

Memorandum

To: ISO Board of Governors

From: Roger Collanton, Vice President, General Counsel & Chief Compliance Officer

Date: July 8, 2014

Re: Regulatory Update

This memorandum does not require Board action.

Highlights

- *FERC approves tariff amendment to implement energy imbalance market this fall*
- *ISO responds to Powerex complaint regarding force majeure events*
- *FERC rejects ISO request for waiver and instructs the ISO to disaggregate existing default load aggregation points*
- *ISO requests approval of an annual opportunity to “downsize” generation project capacities*
- *ISO files to enhance its modeling of external flows in the day-ahead market and the expansion of the full network model to include representation of sources and sinks external to the ISO*

Federal Energy Regulatory Commission and related Court of Appeals matters

- **Puget Sound Energy, Inc., negative bid cost justification (ER14-1649)**

On June 24, 2014, FERC rejected an informational filing submitted by Puget Sound Energy, Inc., seeking to justify the cost components of its bid into the ISO market that was below the negative \$30/MWh minimum bid price floor for energy bids and that was accepted by the ISO. FERC rejected the filing due to inadequate support for the claimed costs, without prejudice to Puget re-filing.

- **Energy imbalance market tariff amendment (ER14-1386)**

On June 19, 2014, FERC conditionally accepted the proposed tariff revisions submitted by the ISO to offer participation in the imbalance energy portion of its real-time market to other balancing authority areas in the West. Under the proposed energy imbalance market tariff provisions, participating entities will be able to purchase and sell real-time energy, under a market-driven regime for meeting energy imbalance needs. Entities within external balancing authority areas may sign service agreements to take part in the imbalance energy portion of the ISO real-time energy market alongside participants from within the ISO's balancing area. The order accepts the tariff amendment subject to additional compliance filings, effective October 1, 2014.

- **Tariff amendment for generator interconnection and deliverability allocation procedures reassessment initiative (ER14-2225)**

On June 19, 2014, the ISO submitted a tariff amendment to implement revisions to the ISO's Generator Interconnection and Deliverability Allocation Procedures. The purpose of this amendment is to allow for adjustments to interconnection customers' maximum cost responsibility for network upgrade costs and financial security postings based on the results of the ISO's annual reassessment of the interconnection base case data. The proposed changes better accommodate the needs of customers and are broadly supported. The ISO requested a September 1, 2014, effective date.

- **Market redesign and technology upgrade (ER06-615)**

On June 3, 2014, FERC rejected the ISO's February 7, 2014, motion to permanently waive the obligation to disaggregate the existing default load aggregation points in the ISO balancing authority area. This obligation stems from FERC's September 2006 and July 2011 orders in this proceeding. The ISO's analysis of disaggregation of the default load aggregation points indicates that the costs of disaggregation likely would far outweigh the potential benefits for the foreseeable future. Additionally, stakeholders strongly support waiver of the obligation to disaggregate the existing default load aggregation points. Instead of granting the permanent waiver, FERC extended the deadline for compliance.

- **Powerex complaint (EL14-59)**

On May 30, 2014, Powerex Corp. filed a complaint seeking reimbursement of the ISO's assessment of \$938k in imbalance energy charges against Powerex for missed deliveries for which it had received financially binding day-ahead schedules for two hours on August 18, 2013. Due to a fire, the Pacific DC Intertie was taken out of service during the scheduled hours, which prevented Powerex from delivering the energy in real-time. Powerex asserts that this was an uncontrollable force under the "force majeure" provision of the tariff, excusing its obligation to pay the imbalance energy charges. Powerex also seeks an order directing the ISO to resume a stakeholder process to address the tariff treatment of system emergencies and force majeure, which were previously initiated. The ISO responded to the complaint on June 30, 2014, asserting that the tariff does not excuse

a seller from its financial obligation to pay for imbalance energy when a transmission line derate prevents the seller from delivering energy that it has scheduled day-ahead. Further, the ISO noted that Power's request to revive the stakeholder process was moot, as the ISO had already done so prior to the complaint.

- **Interconnection process enhancements (ER14-2063)**

On May 29, 2014, the ISO filed a tariff amendment to enhance the interconnection process by (1) providing interconnection customers in good standing an annual opportunity to "downsize" the capacities of their projects; and (2) addressing the risk that generation projects may be disconnected due to failure to build the projects to the full megawatt capacities reflected in their interconnection agreements. The ISO requested an August 1, 2014, effective date.

- **Resource adequacy one-for-many manual substitution (ER14-1220)**

On May 30, 2014, FERC accepted the ISO's compliance filing to the January 30, 2014, tariff revisions to clarify that resources with available capacity from a single resource may substitute for multiple resource adequacy resources on a forced outage or de-rate, and to set forth the terms under which such multiple substitutions may occur. The revisions are effective April 1, 2014.

- **FERC Order 1000 regional requirements (ER13-103-005)**

On May 19, 2014, the ISO made its third compliance filing in connection with FERC Order 1000 regional requirements addressing: (1) how the ISO will notify stakeholders when it decides not to consider a need to be driven by public policy requirements; (2) competitive solicitation qualification criteria; (3) information requirements for transmission facilities; (4) evaluation and reevaluation processes for transmission proposal selection; and, (5) cost allocation.

- **Full network model expansion (ER14-2017)**

On May 22, 2014, the ISO filed tariff revisions to implement modeling enhancements by allowing it to model unscheduled flow in the ISO's day-ahead market, enforce power flow constraints in the day-ahead market, and expand the full network model topology to include information on resources, load, and interchange schedules in other balancing authority areas. The revisions complement the energy imbalance market. The ISO has requested FERC accept specific tariff sections related to the base market model and transaction identifiers effective September 8, 2014, with the remainder of the tariff sections effective October 1, 2014.

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

On May 19, 2014, FERC granted the ISO's 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 waiver is from June 1, 2013, up to and including December 31, 2014.

Regulatory Agreements

- **Filing of non-conforming Service Agreement No. 2726 (ER14-2218)**

On June 18, 2014, the ISO filed an amendment to the Dynamic Transfer Balancing Authority Operating Agreement between the ISO and the Public Service Company of New Mexico. The ISO requested a waiver of the notice requirement so that the amendment can be made effective June 19, 2014, the day after the filing. The amendment primarily revises Schedule 1 to increase the Red Mesa Wind Energy Center's dynamic schedule maximum MW value into the ISO Balancing Authority Area, from 99 MWs to 102 MWs.

- **Nevada Energy energy imbalance implementation agreement (ER14-1729)**

On June 13, 2014, FERC accepted the implementation agreement between the ISO and NV Energy which sets forth the terms the ISO will extend its existing real-time energy market systems to provide imbalance energy service to NV Energy. The effective date is June 16, 2014.

- **Silicon Valley Power metered subsystem agreement (ER14-1790)**

On June 12, 2014, FERC accepted an amendment to the metered subsystem agreement between the ISO and Silicon Valley Power to align that agreement with the fifteen minute market. The effective date is May 1, 2014.

- **Elk Hills net scheduled participating generator agreement (ER14-1647)**

On May 30, 2014, FERC accepted the ISO's filing of the net-scheduled participating generator agreement between the ISO and the Elk Hills Power Project. The agreement provides for the ISO to model and dispatch the Elk Hills facility on a gross basis, rather than a net basis, while preserving the net settlement rules applicable to net-scheduled resources. The effective date is June 1, 2014.

- **Northern California Power Agency metered subsystem aggregator agreement (ER14-1789)**

On May 28, 2014, FERC accepted the ISO's amendment to the metered subsystem agreement with Northern California Power Agency to align that agreement with the fifteen minute market. The effective date is May 1, 2014.

- **City of Vernon metered subsystem agreement (ER14-2032)**

On May 23, 2014, the ISO filed an amendment to the metered subsystem agreement with the City of Vernon to reflect the fifteen minute market and requested a July 23, 2014 effective date.

- **Imperial Irrigation District approved project sponsor agreement (ER14-2033)**

On May 23, 2014, the ISO filed an approved project sponsor agreement with Imperial Irrigation District, which describes how the Imperial Valley Element, the first transmission project selected through the ISO's competitive solicitation process, will be constructed. The ISO requested a July 23, 2014 effective date.

- **Transmission control agreement amendment (ER14-1634)**

On May 19, 2014, FERC accepted the ISO's amendment to its transmission control agreement to revise the protocols set forth in Appendix E that are applicable to the San Onofre Nuclear Generating Station jointly owned by Southern California Edison Company and San Diego Gas & Electric Company. The effective date is June 1, 2014.

- **NV Energy adjacent balancing authority operating agreement (ER14-1705)**

On May 22, 2014, FERC accepted the ISO's amendment to the adjacent balancing authority operating agreement with NV Energy. The amendment reflects the planned transition from the NV Energy balancing authority area to the ISO balancing authority area, of the United States Department of Energy National Nuclear Security Administration load and transmission facilities associated with the Nevada National Security Site. The amendment also reflects the interconnection of a 138 kV transmission line from the Innovation switchyard to the Mercury Switching Center. The amendment is effective June 11, 2014.

Reports filed

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

On May 15, 2014, the ISO submitted its monthly report of market disruptions that occurred March 16 through April 15. On June 15, 2014 the ISO submitted its monthly report of market disruptions that occurred April 16 through 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 monthly.

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

On May 15, and June 13, 2014, 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, 2014, respectively. On June 2, and June 30, 2014, the ISO submitted megawatt hour data and cost data for exceptional dispatches occurring during the months of February and March, 2014, 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.

- **Negotiated default energy bids and major maintenance adders (ER06-615)**

On May 7 and June 9, 2014, the ISO submitted an informational filing containing the rates or formulas used to calculate negotiated default energy bids and major maintenance adders that were implemented or modified in the months of April and May 2014.

California Public Utilities Commission matters

- **Demand response program (R.13-09-011)**

On May 6, 2014, ISO submitted to the CPUC initial testimony of Neil Millar and John Goodin on the bifurcation of demand response programs into supply-side and load modifying, as well as related issues. The ISO then submitted rebuttal testimony of Neil Millar, John Goodin, Lorenzo Kristov and Jeremy Laundergan on May 21, 2014. Shortened hearings and workshops were held at the CPUC during the week of June 9-13 and the parties are now exploring whether some or all of the issues can be settled.

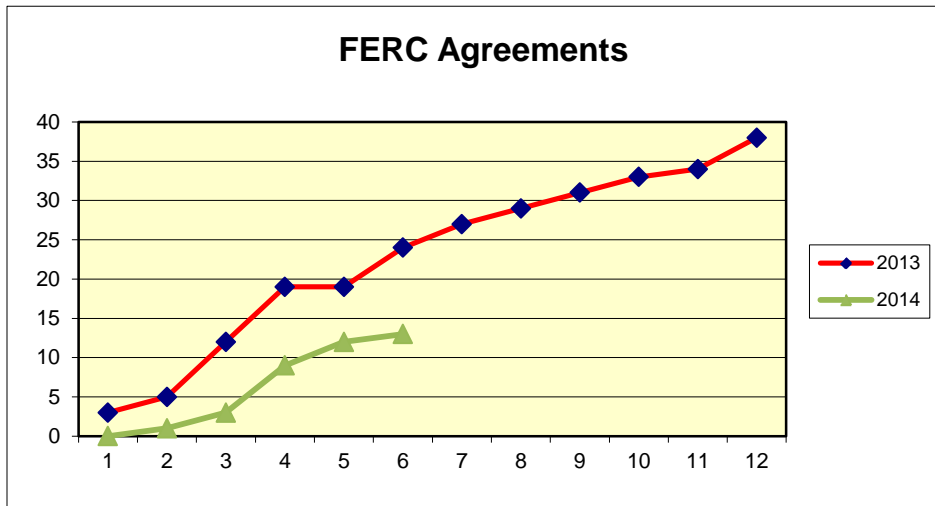
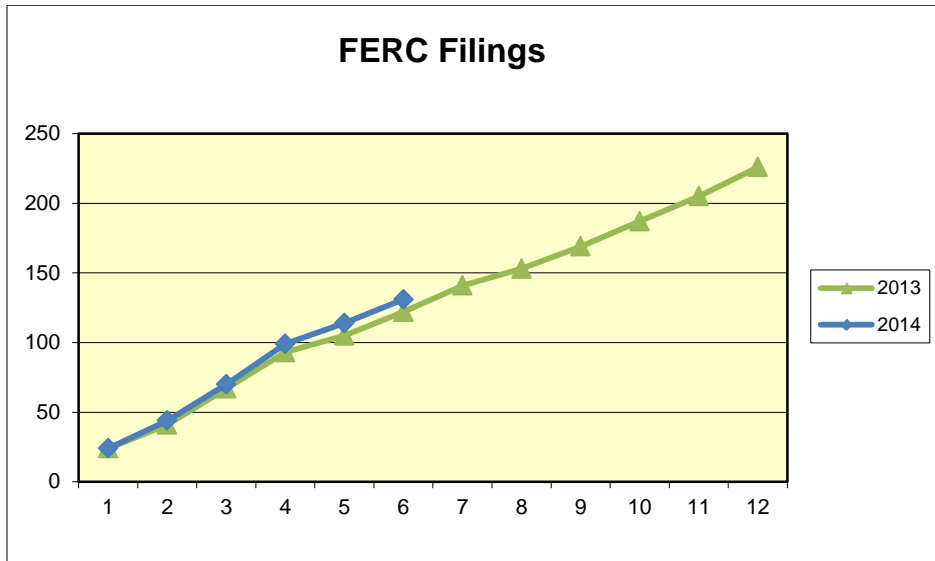
- **Long-term procurement proceeding (R.12-03-014)**

Consistent with the procurement authorization set forth in the Track 1 decision in this proceeding, Southern California Edison has been in the process of conducting a Request for Offers (RFO) for conventional and preferred resources to meet local resource needs. One of the RFO participants seeking to construct conventional generation in the Los Angeles Basin filed a petition to modify the Track 1 decision (D.13-02-015) on June 3, 2014, arguing that SCE misinterpreted the decision language directing the use of the most current locational effectiveness factors. SCE used the effectiveness factors the ISO developed in the 2013-2014 Transmission Plan. The ISO responded to the petition on June 20, 2014, noting that the most recent locational effectiveness factors reflect the SONGS retirement and should be used in the RFO process.

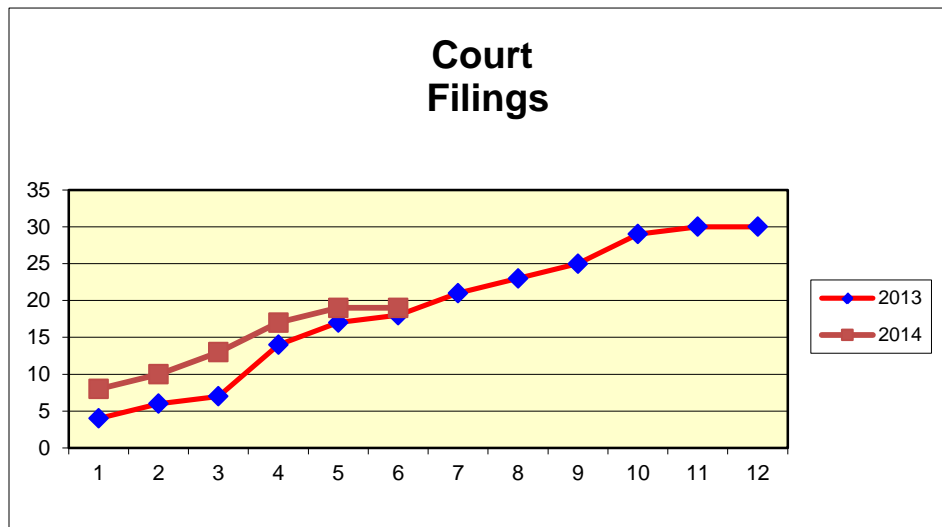
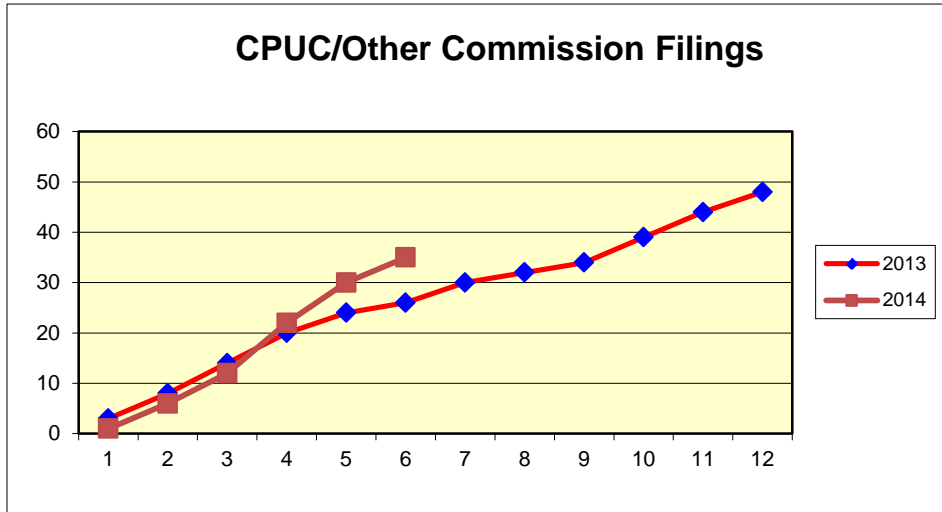
- **Resource adequacy requirements for local capacity and flexible capacity (R.11-10-023)**

On June 26, 2014, the CPUC approved an order adopting the first ever flexible capacity resource adequacy procurement requirement for its jurisdictional load serving entities. The decision bases the procurement obligation for 2015 on the ISO's annual study of the quantity of flexible capacity needed to manage grid reliability during the greatest three-hour continuous ramp in each month. The decision adopts a framework of flexible capacity rules nearly identical to the ISO's recommendation in that proceeding and to the ISO's proposal in the flexible resource adequacy criteria and must offer obligation stakeholder initiative. Notably, the decision includes a revision to clarify that, while the specific adopted framework is interim from 2015-2017, the CPUC does not anticipate ending a flexible capacity obligation after 2017. It expects that the interim framework will evolve based on analysis of data gleaned from the first years of the obligation. The ISO and other parties supported this change.

Regulatory Filings Through June 2014



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