's planning process constituted a collateral attack on FERC's orders approving such process, but stated that if GEET believed that the process was unjust and unreasonable, it could file a complaint. FERC also said that it was inappropriate for it to address arguments regarding the ISO's potential renewable energy transmission proposal in this incentive rate proceeding.

Responsible Attorney: Anthony Ivancovich

Rulemakings and policy statements

- **Independent System Operator/Regional Transmission Organization metrics (AD10-5)**

On March 5, 2010, the ISO filed comments in response to FERC's February 3, 2010 Notice Requesting Comments on RTO/ISO Performance Metrics. FERC proposed a set of metrics that all ISOs and RTOs would use to report annually and requested comments on whether the proposed metrics would effectively track the performance of ISO/RTO operations and markets. FERC divided the metrics into three categories – performance metrics, additional information and ISO/RTO specific key initiatives. The ISO's comments supported the development of metrics that constitute meaningful measures of actual ISO/RTO performance and enable an "apples-to-apples" comparison of ISOs and RTOs. The ISO stated, however, that the proposed metrics did not fully achieve these objectives. The ISO identified three concerns with the proposed metrics. First, the ISO argued that several of the proposed metrics did not actually measure ISO/RTO performance and should be moved from the ISO/RTO performance metric category to the additional information category. Second, the ISO noted that there are certain metrics that, although they measure ISO/RTO performance, are not appropriate for purposes of making an "apples-to-apples" comparison among ISOs/RTOs. Third, the ISO stressed that it is not yet clear how many of the metrics will actually be "calculated" because a lot of details and specifications still need to be worked-out in order to finalize a set of workable and meaningful metrics.

Responsible Attorney: Anthony Ivancovich

Appellate matters

- **Integrated balancing authority area appeal (Court of Appeals Case No. 09-1213)**

The following parties filed petitions for review of FERC's July 30, 2009 and September 19, 2008 orders in the United States Court of Appeals for the District of Columbia Circuit: Sacramento Municipal Utility District, Modesto Irrigation District, Turlock Irrigation District, the Transmission Agency of Northern California, the City of Redding and the City of Santa Clara. These orders generally accepted ISO tariff provisions concerning how adjacent balancing authority areas should be modeled and how related transactions should be calculated. Opening briefs in the appeal are to be filed on March 22, 2010. The ISO's brief, as an intervenor in support of FERC, is due in June 2010. Turlock Irrigation District filed an additional petition for review of FERC's December 17, 2009 order in the IBAA proceeding. That proceeding has been held in abeyance, following disposition of the initial IBAA appeal.

Responsible Attorneys: Roger Collanton and Dan Shonkwiler

California Public Utilities Commission (CPUC) matters

Smart Grid and the Energy Independence and Security Act of 2007 (R.08-12-009)

On February 8, 2010, the CPUC issued a "Joint Ruling Amending Scoping Memo and Inviting Comments on Proposed Policies and Findings Pertaining to the Smart Grid." The joint ruling addresses three separate areas: (1) it amends the proceeding's scoping memo to address policy issues the CPUC is required to consider under Senate Bill 17. Under SB 17, utilities will be required to submit smart grid deployment plans to the CPUC; (2) it offers proposed standards for providing retail customers with real-time wholesale and retail prices and calls for comment on the proposed standards; and (3) it calls for comment on five additional outstanding issues that were identified in the CPUC's original scoping memo that have yet to be addressed. These five issues deal with smart grid metrics, incentive ratemaking for smart grid, technical standards for electric vehicles, electric storage, and cyber security. On March 9, 2010, the ISO filed comments in the proceeding. There will be three days of workshops held on March 17-19, 2010.

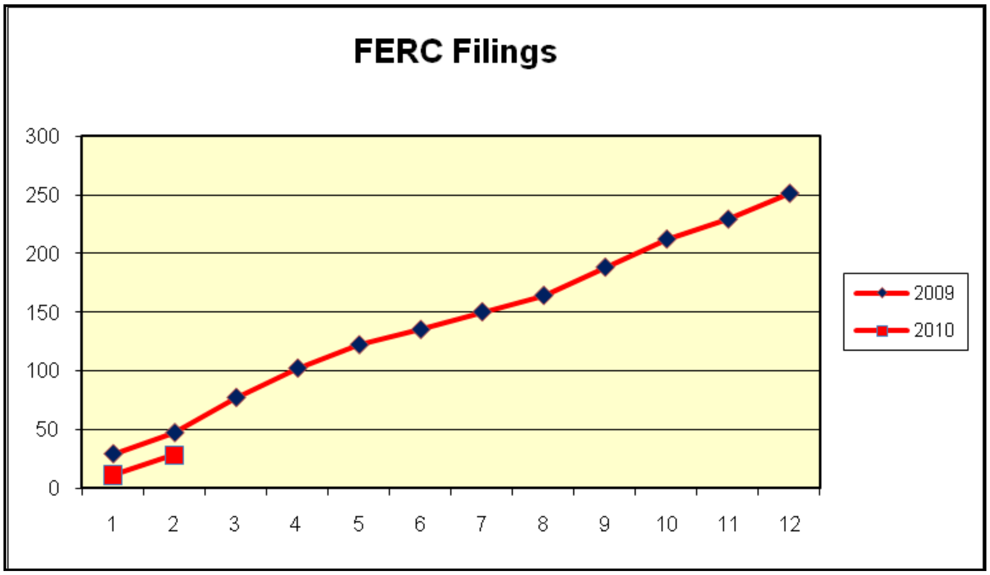
Responsible Attorney: David Zlotlow

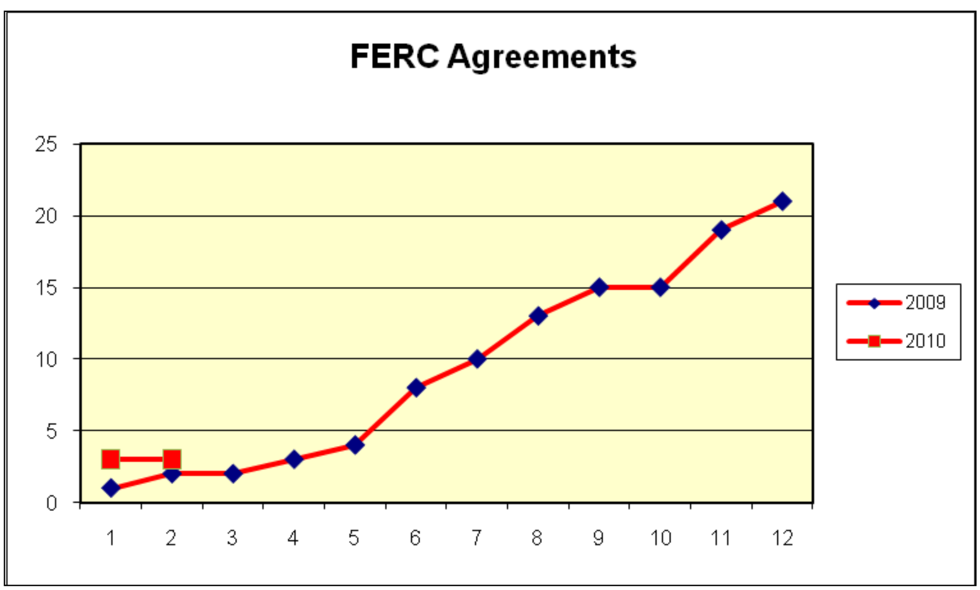
Demand response rulemaking (R.07-01-031)

The CPUC initiated Phase 3 of the demand response rulemaking to address the operation of the IOUs' emergency-triggered DR programs in the future electricity wholesale market. A main focus of Phase 3 has been whether the size and scope of IOU emergency triggered demand response would be reduced based upon the ISO's conclusion, performed at the request of the Assigned Commissioner, that the operational needs of the grid require no more emergency-triggered demand response than an amount corresponding to 1 ½% to 2% of system peak (corresponding roughly to 750 to 1000 MW). Parties including the ISO and the IOUs have now reached a proposed settlement regarding the issue, which was filed on February 22, 2010. Under the terms of the settlement, the ISO's 2% limit of 1000MW would be considered the optimal for resource adequacy through 2014. In addition, the IOUs will undertake efforts to reduce the level of such programs during 2012 through 2014 under an established downward trajectory to reach the 2% limit by 2014. Finally, the ISO committed to develop a wholesale retail product (called "reliability demand response product") prior to 2012, intended to include emergency-triggered demand response programs that count for resource adequacy that would be incorporated into the ISO market.

Responsible Attorney: Bill Di Capo

Regulatory Filings
February 2010 Charts





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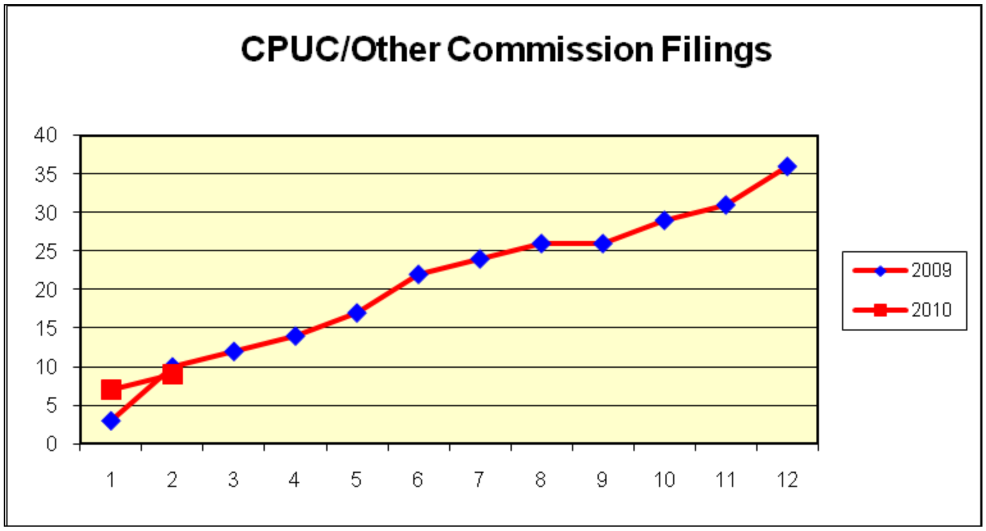

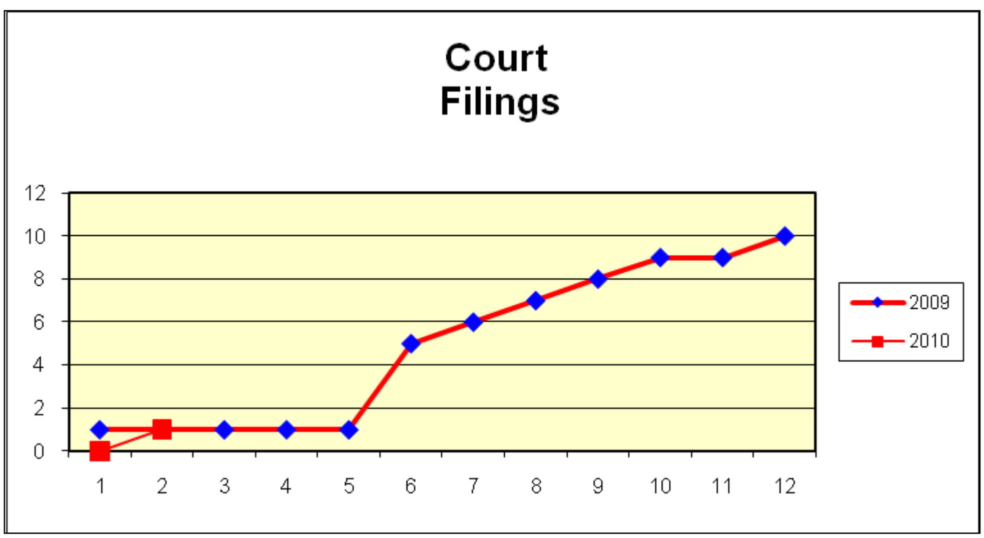

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