

# Memorandum

**To:** ISO Board of Governors

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

**Date:** November 6, 2014

**Re:** Regulatory update

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***This memorandum does not require Board action.***

## **Highlights**

- *FERC issued orders accepting accounting for real-time congestion offset to avoid double charges, denies requests for rehearing of prior EIM related orders and requires additional compliance*
- *FERC denied Powerex's complaint requesting that the ISO not assess imbalance energy charges due to derates it classifies as "uncontrollable forces"*
- *FERC approved a flexible resource adequacy capacity requirement to ensure the availability of the flexible capacity*
- *ISO filed new tariff provisions regarding recovery of start-up and minimum load cost*

## **Federal Energy Regulatory Commission and related Court of Appeals matters**

- **Order accepting congestion revenue rights settlements adjustment amendment (ER14-2756)**

On October 31, 2014, FERC accepted the ISO's amendment to reinforce the tariff with statements that the nodal megawatt limit constraints are included in the calculation of the congestion revenue rights settlement rule. Since the adoption of convergence bidding, the ISO enforces nodal megawatt limits in the integrated forward market when it cannot achieve an alternating current power flow solution due to overscheduling caused by the inclusion of virtual bids along with physical bids at certain locations. The ISO also adopted a settlement rule that automatically adjusts a market participant's settlements to the extent their virtual bids influence the value of their congestion revenue rights through virtual bids

by increasing the congestion component of the locational marginal price. This rule was intended to apply when nodal constraints are enforced. This tariff amendment eliminated any uncertainty regarding the application of the rule in such cases.

- **Order accepting congestion offset amendment (ER14-2834)**

On October 22, 2014, FERC accepted the ISO's September 10, 2014, amendment to the energy imbalance market settlement provisions in section 11 of the tariff as filed. In this filing the ISO proposed to modify the accounting of the real-time congestion offset to avoid double charging of EIM entities or ISO customers in certain scenarios.

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

On October 22, 2014, FERC denied the Powerex complaint filed against the ISO on May 30, 2014. Powerex, in its complaint, alleged that the imbalance charge it was assessed was a result of the ISO failing to determine that an "uncontrollable force" was responsible for a reduction in power flows on the Pacific DC Intertie, was excessive, unjust, unreasonable, and discriminatory. Powerex sought recovery of approximately \$1 million in imbalance energy charges. FERC found that Powerex had not demonstrated that ISO's assessment of imbalance energy charges for the day-ahead scheduled energy that Powerex did not deliver was unjust, unreasonable, or unduly discriminatory or preferential, nor that the imposition of these charges violated the ISO's tariff. FERC found that Powerex is aware of the risks of derates and outages and the associated risk of submitting financially binding schedules in the day-ahead market that could subsequently be curtailed in real-time. FERC, however, noted that while it was denying Powerex's complaint, there appears to be confusion by stakeholders as to the applicability of the uncontrollable force provision of the tariff. FERC stated it is important that the ISO address this issue in the pending stakeholder initiative to resolve the interplay between the uncontrollable force provision and the ISO's settlement rules of its tariff. FERC instructed the ISO to file an informational report regarding the status of the stakeholder proceeding, if the pricing stakeholder process has not concluded prior to July 31, 2015.

- **Order accepting Nevada Hydro generator interconnection agreement (ER14-2846)**

On October 22, 2014, FERC accepted Large Generator Interconnection Agreements (LGIA) among San Diego Gas & Electric Company, the ISO, and Nevada Hydro Company, Inc. filed on September 10, 2014, to comply with the Commission's August 11, 2014 Order directing the ISO to file the LGIA in order to implement the settlement among the parties in Docket No. ER12-1312-000.

- **Order on rehearing and compliance - energy imbalance market (ER14-1386)**

On October 20, 2014, FERC denied requests for rehearing, and granted in part and denied in part requests for clarification, of FERC's June 19, 2014, order conditionally accepting, subject to modifications, the ISO's tariff revisions to implement its proposed energy imbalance market. FERC also accepted subject to a further compliance filing, tariff revisions filed by the ISO to comply with the June 19 order, to become effective October

24, 2014. Notably, FERC denied 1) Powerex's requests for rehearing that FERC exceeded its authority in accepting the EIM tariff amendment and claims that the Commission's order raised Constitutional issues, 2) Powerex's assertion that FERC failed to justify its rejection of Powerex's answer, 3) the ISO's request for rehearing of FERC's order directing the ISO to make a compliance filing revising proposed section 29.22 of its tariff to state that the "ISO takes title to energy associated with EIM transfers" consistent with its role as the centralized counterparty, and 4) requests for rehearing of its determination to accept the removal of the wheeling access charge for EIM exports. FERC also ordered that the ISO file additional detail in its tariff about the greenhouse gas bid adder.

- **Interconnection process enhancements, topics 13-14 (ER15-129)**

On October 17, 2014, the ISO submitted tariff revisions to (1) clarify the timing of reimbursement to interconnection customers for network upgrades that they have financed, and (2) modify how the ISO distributes non-refundable interconnection financial security and study funds. The ISO requested a December 19, 2014, effective date for these tariff revisions.

- **Flexible resource adequacy criteria requirement (ER14-2574)**

On October 16, 2014, FERC accepted the ISO tariff amendment to establish a flexible resource adequacy capacity requirement to ensure the availability of the flexible capacity required to integrate renewable resources in the ISO's balancing authority area. FERC directed the ISO to allow resources without a bidding history and resource combinations to be eligible to provide flexible capacity, and to make other limited tariff revisions. The tariff amendment is effective on November 1, 2014.

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

On October 15, 2014, FERC granted the ISO's September 26, 2014, motion requesting waiver from having to enforce the modeling enhancements that were set to take effect on October 1, 2014. The ISO stated that its full network model enhancements need further testing before being implemented and that the delay in implementation of the energy imbalance market to November 1, 2014, created a greater need to test the software issues presented by the expanded full network model. The ISO filed an informational filing with FERC on October 8, 2014, notifying FERC that it would implement its full network model expansion on October 15, 2014.

- **Pro forma approved project sponsor agreement (ER14-2824)**

On October 14, 2014, the ISO submitted an answer to protests and comments received in response to its filing of a *pro forma* approved project sponsor agreement. The ISO responded to 14 distinct arguments provided by four parties.

- **FERC Order No. 784 compliance (ER14-639)**

On October 14, 2014, FERC accepted the ISO's September 2, 2014 filing in compliance with FERC's August 11, 2014 order accepting in part and rejecting in part the ISO's

December 17, 2013 filing to comply with Order No. 784 to foster competition and transparency in ancillary services markets. In its filing, the ISO amended its tariff to include the *pro forma* language in Order No. 784. The tariff revisions became effective September 2, 2014.

- **Grid management charge amendment (ER15-66)**

On October 9, 2014, the ISO submitted tariff amendments to revise its grid management charge. The amendment extends the current grid management charge structure with a slightly higher revenue requirement cap, slightly revises the allocation of the revenue requirement to service categories, and revises certain fees and charges. The ISO requested FERC approve the proposed tariff modifications effective on January 1, 2015.

- **Flexible ramping constraint parameter amendment (ER15-50)**

On October 6, 2014, the ISO submitted tariff revisions to set the flexible ramping constraint parameter and include the parameter value in its tariff. The ISO requested that FERC accept that the parameter be set to \$60 as opposed to the current \$247. The ISO provided results of its study showing that a parameter setting above \$60 would not obtain additional flexible capacity the ISO could rely on being available in the five minute market. The ISO requested an effective date of January 15, 2015 for this tariff revision.

- **Energy imbalance market tariff revisions (ER14-1386), (ER14-2484) and (ER14-2834)**

On October 2, 2014, FERC granted the ISO's request to modify the effective date of the tariff revisions related to the energy imbalance market from September 23 to October 24, 2014.

- **Tariff amendment to replace outage management system (ER14-2372)**

On October 2, 2014, FERC granted the ISO's motion to extend the effective date of the replacement of the ISO outage system to December 1, 2014. On September 5, 2014, FERC accepted the ISO tariff amendment to replace its outage management system. The purpose of the amendment was to enhance the outage management process, change the timeline for scheduling coordinators to submit planned outages, and revamp the outage options available to scheduling coordinators for resource adequacy resources. FERC approved the tariff amendment with a September 22, 2014 effective date. On September 11, 2014, the ISO filed a motion to extend the effective date to December 1, 2014 to allow market participants additional time to modify their outage systems and train personnel on the features of the ISO's new outage management system.

- **Commitment cost enhancements amendment (ER15-15)**

On October 1, 2014, the ISO filed tariff revisions regarding recovery of start-up and minimum load costs. Specifically, the ISO proposes to: (1) eliminate the registered cost option for resources other than for use-limited resources; (2) increase the proxy cost daily bid cap from 100 percent to 125 percent; and (3) add provisions to allow the ISO to use

updated natural gas price data in its day-ahead market when natural gas prices for a trading day exceed the normal tariff-based gas price index by more than 125 percent. The ISO requested an effective date of December 1, 2014.

- **Annual operational review elimination (ER14-2963)**

On September 29, 2014, the ISO submitted a tariff amendment to eliminate section 22.1.2.2 of the tariff, a provision that traces back to the original tariff and requires that an independent party annually review ISO management's compliance with policies and procedures related to operations. The ISO requested an effective of November 29, 2014.

- **Contingency reserve cost allocation amendment (ER14-2536)**

On September 29, 2014, FERC accepted the ISO's proposed tariff amendment to modify the allocation of costs for contingency reserves it will procure to meet Western Electric Coordinating Council's contingency reserve reliability standard. The tariff amendment became effective October 1, 2014, as requested.

- **Energy imbalance market enhancements (ER14-2484)**

On September 22, 2014, FERC issued an order accepting the ISO's July 23, 2014, tariff amendment requesting (1) authorization to include PacifiCorp EIM transfer constraints in the local market power mitigation procedures; (2) a new provision to account for transition costs of multi-stage EIM participating resources that use a fuel source other than natural gas; and (3) clarification that the general settlement provisions apply equally to EIM market participants. The tariff revisions became effective October 24, 2014.

- **EIM tariff amendment (ER14-1386)**

The ISO filed a request for rehearing of one limited aspect of FERC's June 19, 2014, order rejecting a particular tariff section and directing the ISO to revise its tariff so that it "takes title to energy associated with EIM transfers." The ISO informed FERC that it believes this directive contradicts FERC precedent and should also be reconsidered because it could potentially undermine the ISO's status as central counterparty to market transactions, thus risking harm to market participants. As noted above, FERC has denied the request for rehearing and stated this "requirement is fundamental to CAISO's ability to clear its energy market and manage credit efficiently." FERC stated that based "on established bankruptcy practices, if CAISO did not become the centralized counterparty to all transactions, it would have to set collateral requirements for all market participants at the 'gross' market obligations (e.g., all sales and all purchases)." FERC clarified, however, that this "requirement should not be interpreted as relating to its function to account for e-Tags as they relate to obligations in the carbon market required by [the California Air Resources Board]."

- **Pro forma approved project sponsor agreement (ER14-2824)**

On September 10, 2014, the ISO submitted a tariff amendment to introduce the *pro forma* approved project sponsor agreement into the tariff. Under the ISO's transmission

planning process, the ISO employs a competitive solicitation process to select approved project sponsors to construct certain transmission solutions included in the ISO's annual transmission plan. The agreement sets forth the terms and conditions that will govern an approved project sponsor's responsibilities and relationship with the ISO prior to the time that the ISO assumes operational control over the transmission solution. The ISO requested that the Commission accept the agreement effective November 10, 2014.

- **EIM congestion offset correction (ER14-2834)**

On September 10, 2014, the ISO submitted a tariff amendment to address a settlements issue that came to the ISO's attention during market simulation in preparation for implementation of the energy imbalance market on October 1, 2014. During market simulation, the ISO determined that the real-time imbalance energy offset calculation included in the tariff produced results that differed from those intended by the market design and were contrary to cost causation principles. The proposed amendment will correct that anomaly. The ISO requested an October 1, 2014 effective date for the amendment, concurrent with the deployment of the energy imbalance market. The ISO later filed a request to modify the effective date to October 24, 2014.

## **Regulatory Agreements**

- **Copper Mountain Solar 4 upgrade facilities agreement (ER15-291)**

October 31, 2014, the ISO filed with FERC a certificate of concurrence with respect to the Affected Participating Transmission Owner Upgrade Facilities Agreement among Copper Mountain Solar 4, LLC, Southern California Edison Company, and the ISO.

- **Request for approval of extension of contract term between AES Huntington Beach, L.L.C. and the ISO (ER15-151)**

On October 21, 2014, AES Huntington Beach, L.L.C. (AESHB) filed for an extension of the contract term of the Reliability Must-Run Service (RMR) agreement between AESHB and the ISO, requesting that FERC permit the proposed contract service limits and payments for the ensuing 2015 contract year to go into effect as of January 1, 2015. The RMR agreement was previously accepted by the Commission. Under the RMR agreement, AESHB collects a cost-of-service rate in exchange for operating two synchronous condensers necessary to provide voltage support in the Los Angeles Basin and San Diego/Imperial Valley local areas that is critically needed as the result of the unexpected long-term outage of San Onofre Nuclear Generating Station Units 2 and 3.

- **Silicon Valley Power metered subsystem agreement (ER15-73)**

On October 10, 2014, the ISO filed an amendment to the metered subsystem agreement between the ISO and the City of Santa Clara, doing business as Silicon Valley Power. The amended agreement is to be effective November 1, 2014.

- **Copper Mountain Solar 2 - Upgrade Facilities Agreement (ER15-144)**

On October 21, 2014, the ISO filed with FERC a certificate of concurrence with respect to the Affected Participating Transmission Owner Upgrade Facilities Agreement among Copper Mountain Solar 2, LLC, Southern California Edison Company, and the ISO.

- **Sycamore-Penasquitos approved project sponsor agreement (ER14-2629)**

On October 8, 2014, FERC issued an order accepting the ISO's August 11, 2014, filing of an approved project sponsor agreement between the ISO and San Diego Gas & Electric. The agreement sets forth the terms under which SDG&E will construct the Sycamore-Penasquitos transmission line. The agreement became effective October 11, 2014.

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

On September 29, 2014, FERC issued an order accepting the ISO's June 13, 2014, filing of the implementation agreement between the ISO and NV Energy which sets forth the terms in which 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.

- **Bonneville Power Administration dynamic transfer agreement (ER14-2608)**

On September 29, 2014, FERC issued an order accepting the ISO's August 6, 2014 filing of a dynamic transfer operating agreement between the ISO and Bonneville to allow for dynamic transfers between the two parties' systems consistent with the dynamic transfer provisions of the ISO tariff and to incorporate Bonneville's dynamic transfer business practice by reference. The agreement is effective October 6, 2014.

- **Lake Elsinore Advanced Pump Storage settlement agreement (ER14-2846)**

On September 10, 2014, the ISO re-filed a large generator interconnection agreement between the ISO, Nevada Hydro Company, Inc. and San Diego Gas & Electric Company. The ISO re-filed the agreement pursuant to the terms of the settlement agreement entered into between the parties and approved by FERC on August 11, 2014. The retroactive effective date of the agreement is May 11, 2008.

- **City of Anaheim metered subsystem agreement (ER14-2524)**

On September 10, 2014, FERC approved the amendment to the metered subsystem agreement between the ISO and the City of Anaheim. The amendment aligns the agreement with the fifteen minute market. The effective date is September 28, 2014.

## Reports filed

- **Queue quarterly report and motion for relief from reporting requirement (ER08-1317) and (ER11-1830)**

October 30, 2014, the ISO filed its interconnection queue quarterly progress report for the third quarter of 2014. The ISO also submitted a motion for relief requesting that FERC relieve the ISO of the reporting requirement for these quarterly progress reports. The ISO has submitted the quarterly progress reports pursuant to FERC directives to provide transparency to FERC and interested parties concerning whether the ISO's generator interconnection procedure reforms achieved the intended purpose of improving the interconnection process. The ISO stated that after six years, FERC and parties should have sufficient information that the ISO's ongoing generator interconnection reforms have continuously improved the interconnection process. This justifies providing an end-date to this open-ended reporting obligation.

- **Informational filing - 150% cap on proxy costs (ER13-2296)**

October 29, 2014, the ISO filed its information report pursuant FERC's October 29, 2013 order directing the ISO to submit an informational filing one year from the date of its order to evaluate the effectiveness of the 150% cap on projected proxy costs for resources electing the registered cost option for start-up and minimum load cost compensation. The report sets forth the ISO's evaluation, comparing the impact of reducing the cap from 200% to 150% on projected proxy costs, while increasing the costs components included within proxy cost calculation.

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

On September 15, the ISO submitted its monthly report of market disruptions that occurred July 16 through August 15. On October 15, the ISO submitted its monthly report of market disruptions that occurred August 16 through September 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)**

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. On September 15, and October 15, 2014, the ISO submitted transactional data including incremental and decremental megawatt volume, duration and location for exceptional dispatches occurring during the months of July and August 2014, respectively. On August 30 and September 30, 2014 the ISO submitted megawatt hour data and cost data for exceptional dispatches occurring during the months of May and June 2014, respectively.



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

On September 8 and October 7, 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 August and September 2014.

- **AES Huntington Beach asynchronous generators (ER13-351)**

On September 10, 2014, the ISO submitted an informational filing containing the hours of operation for the AES Huntington Beach generating station units 3 and 4 for the months of June, July, and August 2014.

### **California Public Utilities Commission matters**

- **Reply testimony of Karl Meeusen and testimony of Shucheng Liu - Phase 1A Long-Term Procurement Plans (R.13-12-010)**

On October 22, 2014, the ISO submitted reply testimony of Dr. Shucheng Liu and Dr. Karl Meeusen in the Long-Term Procurement Plan (LTPP) rulemaking proceeding. Dr. Liu previously provided testimony describing the results of the ISO's 2014 LTPP deterministic study. Dr. Liu provided reply testimony to: 1) respond to technical questions raised regarding the ISO's deterministic LTPP modeling and the alternative modeling sensitivities prepared by other parties; and 2) provide (a) reasons for modeling a 25% regional generation requirement in the San Diego Gas & Electric and Southern California Edison service areas; (b) reasons for modeling a zero net export limit; (c) conclusions to be drawn from the alternative gas flexibility sensitivities run by the Union of Concerned Scientists and the Sierra Club; and (d) answers to other concerns regarding the ISO's deterministic modeling raised by the parties filing testimony on September 24, 2014.

Dr. Meeusen previously submitted initial testimony addressing policy conclusions and recommendations based on the ISO's Phase 1a deterministic studies conducted as of that date in this LTPP rulemaking. On October 22, 2014 Dr. Meeusen provided testimony to recommend the conclusions the CPUC should draw in Phase 1a of this LTPP proceeding in light of the studies performed to date by the ISO, Southern California Edison, and the Office of Ratepayer Advocate, as well as the testimony submitted by parties not preparing models on September 24, 2014. Dr. Meeusen recommends that the studies and testimony filed to date are not sufficient to definitively determine what additional procurement, if any, is needed to meet flexibility and reliability requirements. The ISO asks that the CPUC order additional studies in Phase 1b of this proceeding to determine whether additional procurement is needed and what should be procured.

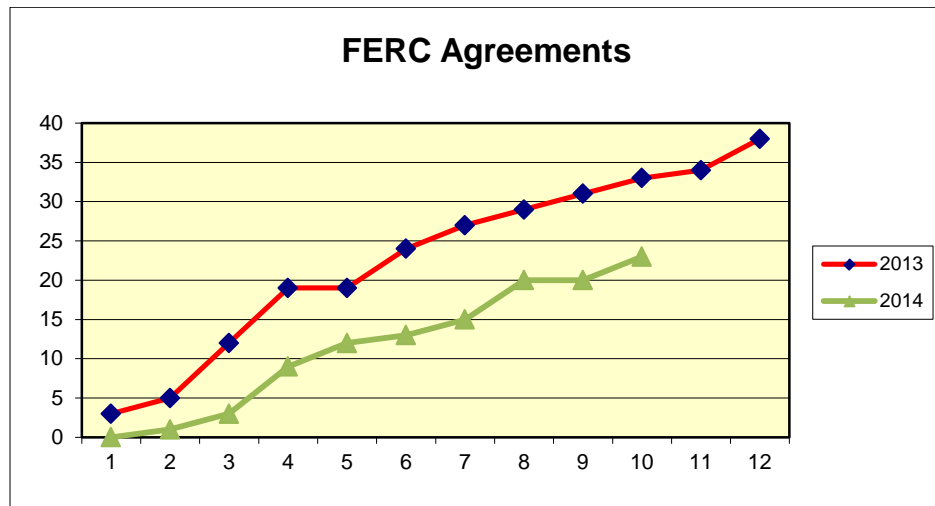
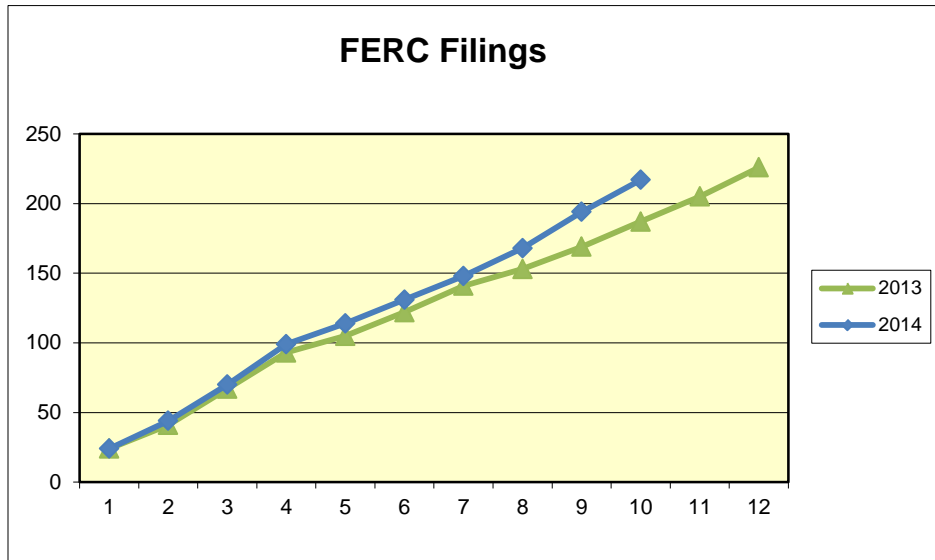
- **Carlsbad Energy Center purchase power tolling agreement (A.14-07-009)**

On October 15, 2014, the ISO submitted the testimony of Robert Sparks recommending that the California Public Utility Commission find that San Diego Gas & Electric's local capacity requirement need should not be adjusted based on the ISO's 2013-2014 transmission planning process and that the Carlsbad agreement is an effective means to meet the need. On October 29, 2014, the ISO submitted rebuttal testimony in response to testimony submitted by other parties.

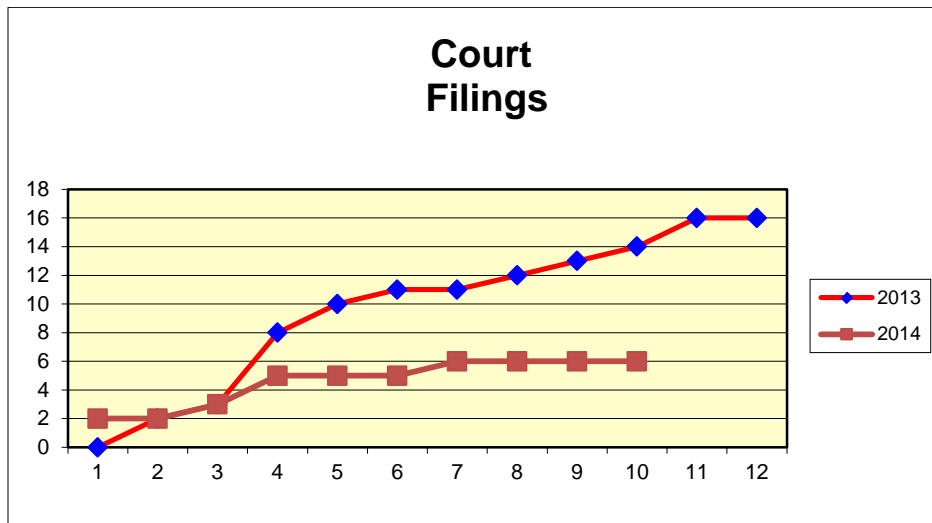
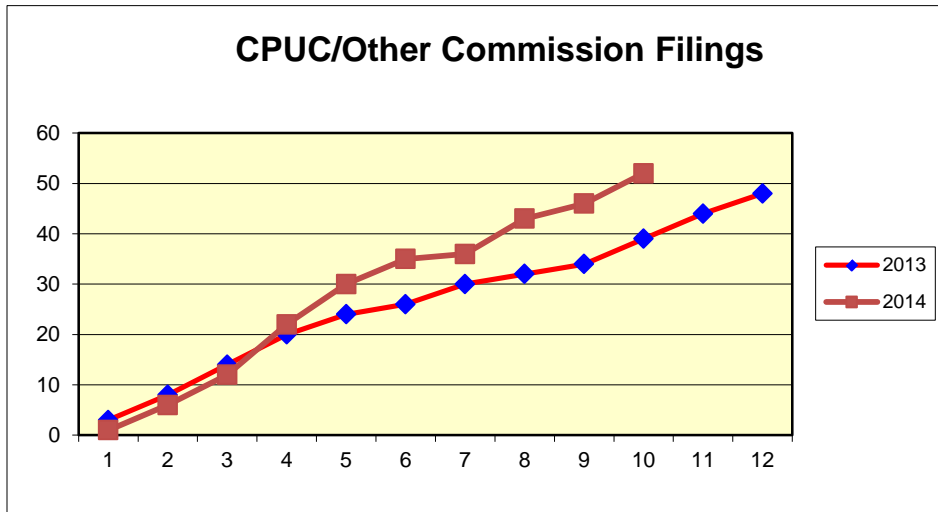
- **Distribution resources plans (R.14-08-013)**

On September 5, 2014, the ISO submitted comments in support of the California Public Utility Commission's proceeding to comprehensively understand the impacts of distribution energy resources on the distribution system and prepare utility distribution companies to facilitate and benefit from their integration.

# Regulatory Filings Through October 2014



# Regulatory Filings Through October 2014



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