

Memorandum

To: ISO Board of Governors

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

Date: July 3, 2013

Re: Regulatory Update

This memorandum does not require Board action.

Highlights

- *FERC accepts the PacifiCorp Energy Imbalance Market Implementation Agreement as filed effective July 1, 2013.*
- *The ISO requests FERC authorization to issue \$210 million in bonds.*
- *The ISO submits its filing in compliance with FERC Order No. 1000 addressing interregional transmission planning coordination and cost allocation.*
- *FERC grants the ISO's petition seeking permission to rerun market settlements to correct for a bid cost recovery calculation error, confirming the right of the ISO to return to load approximately \$52 million in overpayments.*
- *FERC accepts the ISO's tariff amendment to reduce the real-time transmission congestion relaxation parameter.*

Federal Energy Regulatory Commission and related Court of Appeals matters

- **Application to Issue Securities (ES13-29)**

On June 13, 2013, the ISO submitted an application to FERC requesting an order authorizing the ISO to issue bonds in an amount not to exceed \$210 million for the purpose of advance refunding approximately \$200 million of bonds it issued in 2009. The ISO conditioned its application on Board authorization to proceed, which is scheduled for decision at its July 11-12, 2013 meeting. The ISO estimates that it will save \$32 million by issuing new bonds at today's interest rates. The new bonds will be structured as traditional fixed-rate bonds with a final maturity of February 1, 2039, which matches the maturity date

of the ISO's currently outstanding Series A bonds. Issuing the new bonds will also allow the ISO to retire a reserve fund established to pay debt service on the 2009 bonds. The ISO requested an order no later than August 2, 2013, to enable it to conduct the issuance in the first two weeks of August.

- **Tariff clarifications amendment (ER13-1274)**

On June 11, 2013, FERC issued an order accepting in part and rejecting in part the ISO's April 12, 2013, tariff clarifications amendment. The purpose of the amendment was to clarify the meaning of existing tariff provisions, ensure consistency throughout the tariff as well as between the tariff and business practices, and correct typographical and other inadvertent drafting errors. In its order, FERC largely accepted the amendments submitted by the ISO. FERC also directed the ISO to make certain minor modifications and provide further information on its amendment related to dispatch of energy from ancillary services. In particular, FERC rejected proposed language to clarify that the ISO may "skip" or hold back ancillary service capacity to address forecasted conditions in subsequent intervals within the forward-looking time period of the optimization as well as to address transmission or resource operational constraints. The ISO must submit a compliance filing by July 11, 2013.

- **Bid Cost Recovery Market Rerun (EL12-73)**

On June 5, 2013, FERC granted the ISO's petition for declaratory order seeking approval for the resettlement of bid cost recovery payments from April 1, 2009 through March 25, 2011, filed on June 8, 2012. FERC found that the resettlements are appropriate and conditionally granted approval, subject to the ISO filing a detailed report of the resettlement. The resettlement is necessary to correct for the misapplication of a formula used for the purposes of accounting for delivered energy when calculating market revenues used to offset bid cost recovery payments for the portions of the energy bid curve below a resource's minimum load. For part of the applicable time period the error was exacerbated by market behavior that expanded overall bid cost recovery payments. The ISO has already conducted the market rerun and resettlement for August 1, 2010 through March 24, 2011, which led to the redistribution of payments from supply to demand of approximately \$35 million. A remaining amount of approximately \$17 million covering April 1, 2009, through July 31, 2010, will be resettled in upcoming settlement statements. The report on the resettlement details is due to FERC within thirty days after the resettlement is complete.

- **Order denying tariff waiver request (ER13-1333)**

On June 4, 2013, FERC issued an order denying a tariff waiver request submitted by Meridian, an interconnection customer, on April 24, 2013, requesting a stay of its obligation to post financial security by May 4, 2013, and requesting an extension of the posting to 90 days from the date it receives certain cost information from the participating transmission owner. Meridian initially entered the serial interconnection queue for energy-only status for its generating unit and later opted to be evaluated, under a one-time option, for full capacity

deliverability status. Under the one-time option, the interconnection customer is subject to different financial posting requirements for its energy-only status and its full capacity deliverability status. FERC denied the request for the stay to post the financial security, finding that Meridian had not demonstrated good cause for the requested waiver. FERC also found that granting the waiver may result in undesirable consequences noting that it had accepted the ISO's proposed generator interconnection procedures with its financial security posting requirements to deter speculative projects that lack a reasonable chance of achieving commercial operations, and that granting Meridian's request for a waiver here could allow a potentially speculative project to continue to occupy space in the queue without a financial posting. Finally, FERC noted that allowing Meridian's projects to remain in the queue without a financial posting requirement may delay or prevent other projects from being timely considered.

- **Rulemaking: Small Generator Interconnection Agreements and Procedures (RM13-2)**

On June 3, 2013, the ISO submitted comments in response to FERC's proposed rulemaking in which FERC proposed reforms to small generator interconnection agreements and procedures. In its comments, the ISO supported the objective to facilitate and streamline interconnection of distributed energy resources through the use of reforms to the *pro forma* small generator interconnection agreement. The ISO requested that FERC continue to recognize variations to the *pro forma* small generator interconnection agreements to allow independent entities like the ISO to fashion rules that would accomplish the goals of the Commission's underlying order but which are tailored to ISO stakeholder concerns or system needs.

- **Responsive filing regarding coordination between natural gas and electricity markets (AD12-12-000)**

On May 16, 2013, in accordance with FERC's November 15, 2012 order, the ISO submitted comments and made a presentation before FERC regarding its experiences and the progress it has made in refining existing practices to provide better coordination between the natural gas and electric industries and ensure adequate fuel supplies. FERC Commissioner Philip Moeller has requested each ISO and RTO to respond to additional questions on the status of natural gas and electric coordination. In addition, each ISO and RTO must provide a report to FERC in October on its coordination activities with natural gas pipelines during the summer of 2013.

- **FERC Order No. 1000- interregional compliance filing (ER13-1470)**

On May 10, 2013, the ISO submitted its filing in compliance with the interregional requirements of FERC Order No. 1000. Phase 2 of Order No. 1000 established "inter-regional" planning requirements, including process reforms and cost allocation mechanisms. The ISO, together with the other members of the four transmission planning regions that constitute the Western Interconnection, collaborated and developed common

tariff language addressing the interregional transmission coordination and cost allocation planning requirements of FERC Order No. 1000. In its compliance filing, the ISO proposes to: 1) set forth the steps the ISO will take to implement the interregional coordination and cost allocation process; 2) incorporate the common tariff language developed by the members of the Western Interconnection into the ISO tariff; and 3) align the ISO's regional process with the proposed interregional process.

- **Transmission constraints relaxation parameter (ER13-1060)**

On May 9, 2013, FERC accepted without further modification the ISO's March 8, 2013, tariff amendment to reduce the real-time transmission congestion relaxation parameter (*i.e.*, the point at which the ISO will relax a transmission constraint rather than rely on increasingly expensive and ineffective supply bids to resolve congestion), from \$5,000 per megawatt-hour to \$1,500 per megawatt-hour.

Regulatory Agreements

- **SDG&E Black Start Agreement (ER13-1535)**

On June 10, 2013, the ISO filed a motion to intervene in support of the May 21, 2013 amended black start agreement filing made by San Diego Gas & Electric Company. The black start agreement is between SDG&E and the ISO. The amendment contains a variety of changes, including changes necessary for compliance with mandatory reliability standard EOP-005-02, which takes effect on July 1, 2013. In particular, the amendment includes a new requirement that black start generators complete performance tests in order to verify that each black start resource is capable of satisfying restoration plan requirements.

- **PacifiCorp Energy Imbalance Market Implementation Agreement (ER13-1372)**

The Commission accepted the energy imbalance market implementation agreement as filed, effective July 1, 2013. The agreement sets forth the terms under which the ISO will modify and extend its existing real-time energy market systems to provide energy imbalance market service to PacifiCorp, including transmission customers taking transmission service under PacifiCorp's open access transmission tariff. Also under the agreement, PacifiCorp will compensate the ISO for its \$2.1 million share of the costs of these system changes, software licenses, and other configuration activities. The ISO requested that the Commission accept the agreement effective July 1, 2013, so the extension of the real-time energy market to include PacifiCorp's participation in the energy imbalance market may proceed without delay. Additional filings will be submitted for FERC's review of the rules of the expanded energy imbalance market and the terms of participation in the market before the market commences operation, which is targeted for October 1, 2014.

- **AES Huntington Beach Reliability Must-Run Agreement (ER13-351) and (ER13-1630)**

On June 3, 2013, the ISO and AES Huntington Beach jointly submitted limited revisions to the executed version of the Reliability Must-Run Service Agreement and accompanying rate schedules between the ISO and AES Huntington Beach. The revisions reflect additional costs incurred as a result of a delay in the effective date of the agreement due to the additional time needed to satisfy the conditions precedent. Additionally, there are minor modifications to the descriptions of the resources' capabilities.

- **CDWR Participating Load Agreement (ER13-1365)**

On May 31, 2013, FERC accepted the ISO's April 30, 2013 filing of an amended Participating Load Agreement between the ISO and the California Department of Water Resources. The purpose of the amendment is to extend the term of the current agreement from May 1, 2013 to July 1, 2013. On June 28, 2013, the ISO filed another extension to provide added time for the ISO and DWR to make a last attempt to negotiate a new agreement. In this filing, the ISO requested a further extension of the current agreement to November 15, 2013.

- **Amendment to the Imperial Irrigation District Adjacent Balancing Authority Operating Agreement (ER13-1280)**

On May 31, 2013, FERC accepted the ISO's April 12, 2013 filing of an amendment to the Adjacent Balancing Authority Operating Agreement between the ISO and the Imperial Irrigation District. The purpose of the amendment is to revise certain interconnection and scheduling points that reflect changes in the balancing authority area boundary. These changes are necessary to implement an ISO-approved Southern California Edison transmission project.

- **Concurrence Blue Sky Ranch Small Generator Interconnection Agreement (ER13-1034) and (ER13-1036)**

On May 1, 2013, FERC accepted the ISO's March 5, 2013, Certificates of Concurrence with respect to the Small Generator Interconnection Agreements among 1) Western Antelope Blue Sky Ranch A, LLC, Southern California Edison Company and the ISO (Blue Sky Ranch SGIA), and 2) Western Antelope Dry Ranch, LLC, SCE and the ISO (Dry Ranch SGIA).

Reports filed

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

On May 15, the ISO submitted its monthly report of market disruptions that occurred March 16 through April 15. On June 17, the ISO submitted its monthly report of market disruptions that occurred April 16 to May 15. 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.

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

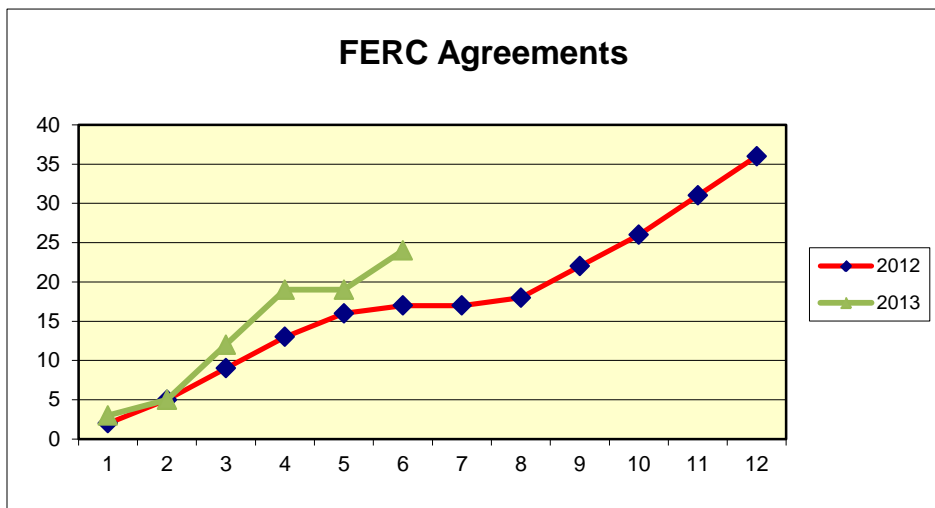
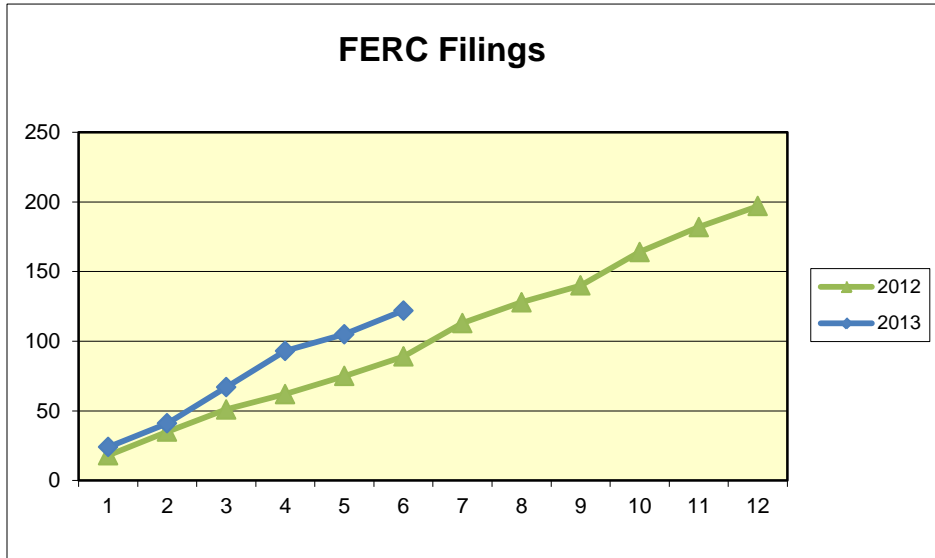
On May 15, 2013 and June 14, 2013, the ISO submitted transactional data including incremental and decremental megawatt volume, duration and location for exceptional dispatches occurring during the months of March and April 2013, respectively. On May 30, 2013 and June 28, 2013, the ISO submitted megawatt hour data and cost data for exceptional dispatches occurring during the months of February 2013 and March 2013, 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.

California Public Utilities Commission matters

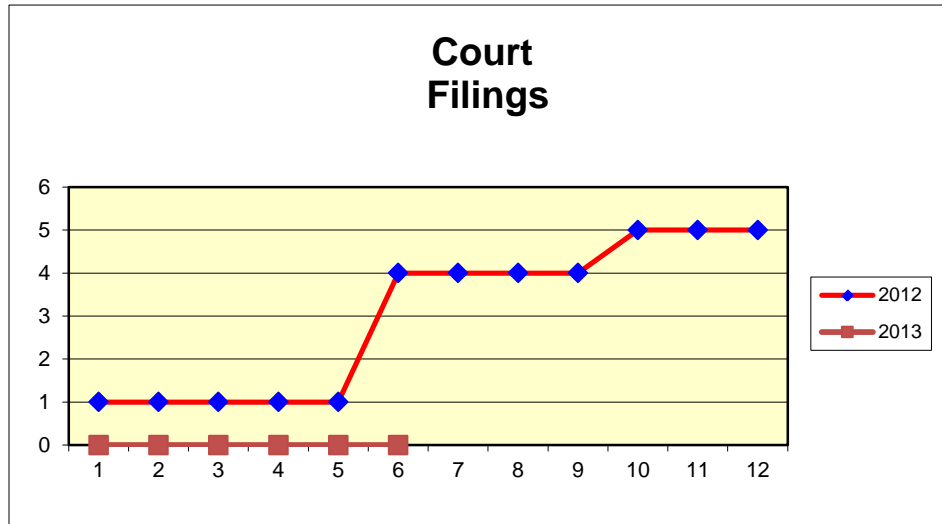
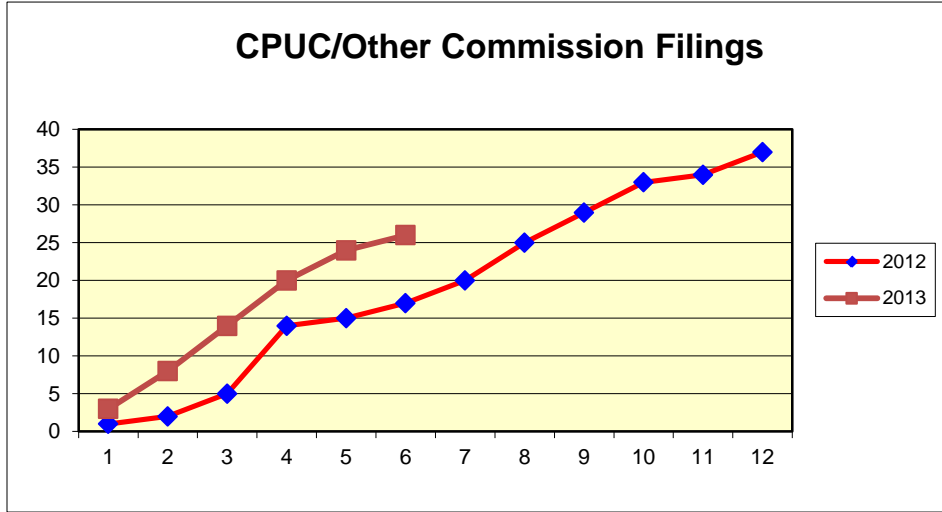
- **Order Instituting Rulemaking to Oversee the Resource Adequacy Program (R11-10-023)**

On May 28, 2013, the CPUC issued a proposed decision to adopt local procurement obligations for 2014, a flexible capacity framework, and further refined the resource adequacy program. On June 17, 2013, the ISO filed initial comments in support of the proposed decision. In its comments, the ISO encouraged the CPUC to adopt the proposed flexible capacity procurement obligation for jurisdictional load serving entities as a significant and necessary step to ensure that sufficient flexible capacity is maintained on the system and operationally available to the ISO for reliable operation of the grid.

Regulatory Filings Through June 2013



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Regulatory Filings Through June 2013

