

Memorandum

To: ISO Board of Governors

From: Nancy Saracino, Vice President, General Counsel & Chief Administrative Officer

Date: January 30, 2014

Re: Regulatory Update

This memorandum does not require Board action.

Highlights

- *ISO responds to First Solar and CalWEA complaint at FERC challenging whether appropriate procedures were followed in releasing operational control of certain facilities*
- *FERC grants the ISO a tariff wavier enabling the ISO, instead of the CPUC, to select the project sponsor for a 230 kV line between the Sycamore and Penasquitos*
- *FERC grants petitions allowing for distribution of forfeited funds related to interconnections requests and funds collected from market participants for violations of ISO rules of conduct*
- *FERC approves market rule changes in support of integrating renewable resources by recognizing their characteristics and providing proper price signals, including provisions to prevent unwarranted expansion of bid cost recovery payments*

Federal Energy Regulatory Commission and related Court of Appeals matters

- **Complaint by First Solar and the California Wind Energy Association (EL14-14)**

On January 17, 2014, the ISO filed an answer to a complaint filed at FERC on December 16, 2013, by First Solar and the California Wind Energy Association (CalWEA). In the complaint, First Solar and CalWEA challenged whether appropriate procedures were followed under the ISO's Transmission Control Agreement in order for the ISO to release certain facilities from its operational control, and whether the substantive requirements of the agreement were satisfied. In its answer, the ISO informed FERC that Edison recently completed a milestone in an ISO-approved reliability project resulting in the reconfiguration of the Antelope - Bailey 66 kV system

from a looped system integrated with the ISO controlled grid to three separate radial systems. In light of the reconfiguration, Edison, pursuant to the terms of the Agreement, requested that the ISO relinquish operational control of the Antelope - Bailey 66 kV facilities and turn control over to Edison. Because Edison met the requirements for such a transfer, and the ISO does not require operational control of the facilities, the ISO relinquished operational control of them on December 15, 2013. The ISO argued that the complainants failed to meet their burden of proof to show that the ISO's decision to relinquish control was contrary to the ISO tariff, the agreement or FERC precedent and requested that FERC dismiss the complaint.

- **Post-emergency bid cost recovery tariff amendment (ER13-2063)**

On January 15, 2014, the ISO filed additional information requested by FERC staff in response to the ISO's filing on July 30, 2013, requesting approval of provisions that would require certain resources, including combined cycle resources, to register as multi-stage generating resources.

- **Petition for a limited waiver of tariff provisions pertaining to minimum performance threshold (ER14-971)**

On January 10, 2014, the ISO submitted a petition for a limited waiver of its tariff sections that apply a minimum performance threshold to resources certified to provide regulation up and regulation down services, which the ISO uses to balance the grid between each 5-minute dispatch interval. The requested waiver is for the period from June 1, 2013, up to and including December 31, 2014. FERC approved these tariff sections as part of the ISO's compliance with FERC Order No. 755, which addressed compensation of resources providing regulation service. The minimum performance threshold complements a new payment stream that compensates resources based on the accuracy of their response to an ISO control signal and requires resources to maintain a 50 percent accuracy measurement during each calendar month. Since implementing its Order No. 755 market design, a large number of resources certified to provide regulation up and regulation down have failed to meet the minimum performance threshold. If it grants this request, FERC will permit resources certified to provide regulation up or regulation down to continue to offer regulation capacity without the need to recertify to provide these services, even though these resources have failed to meet the minimum performance threshold. The ISO seeks a waiver so that it can avoid the market disruption that might occur if it required all resources that have failed to meet the minimum performance threshold to recertify to provide regulation service. The waiver will also allow the ISO time to assess the design of the minimum performance threshold.

- **One time waiver of transmission planning process tariff requirements (ER14-291)**

On December 19, 2013, FERC issued an order granting the ISO's request for a one-time limited waiver requesting authorization to select the approved project sponsor from the

candidates submitting applications in the ISO's competitive solicitation process for projects approved in the 2012/2013 ISO planning cycle. The waiver means the ISO will select the approved project sponsor rather than the CPUC.

- **FERC Order No. 676-G compliance (ER14-720)**

On December 19, 2013, the ISO submitted a filing in compliance with FERC's order 676-G in which FERC directed public utilities to incorporate by reference in their jurisdictional tariffs certain business practice standards promulgated by the Wholesale Electric Quadrant of the North American Energy Standards Board and included by reference in FERC's regulations. The ISO requested FERC accept the proposed revisions to the tariff effective February 18, 2014.

- **Distribution of forfeited funds by interconnection customers (ER14-84)**

On December 19, 2013, FERC issued a letter order accepting the ISO's petition filed on October 15, seeking FERC-approval to distribute funds forfeited by interconnection customers that withdraw from the ISO's interconnection queue. The tariff requires each interconnection customer to submit an interconnection study deposit to initiate an interconnection request, and to make periodic financial security postings toward the cost of network upgrades. If an interconnection customer fails to achieve the specified project milestones prior to withdrawing from the queue, these funds are forfeited. The funds are subsequently allocated, with accrued interest, to the scheduling coordinators of eligible market participants in accordance with the formula specified in the tariff.

- **Distribution of penalty proceeds collected for violations of the rules of conduct (ER14-68)**

On December 19, 2013, FERC issued a letter order granting the ISO's petition seeking FERC-approval to distribute the penalty proceeds collected for violations of the ISO's rules of conduct. The ISO may collect penalties assessed pursuant to section 37.9 of its tariff and deposit such amounts into an interest bearing trust account. At the end of each calendar year, subject to further FERC-approval, the ISO allocates these proceeds, with accrued interest, to the scheduling coordinators of eligible market participants in accordance with the formula in its tariff.

- **Renewable energy integration and modification of bid cost recovery rules tariff amendment (ER13-2452)**

On December 19, 2013, FERC accepted subject to a compliance filing, the ISO's revisions to its tariff filed on September 25, 2013, to lower the energy bid floor and modify the bid cost recovery settlement rules to pay bid cost recovery separately for the day-ahead and real-time markets. The modifications included several other revisions to modify the uplift payment process and eliminate potential incentives for adverse market behavior. The tariff filing is necessary for considering the characteristics of variable energy resources as the state of California moves to increase their presence in the ISO market. FERC accepted the

proposed revisions with a minor compliance requirement to remove a catch-all provision giving the ISO authority to resettle unexpected expansion of bid cost recovery payments due to the application of certain scaling factors. In addition, FERC directed the ISO to increase the transparency of its monthly reporting of bid cost recovery costs to include locational information. The tariff revisions are effective April 1, 2014.

- **Lake Elsinore advanced pumped storage project (LEAPS) Offer of settlement (ER12-1302) and (ER12-1305)**

On December 18, 2013, the ISO jointly filed with Southern California Edison and Nevada Hydro Company, Inc. a stipulation and agreement of settlement to resolve all issues in docket numbers ER12-1302 and ER12-1305, which addresses the northern portion of the LEAPS interconnection and provides for revisions to the large generator interconnection agreement between the parties. If accepted, the effective date of the revised large generator interconnection agreement will be August 11, 2012.

- **FERC order 784 compliance (ER14-639)**

On December 17, 2013, the ISO submitted a filing in compliance with FERC Order No. 784 which was issued to address third-party provision of ancillary services as well as accounting and financial reporting for new electric storage technologies. Order No. 784 places an obligation on public utility transmission providers to take into account speed and accuracy of regulation resources in determining reserve requirements for regulation service and directs each public utility transmission provider to post historical one-minute and ten-minute average area control error data on their open access same time systems. Tariff changes were not necessary and the ISO submitted this filing to describe how its tariff is consistent with or superior to FERC's directive.

- **Resource adequacy bidding requirements for multi-stage generating resources (ER14-93)**

On December 11, 2013, FERC accepted the ISO's October 15, 2013, tariff amendment to: (1) revise the manner in which multi-stage generating resources register their unit parameters with the ISO; and (2) how the ISO generates bids for multi-stage generating resources with resource adequacy requirements that do not submit bids to meet such obligations. FERC accepted the ISO's proposal without further modifications.

Regulatory Agreements

- **Participating load agreement with California Department of Water Resources, State Water Project (ER14-406)**

On December 18, 2013, FERC issued a letter order accepting revisions to Service Agreement No. 660, a participating load agreement with the California Department of Water Resources, State Water Project filed by the ISO on November 14, 2013. The agreement is effective November 15, 2013.

- **AES Huntington Beach reliability must-run agreement (ER14-177)**

On December 11, 2013, FERC accepted revisions filed on October 24 to the reliability must-run agreement between the ISO and AES Huntington Beach for an extension of the contract term for 2014. The revised reliability agreement is effective January 1, 2014.

- **Replacement of balancing authority area operating agreements between the ISO and Western Area Power Administration Desert Southwest Region (ER14-551) and (ER14-568)**

On December 6, 2013, the ISO filed an adjacent balancing authority operating agreement between the ISO and Western Area Power Administration – Desert Southwest Region. The ISO concurrently filed a notice of termination of its existing interconnected balancing authority area operating agreement with Western Area Power Administration – Desert Southwest Region. The ISO requests an effective date of February 5, 2014, for the replacement.

- **Dynamic transfer agreement with Western Area Power Administration Desert Southwest Region (ER14-569)**

On December 6, 2013, the ISO filed a dynamic transfer balancing authority agreement between the ISO and Western Area Power Administration Desert Southwest Region. The agreement addresses both dynamically scheduled resources and pseudo-tie resources, collectively referred to as dynamic transfers. Both forms of dynamic transfer are made available either to or from the ISO and Western Area Power Administration Desert Southwest Region balancing authority areas. The ISO requests an effective date of February 5, 2014, for the agreement.

- **Termination of Rice Solar Energy's pseudo participating generator agreement (ER14-549)**

On December 6, 2013, the ISO filed a notice of termination of an agreement for a pilot pseudo-tie to the ISO balancing authority area from the Western Area Power Administration – Desert Southwest Region balancing authority area with respect to Rice Solar Energy's Rice generating facility. This agreement has been previously replaced by a pro forma pseudo-tie participating generator agreement. The ISO requests termination effective May 21, 2013, coincident with the effective date of the pro forma agreement

Reports filed

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

On January 15, 2014, and December 16, 2013, the ISO submitted its monthly report of market disruptions that occurred November 16 through December 15, 2013, and October 16 through November 15, 2013, respectively. A market disruption is an action or event that

causes a failure of the ISO market, related to system operation issues or system emergencies. The ISO reports these market disruptions to FERC on a monthly basis.

On December 18, 2013, the ISO submitted a revised market disruption report for the market disruptions that occurred September 16 through October 15. The ISO updated the report to provide information concerning the need to removed bids from a resource for a limited period of time on September 18, to prevent further market disruptions relating to the ISO's deployment of the updated model build deployed on that same date.

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

On January 15, 2014, and December 16, 2013, the ISO submitted transactional data including incremental and decremental megawatt volume, duration and location for exceptional dispatches occurring during the month of November and October, respectively. 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. The ISO submits two types of monthly exceptional dispatch reports to FERC.

- **Informational refund report on amendment 60 settlements (ER04-835) and (EL04-103)**

On December 20, 2013, the ISO filed an informational refund report regarding resettlements to be made in compliance with FERC's orders for settlements on amendment 60 to the tariff. Although FERC did not order the ISO to file a report, the ISO filed this report to provide transparency to interested parties regarding the ISO's payment of interest on the refunds.

- **Reliability capacity services tariff refund report (EL05-146)**

On December 20, 2013, the ISO submitted a report on refunds to be made by the ISO of reliability capacity service tariff revenues collected. The ISO filed this report to make its calculations and related reasoning transparent to interested parties.

- **Securities issued report (ES13-29)**

On December 16, 2013, the ISO filed with FERC a report of securities issued in relation to the bond offering which was completed on November 14, 2013, pursuant FERC's authorization in a letter order issued on July 31, 2013.

- **Informational filing on AES Huntington Beach synchronous condensers (ER13-351)**

On December 10, 2013, the ISO submitted an informational filing pursuant to an order from FERC requiring the ISO to submit a report every 90 days on the hours of operation of the synchronous condensers.

- **Informational filing on negotiated default energy bids and major maintenance adders (ER06-615)**

On January 7, 2014, and December 6, 2013, the ISO submitted informational filings containing the rates or formulas used to calculate negotiated default energy bids and major maintenance adders that were implemented or modified in the month of November and December 2013, respectively.

California Public Utilities Commission matters

- **Application of San Diego Gas & Electric Company to fill local capacity need (A.13-06-015)**

On January 6, 2014, the assigned CPUC administrative law judge issued a proposed decision approving San Diego Gas & Electric Company's application for approval of a power purchase tolling agreement with Pio Pico Energy Center (Pio Pico) to fill the local capacity need identified by the CPUC in a prior proceeding, A.11-05-023. In the decision issued in that prior proceeding, the CPUC denied approval of a power purchase tolling agreement with Pio Pico on the grounds that the online date for the facility was prior to the expected need for additional resources, which was set at 305 MW based on the ISO's once-through cooling studies. The CPUC stated that SDG&E could either conduct a request for offers for the additional resources or renegotiate the tolling agreement and submit it for approval. SDG&E chose the latter option. The ISO participated in A.13-06-015, submitting testimony in support of the need for Pio Pico and urging the CPUC not to re-litigate the needs identified in A.11-05-023. In the proposed decision, the administrative law judge ruled that the Pio Pico tolling agreement was consistent with the ISO's recommendations and rejected arguments that the ISO's studies should be reconsidered in light of intervening events such as the SONGS closure and the possibility that higher levels of preferred resources will fill local needs in the San Diego area.

- **Rulemaking to enhance the role of demand response in meeting resource planning needs and operational requirements (R.13-09-011)**

On December 30, 2013, the ISO filed reply comments to its December 13 responses to foundational policy questions on bifurcation and cost allocation raised by the CPUC. As to bifurcation, the ISO strongly supports the policy to clearly define and categorize demand response programs as either demand-side or supply-side resources. On the

issue of cost allocation, the ISO believes that there is a distinction to be made between supply-side and demand-side demand response and it is important to understand how this classification impacts forecasting processes and planning and procurement practices.

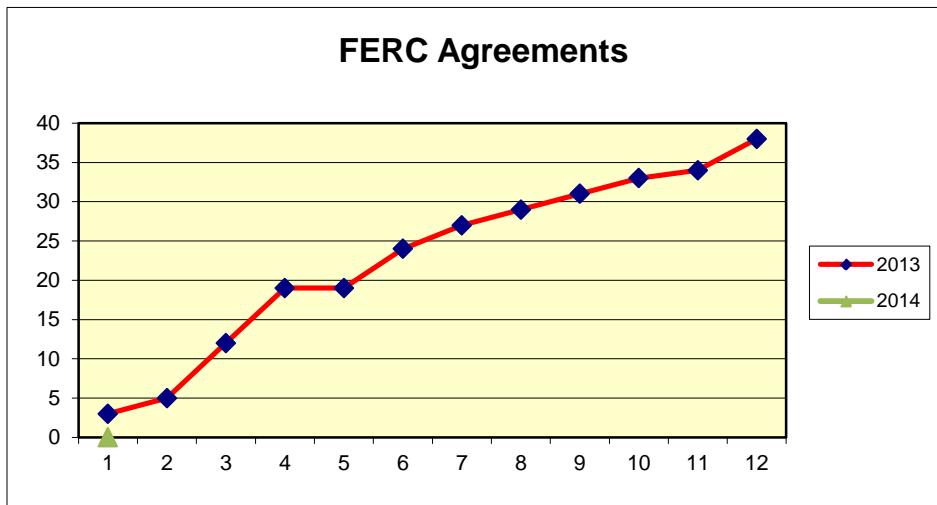
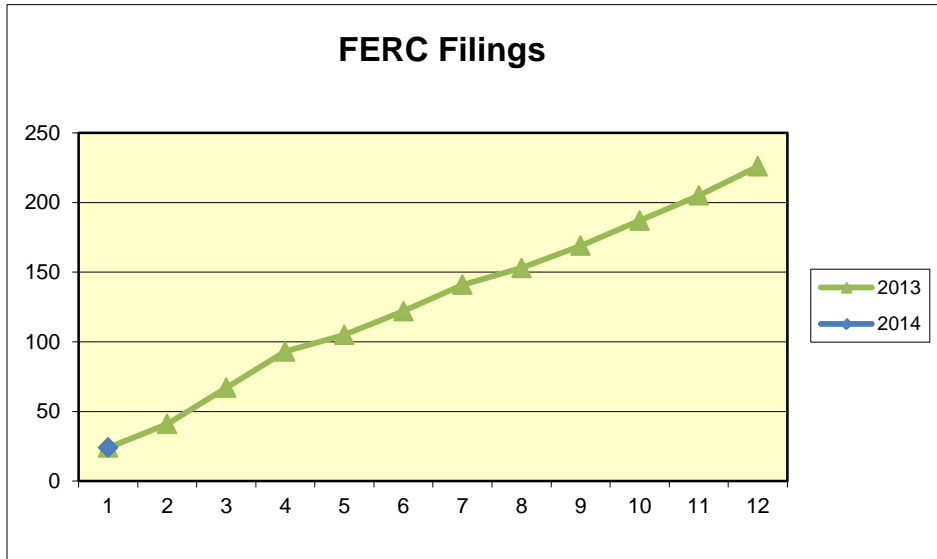
- **Rulemaking to integrate and refine procurement policies (E.12-03-014)**

On December 16, 2013, the ISO submitted its reply brief in response to assertions and arguments received in response to the opening briefs filed in the CPUC's track 4 proceedings. In its reply, the ISO argued 1) the need for additional resources in the SONGS study area has been established and the procurement requests of Southern California Edison and San Diego Gas & Electric should be authorized; 2) the track 4 study assumptions should not be adjusted; 3) transmission mitigation solutions can be considered in the 2014/2015 transmission planning process; 4) service reliability should not be reduced as a means to address system reliability and additional local resources are needed; 5) category D contingencies should not be considered the equivalent of category C contingencies; and, 6) the development of preferred resources must be tracked and verified.

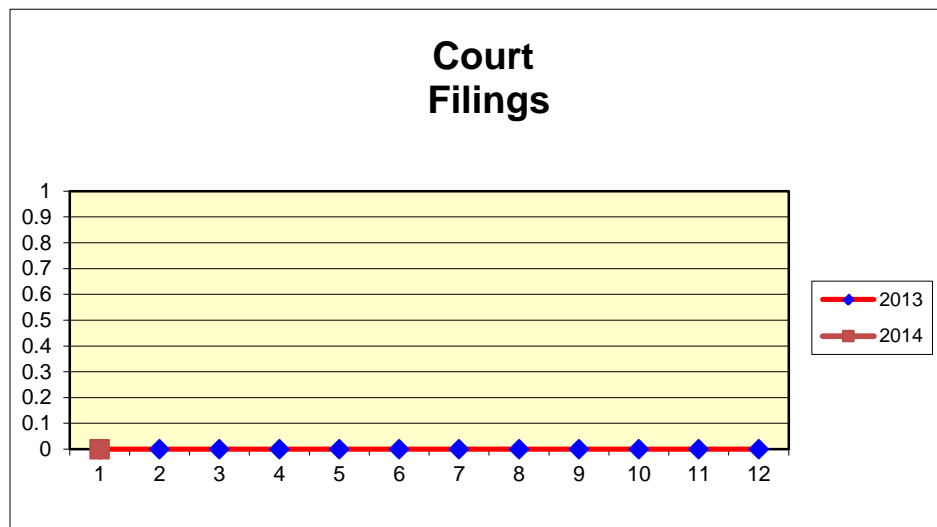
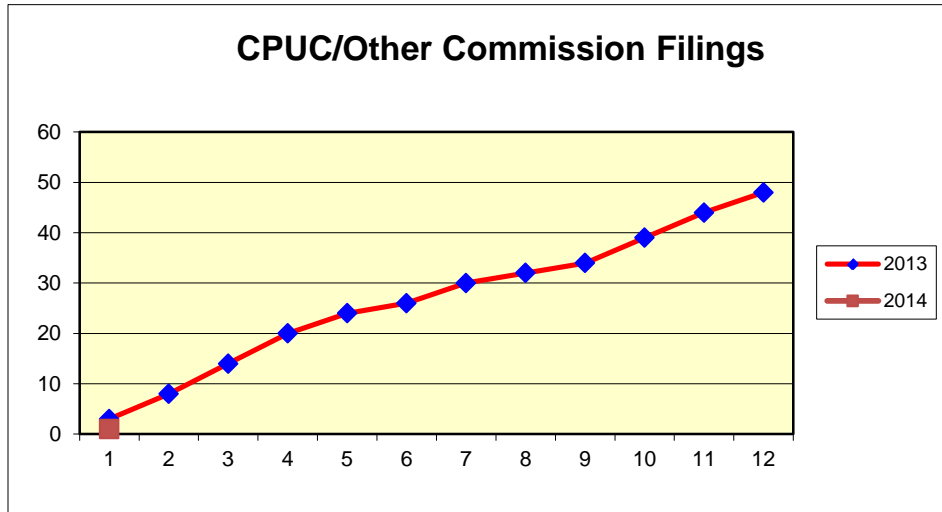
- **Rulemaking to consider alternative-fueled vehicle programs (R.13-11-007)**

On December 13, 2013, the ISO submitted in comments in support of the California Public Utilities Commission's initiative to examine how to expand the use of alternative fueled vehicles, including vehicle to grid applications. In its comments, the ISO argued that the CPUC's inquiry in this proceeding with respect to vehicle grid integration issues should start with basic use cases to assess the impact of vehicle charging on the electricity grid and the various objectives of interests involved. The ISO also commented that the CPUC should begin its inquiry into vehicle grid integration by exploring how to facilitate sending electric vehicles charging signals that align with transmission and distribution conditions or seasonal load patterns.

Regulatory Filings Through January 2014



Regulatory Filings Through January 2014



Regulatory Filings Through January 2014

