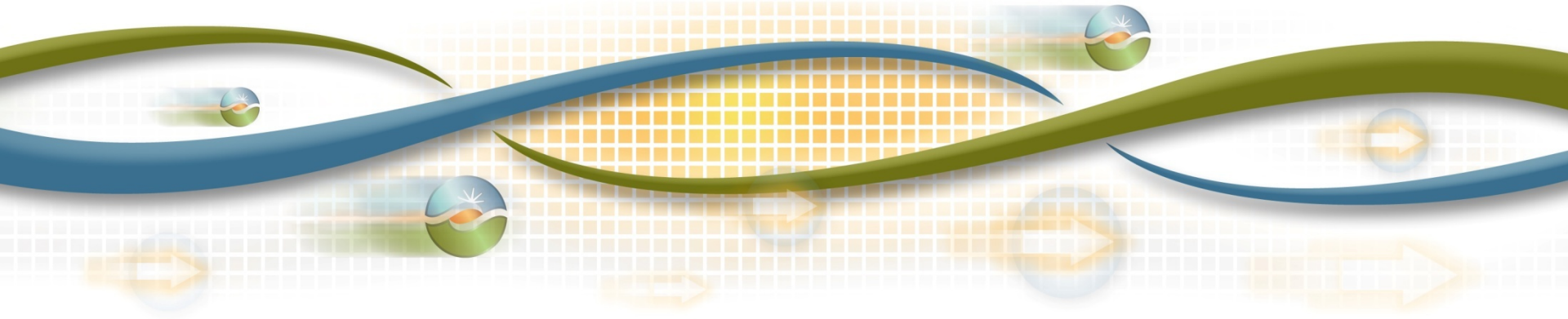


Decision on Penalty Allocation Tariff Amendment

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Board of Governors Meeting
General Session
December 15-16, 2011



Purpose of the proposed tariff amendment:

- The tariff amendment will establish a process for seeking FERC approval to allocate penalty costs to market participants.
- The Energy Policy Act of 2005 gives FERC and/or its delegated electric reliability organization authority to impose large fines.

Regulatory background regarding penalty allocation tariff provisions:

- FERC has recognized that non-profit ISOs/RTOs may have no source of funds to pay substantial penalties.
 - FERC has issued a “Guidance Order” regarding ISO/RTO recovery of penalty costs.
 - Order pertains to reliability standards, but reasoning applies generally.
- Key provisions:
 - Case-By-Case FERC review
 - Direct and indirect allocation
 - Notice and opportunity to participate in root cause process

How are other ISOs and RTOs responding?

- In response to the Guidance Order, four ISOs/RTOs have amended their tariffs to add provisions regarding the allocation of penalties.
 - Each sets out an allocation process, including FERC approval.
 - All four are similar, with some variations, and were each approved by FERC with only minor revisions.
- ISO's proposal is similar to these four.

Summary of ISO tariff amendment

- **Two scenarios: Direct and Indirect Allocation**
 - **Direct Allocation:**
 - Applies to reliability standards violations where another entity contributed to the violation.
 - Requires notice and opportunity for affected entity to participate in any root cause proceeding.
 - Based on root cause results, ISO proposes an assignment.
 - Any agreed-upon allocation is submitted to FERC for approval.
 - If no agreement, ISO submits to FERC for resolution.
 - If FERC allocates, charge in next billing cycle.

Summary of tariff amendment

– Indirect Allocation:

- Applies to all other monetary penalties, including reliability standards violations not directly assigned to another entity.
- ISO makes a public FERC filing seeking approval to allocate cost of penalty.
- Filing may include a proposed methodology for allocating.
- FERC will resolve on a case-by-case basis.
- If FERC allocates, charge in next billing cycle.

Stakeholder Process

- Stakeholder review of tariff amendment took place in November.
- Fifteen parties participated, but only one (SCE) offered line edits or substantive comments.
- No other issues were raised by any other stakeholders.