

Memorandum

To: ISO Board of Governors

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

Date: September 11, 2014

Re: Regulatory Update

This memorandum does not require Board action.

Highlights

- *ISO files to reinforce that the current settlement rule, which reduces revenues to congestion revenue right (CRR) holders that are also convergence bidding entities when those entities submit virtual bids at locations that increase the value of CRRs, includes revenues associated with nodal megawatt limit constraints*
- *FERC accepted the ISO's revisions to the generator interconnection and deliverability procedures to allow adjustments for maximum cost responsibility for network upgrade costs and financial security posting*
- *ISO files to establish a flexible resource adequacy capacity requirement*
- *FERC approves day-ahead market modeling enhancements*
- *ISO files for inclusion of EIM transfer constraints in the local market power mitigation procedures; and to account for transition costs of multi-stage EIM participating resources that use a fuel source other than natural gas*
- *Parties enter into a settlement to resolve all phase 3 issues in the California Public Utility Commission demand response proceeding including demand response goals*
- *FERC approves sponsor agreement between the ISO, Pacific Gas & Electric Company, and MidAmerican Central California Transco, LLC for construction of the Gates Gregg transmission line*

Federal Energy Regulatory Commission and related Court of Appeals matters

- **Congestions revenue rights revenue settlement rule (ER14-2756)**

On September 2, 2014, the ISO submitted a tariff amendment with FERC to reinforce the current settlement rule, which reduces revenues to congestion revenue right (CRR) holders that are also convergence bidding entities when those entities submit virtual bids at locations that increase the value of CRRs, as including revenues associated with nodal megawatt limit constraints. The ISO enforces the nodal constraints when necessary to achieve an alternating current solution in the day-ahead market pursuant to Section 30.10 of the tariff. Under the current application of the CRR settlement rule, the congestion impact of nodal constraints was not included in the CRR settlement rule due to data transfer limitations. During the month of August the ISO received numerous market participant inquiries requesting confirmation that the rule includes the impact of nodal constraints. Through this tariff amendment, the ISO reinforces its original intent to include the revenue related to nodal constraints despite the past implementation of the rule. The ISO requested an immediate effective date of September 2, 2014.

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

On August 11, 2014, FERC accepted in part and rejected 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 stated that its current tariff, without revision, is consistent with or superior to Order No. 784 directive for transmission providers to account for the speed and accuracy of regulation resources in determining reserve requirements for these services. FERC found that the ISO did not show that its existing tariff is consistent with or superior to the reforms directed by Order No. 784 because the ISO's tariff does not describe in sufficient detail how it accounts for speed and accuracy in determining its reserve requirements for regulation and frequency response. FERC has ordered the ISO to make a further compliance filing to amend its tariff to include the *pro forma* language in Order No. 784, which the ISO submitted on September 2, 2014.

- **Generator interconnection reassessment (ER14-2225)**

On August 5, 2014, FERC accepted the ISO's revisions to the generator interconnection and deliverability procedures to allow adjustments to interconnection customers' maximum cost responsibility for network upgrade costs and financial security posting based on the results of the annual reassessment of the interconnection base case data the ISO performs. The amendment is effective September 1, 2014, as requested.

- **Interconnection process enhancements topics numbers 4-5 and FERC Order No. 792 compliance (ER14-2586 and ER14-2581)**

On August 4, 2014, the ISO submitted a tariff amendment to improve the efficiency and flexibility of its generator interconnection process by enhancing its non-cluster study processes – independent and fast-track. The ISO included tariff revisions mandated by Order No. 792 as they related to the fast-track process. The ISO separately made a filing in compliance with Order No. 792 duplicating the relevant revisions that the ISO made in its interconnection process enhancements topics numbers 4 and 5 tariff amendment filing so that in the event FERC did not approve those revisions, the ISO would not fall out of compliance with Order No. 792. The ISO requested a November 4, 2014 effective date.

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

On August 1, 2014, the ISO submitted a 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. The ISO requested a November 1, 2014 effective date.

- **Interconnection process enhancements topics 1-2 (ER14-2063)**

On July 31, 2014, FERC accepted the ISO's 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 tariff revisions are effective August 1, 2014.

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

On July 31, 2014, FERC partially accepted the ISO's 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. FERC directed the ISO to include in its tariff an accuracy metric with detailed description of the proposed metric's characteristics. The metric will measure the ISO's ability to model external unscheduled flow in the day-ahead market. If the ISO fails the metric, it will suspend the consideration of external unscheduled flow in the day-ahead market until it meets the metric again. The ISO submitted its compliance filing on September 2, 2014.

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

On July 30, 2014, the ISO submitted a 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 ISO requested an October 1, 2014 effective date.

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

On July 23, 2014, the ISO submitted a 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 ISO requested a September 23, 2014 effective date for these revisions.

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

On July 21, 2014, the ISO submitted a filing in compliance with FERC's June 19, 2014 order conditionally accepting the ISO's revisions to its tariff 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, filed on September 25, 2013. FERC accepted the proposed revisions with a minor compliance requirement specifying that the ISO include data at the level of individual local capacity requirement areas in its monthly bid cost recovery report.

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

On July 21, 2014, the ISO filed revisions to its EIM tariff amendment in compliance with FERC's June 19, 2014 order conditionally accepting the amendment. The ISO requested an effective date of September 23, 2014 for these revisions.

The ISO also 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.

- **Real-time market design enhancements related to Order No. 764 (Docket No. ER14-480)**

On July 17, 2014, FERC accepted the ISO's April 21, 2014, compliance filing on the amendment to enhance the ISO's real-time market design to allow the ISO to more effectively and efficiently integrate large amounts of variable energy resources into the resource fleet serving ISO customers, to align its market design with certain reforms mandated in the FERC's Order No. 764, and to address identified inefficiencies in the ISO's real-time market that will also facilitate reinstatement of convergence bidding on the interties. The tariff revisions became effective May 1, 2014.

- **Generator interconnection procedures – phase 2 (ER12-502-001)**

On July 9, 2014, FERC accepted the ISO's February 29, 2012 compliance filing on its amendment to implement revisions pursuant to the ISO's Generator Interconnection Procedures Phase 2. The tariff revisions became effective January 31, 2012.

- **Generator interconnection and deliverability allocation procedures (ER12-2509)**

On July 9, 2014, FERC accepted the ISO's August 23, 2012 compliance filing on its amendment to integrate the transmission planning process and generation interconnection procedures. The tariff revisions became effective July 25, 2012.

- **Alliance for Retail Energy Markets, et al. Complaint (EL14-67)**

On July 7, 2014, the ISO answered the complaint filed by the Alliance for Retail Energy Markets and Shell Energy North America on June 16, 2014 which alleges that the ISO's resettlements in compliance with FERC orders in the amendment 60 proceeding constitute impermissible retroactive rate increases and surcharges. The ISO argued that FERC should dismiss the complaint as premature because the complainants have pending settlement disputes regarding the same resettlements raised in the complaint and that, in any event, the complaint should be denied on its merits because the ISO is resettling based on FERC's previous orders.

On July 25, 2014, the ISO answered comments made by Morgan Stanley and Powerex where those parties requested FERC stay the resettlements and direct the ISO to provide additional information to validate resettlement data.

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

On July 7, 2014, the ISO submitted a tariff amendment to replace its outage management system. The purpose of this amendment is 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. The ISO requested a September 22, 2014 effective date.

Regulatory Agreements

- **Lake Elsinore Advanced Pump Storage settlement agreements (ER12-1302 and ER13-1305)**

On August 11, 2014, FERC accepted the settlement agreements between the ISO, Nevada Hydro, Southern California Edison, and San Diego Gas & Electric Company concerning large generator interconnection agreements for the Lake Elsinore advanced pump storage projects.

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

On August 11, 2014, the ISO filed an approved project sponsor agreement between the ISO and San Diego Gas & Electric for FERC-approval. The agreement sets forth the terms under which SDG&E will construct the Sycamore-Penasquitos transmission line. The ISO requested the agreement be effective October 11, 2014.

- **Public Service Company of New Mexico dynamic transfer agreement (ER14-2218)**

On August 7, 2014, FERC approved the ISO's dynamic transfer balancing authority operating agreement between the ISO and the Public Service Company of New Mexico. The amendment is effective June 19, 2014.

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

On July 29, 2014, the ISO filed an amendment to the metered subsystem agreement entered into with the City of Anaheim. The amendment aligns the agreement with the fifteen minute market and the ISO requested an effective date of September 28, 2014.

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

On July 16, 2014, FERC accepted the ISO's May 23, 2014, amendment to the metered subsystem agreement with the City of Vernon to reflect the fifteen minute market. The amendment is effective July 23, 2014.

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

On July 15, 2014, FERC accepted the ISO's May 23, 2013 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 agreement is effective July 23, 2014.

- **Approved project sponsor agreement for Gates Gregg project (ER14-2347)**

On August 12, 2014, FERC accepted the ISO's July 1, 2014, approved project sponsor agreement between the ISO, Pacific Gas & Electric Company, and MidAmerican Central California Transco, LLC which sets forth the terms under which the Gates Gregg transmission line will be constructed. The agreement is effective August 31, 2014.

- **City of Riverside metered subsystem agreement (ER14-1974)**

On June 26, 2014, FERC accepted the ISO's amendment of the metered subsystem agreement with the City of Riverside. The amendment aligns the agreement with the fifteen minute market and is effective July 16, 2014.

Reports filed

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

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 July 15, the ISO submitted its monthly report of market disruptions that occurred May 16 through June 15. On August 15, the ISO submitted its monthly report of market disruptions that occurred June 16 through July 15.

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

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

On July 7 and August 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 June and July 2014.

- **Generator interconnection process reform (ER08-1317)**

On July 28, 2014, the ISO submitted its interconnection queue quarterly progress report describing the ISO's progress over Q1 and Q2 in 2014 in processing generator interconnection requests under the ISO's interconnection process.

- **Pay for Performance / FERC Order 755 market design (ER12-1630)**

On August 1, 2014, the ISO submitted an informational report based on operational data from the first year of the ISO's Order 755 market design.

California Public Utilities Commission matters

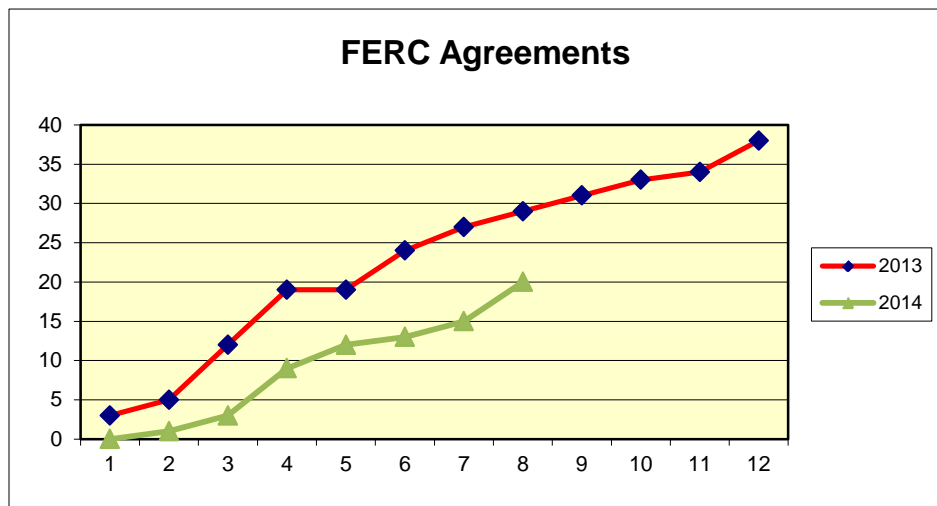
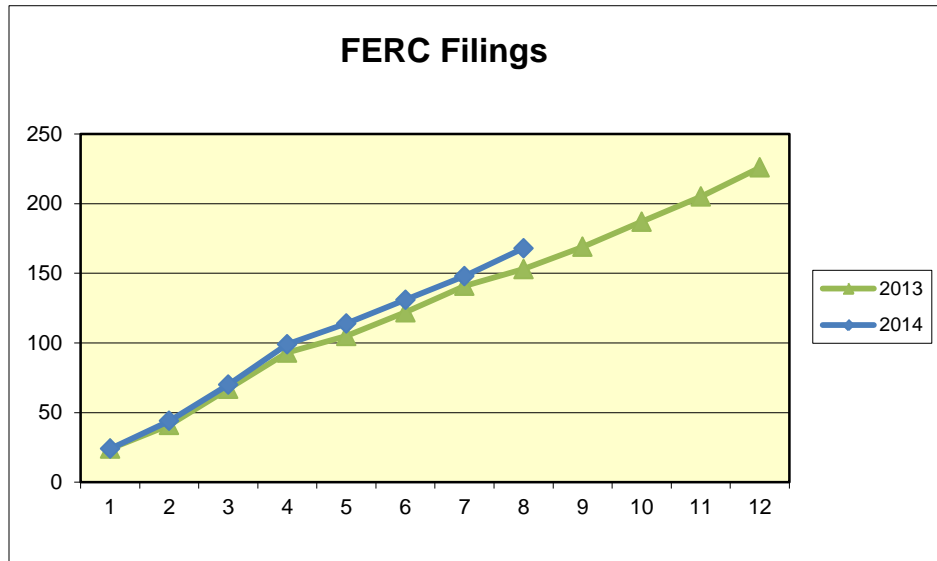
- **Demand response (R.13-09-011)**

On August 4, 2014, the ISO entered into a settlement to resolve all phase 3 issues in the demand response CPUC proceeding including demand response goals; valuation/program categorization; demand response auction mechanism, utility roles, and future procurement; ISO integration; and, budget cycles.

- **Long-term procurement (R.13-12-010)**

On August 13, 2014, the ISO provided to the CPUC testimony of Drs. Shucheng Liu and Karl Meeusen, which describes the ISO's 2014 LTPP deterministic study; explains the conclusions that should be drawn from results of the ISO's resource flexibility studies; discusses public policy implications of the results; and, recommends actions for the CPUC to consider.

Regulatory Filings Through August 2014



Regulatory Filings Through August 2014

