

# Memorandum

**To:** ISO Board of Governors

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

**Date:** July 9, 2015

**Re:** Regulatory update

---

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

## **Highlights**

- *FERC granted ISO request for extension of waiver of tariff-based pricing parameters until ISO implements additional directives regarding pricing in the energy imbalance market*
- *ISO filed for enhancements to energy imbalance market to be implemented in the fall concurrent with entry of the new energy imbalance market entity*
- *ISO filed to streamline transition costs for multi-stage generator resources and qualification of “use-limited” resources*
- *ISO requested FERC find the ISO’s existing load aggregation points are just and reasonable, and that no further disaggregation is necessary at this time*
- *FERC rejected NextEra complaint asking for congestion revenue rights related to the Interim West of Devers upgrades*
- *ISO filed to enhance and streamline resource adequacy rules*
- *ISO filed for new capacity procurement mechanism and in support of settlement*
- *ISO filed readiness requirements for new energy imbalance market entities*
- *ISO filed energy imbalance market implementation agreement with Arizona Public Service Company, for an October 1, 2016 implementation*

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

- **Petition for limited waiver - flexible ramping constraint relaxation parameter (ER15-2039)**

On June 26, 2015, the ISO requested that FERC grant a limited waiver of section 27.10 of the ISO tariff. This waiver would allow the ISO to set the flexible ramping constraint relaxation parameter applicable to an energy imbalance market entity between \$0 and \$0.01 whenever the ISO implements the existing waiver of pricing parameters set forth in tariff sections 27.4.3.2 and 27.4.3.4. The ISO submitted this request in response to the directives in FERC's June 19, 2015, order extending the existing waiver of sections 27.4.3.2 and 27.4.3.4, as it is necessary to implement the existing waiver. Under the existing waiver, when the ISO relaxes the transmission and power balance constraints as part of the pricing run, it will set the price in the energy imbalance market based on the last effective economic bid, instead of using the relaxation parameter price. Effective implementation of this waiver mechanism requires the ISO to set the flexible ramping constraint to \$0, or a value close to zero, for the individual PacifiCorp East and PacifiCorp West balancing authority areas in the ISO's pricing run. Otherwise, contrary to the existing waiver, the pricing run could establish energy imbalance market prices based on the value of the flexible ramping constraint relaxation parameter and not on the last economic bid. The ISO requested that FERC permit the waiver of tariff section 27.10 to go into effect as of June 19, 2015, and last until the existing waiver of tariff sections 27.4.3.2 and 27.4.3.4 expires.

- **Tariff amendment energy imbalance market year 1 enhancements - phase 1 (ER15-1919)**

On June 15, 2015, the ISO submitted proposed energy imbalance market tariff revisions. The amendment was necessary to enhance functionality, accommodate participation of additional balancing authority areas, address issues encountered during the first year of operations, and comply with certain FERC directives set forth in its order approving the implementation of the energy imbalance market. Specifically, the proposed amendment: 1) allows the use of available transfer capability for energy imbalance market transfers; 2) provides a cost based approach for greenhouse gas bidding by energy imbalance market participating resources, and a means for such resources to avoid being dispatched to serve load in California; 3) aligns the energy imbalance market administrative charge with the grid management charge; and 4) includes additional elements for the evaluation of resource sufficiency. The ISO requested that some of the tariff provisions become effective in the fall to enable the proposed enhancements to be implemented concurrent with the implementation of the new energy imbalance market entity this fall.

- **Tariff amendment commitment cost enhancements - phase 2 (ER15-1875)**

On June 5, 2015, the ISO submitted a tariff amendment to improve its “commitment cost” tariff mechanisms providing for the recovery of costs by generating resources participating in its market. The purpose of the amendment is to: 1) simplify the provisions regarding the calculation and bidding of transition costs for multi-stage generating resources and align these provisions with other existing commitment cost mechanisms; and 2) narrow and clarify the definition applicable to “use-limited” resources and modify and relocate the tariff provision addressing the registration process for resources with use-limited capacity. The ISO requests that FERC accept the proposed tariff revisions relating to transition costs effective September 15, 2015. The ISO also requests that the proposed tariff provisions relating to use-limited resources be accepted effective as of March 1, 2016.

- **Compliance filing - load granularity refinements (ER06-615) and (ER02-1656)**

On June 3, 2015, the ISO submitted a compliance filing to comply with FERC’s September 21, 2006, and June 3, 2014 orders. In the September 21, 2006 order, FERC directed that the ISO further disaggregate the load aggregation points. In its June 3, 2014 order, FERC rejected the ISO’s request for permanent waiver of that requirement and extended the deadline for complying with FERC’s directive to disaggregate existing load aggregation points in the ISO’s balancing authority area by one year. Although the Commission denied the request for a permanent waiver, it also stated that if the ISO were to request further relief from the disaggregation requirements, the request must include specific details “to allow the Commission to reasonably evaluate the effects of implementing a greater level of disaggregation.” The ISO’s compliance filing provides these details and requests that FERC accept the current number of load aggregation points as just and reasonable based on the study results and information provided in the compliance filing. The ISO study indicates minimal price dispersion among the load nodes in the ISO system, and thus minimal benefit from pursuing further load disaggregation. Additionally, the ISO foresees significant implementation costs from load settlement disaggregation that would far outweigh the foreseeable benefits.

- **Order granting motion for relief – energy imbalance market transition period prices (ER15-861 and EL15-53)**

On June 19, 2015, FERC granted the ISO’s motion seeking: 1) to revise the refund effective date established in the March 16, 2015 order in this proceeding to the latest refund effective date permitted under section 206(b) of the Federal Power Act; and 2) to further extend the waiver of pricing parameters set forth in tariff sections 27.4.3.2 and 27.4.3.4 granted in the December 1, 2014 order in ER15-402-000 to address transitional issues. FERC granted the ISO’s request for a limited extension of the waiver of the pricing parameters effective June 23, 2015, and ending when the ISO implements FERC’s directives in its order addressing the ISO’s April 23, 2015 comments and proposal in this proceeding.

- **Order denying complaint by Next Era Center Blythe (EL15-47)**

On June 3, 2015, FERC denied a complaint filed by NextEra Desert Center Blythe, LLC (NextEra) against the ISO. NextEra sought that FERC direct the ISO to allocate to NextEra the congestion revenue rights created by its investment in the Interim West of Devers upgrades. In addition, in the event that FERC did not find that NextEra has a right to the congestion revenue rights under the existing tariff, NextEra requested that FERC find the tariff is unjust and unreasonable and should be revised to allow NextEra to receive congestion revenue rights. FERC denied both requests. On July 2, 2015, NextEra requested FERC rehearing of the June 3 order.

- **Prepared Statement of Mark Rothleder (AD15-7)**

On June 2, 2015, the Mark Rothleder, Vice President of Market Quality and Renewable Integration, submitted a prepared statement for FERC's Reliability Technical Conference held on June 4, 2015, in Washington D.C. Mr. Rothleder commented on how the industry will need to modify study approaches as it transitions to a low-carbon electric grid. Mr. Rothleder encouraged FERC and the Electric Reliability Organization to ensure mechanisms exist to obtain reliability services needed to operate the electric grid with significant variable energy resources.

- **Order on motion to eliminate quarterly queue interconnection report (ER11-1830) and (ER08-1317-003)**

On May 13, 2015, FERC granted in part the ISO's motion to eliminate its quarterly generator interconnection queue progress reporting obligation. FERC accepted the ISO's proposed alternative to include all required information in the generator interconnection queue spreadsheet posted on its website in lieu of filing a report to the Commission.

- **Order accepting multi-stage generator and bid cost recovery clarification amendment (ER15-1229)**

On May 11, 2015, FERC accepted the ISO's revisions to its tariff to modify the bid cost recovery rules for multi-stage generating resources and base schedules submitted to the energy imbalance market. The tariff amendment addressed the potential for over-recovery of bid costs under the pre-existing tariff rules where the ISO calculated a multi-stage generating resource's minimum load costs as the difference between its real-time and day-ahead schedules only when the resource is committed by the ISO and not when the resource was self-scheduled. The new rules are effective March 13, 2015, as requested by the ISO.

- **Tariff amendment reliability services initiative phase 1A (ER15 -1825)**

On May 29, 2015, the ISO submitted an amendment to implement phase 1A of the ISO's two-phase reliability services initiative. Phase 1A of the initiative focuses on enhancing and

streamlining the ISO's resource adequacy rules and processes to meet the needs of an increasingly dynamic power grid. The ISO proposes to: 1) enhance the existing tariff criteria for determining default qualifying capacity values of specified types of resource adequacy resources; 2) enhance the existing tariff provisions regarding the must-offer obligations of specified types of resource adequacy resources; 3) include a methodology for allocating flexible capacity need to a load-following metered subsystem that is a load-serving entity under the resource adequacy program; and 4) add to the tariff a new resource adequacy availability incentive mechanism that will replace the existing standard capacity product mechanism. The ISO requested that FERC issue an order by September 21, 2015 accepting the proposed tariff revisions effective as of March 1, 2016; except for the tariff revisions requiring load-following metered subsystem load-serving entities to submit resource adequacy plans, for which the ISO requests an effective date of January 10, 2016.

- **Tariff amendment capacity procurement mechanism - revisions (ER15-1783)**

On May 26, 2015, the ISO submitted a filing that included proposed tariff revisions, to the ISO's expiring capacity procurement mechanism, and implementing the ISO's proposed new capacity procurement mechanism methodology. The filing also included an offer of settlement that resolves all issues in this proceeding except one targeted issue that is carved out for FERC to consider. If accepted by FERC, the offer of settlement and proposed tariff language establish new capacity procurement mechanism designations that will apply as of March 1, 2016, to replace the existing capacity procurement mechanism which expires on February 16, 2016. Consistent with prior FERC-guidance, the ISO proposes to replace the existing process whereby the ISO pays all designated capacity a single administratively-determined price with a processes that procures backstop capacity through a competitive solicitation and pays the designated resources based on their bid price.

- **Compliance filing energy imbalance market readiness requirements compliance filing (ER15-861-002)**

On May 6, 2015, in compliance with FERC's March 16, 2015 order in this proceeding, the ISO submitted a compliance filing to included readiness requirements in its tariff to ensure readiness of new energy imbalance market entities. The proposed tariff revisions: 1) set forth readiness requirements for a balancing authority that wishes to participate in the energy imbalance market; 2) require the ISO and the potential energy imbalance market entity to certify the expected readiness to FERC at least 30 days prior to the date on which the potential energy imbalance market entity is to begin participation in the energy imbalance market; 3) require that the ISO develop criteria to determine the readiness of the systems and processes through an ISO stakeholder process; and 4) identify the activities in which the ISO and the potential energy imbalance market entity must engage in order to determine readiness.

## Regulatory Agreements

- **Operating agreement with the City and County of San Francisco (ER15-2086)**

The ISO submitted an amendment to the operating agreement between the ISO and the City and County of San Francisco. The operating agreement was filed with FERC as part of an overall settlement on December 11, 2007. The amendment extends the operating agreement termination date from July 1, 2015 to March 1, 2018, updates the agreement consistent with current practices and applicable rules and regulations, and accommodates changes in the interconnection agreement under discussion by the parties in another FERC proceeding ER15-705-000. The ISO proposes that the amended agreement be made effective on July 1, 2015, the date that the current operating agreement expires.

- **Energy imbalance market implementation agreement between Arizona Public Service and the ISO (ER15-1802)**

On May 28, 2015, the ISO filed with FERC the May 15, 2015 implementation agreement between the ISO and the Arizona Public Service Company (APS) which sets forth the terms under which the ISO will extend its existing real-time energy market systems to provide imbalance energy service to APS pursuant to the ISO's tariff. Under the implementation agreement, APS will compensate the ISO for its share of the costs related to system changes, software licenses, and other configuration activities. The ISO requests that FERC accept the agreement effective August 1, 2015, so that the extension of the real-time energy market to include APS participation may be implemented on October 1, 2016.

- **Amendment to participating load agreement - California Department of Water Resources and the ISO (ER15-1805)**

On May 28, 2015, the ISO filed with FERC an amendment to its participating load agreement with the California Department of Water Resources. This amendment extends the participating load agreement from July 1, 2015 to November 1, 2017, without any other change. The ISO requested that the agreement as extended be made effective on July 1, 2015. On June 29, 2015, FERC accepted the amended agreement as filed, effective July 1, 2015.

- **Amended adjacent balancing authority operating agreement and notice of termination of interconnected control area operating agreement with Arizona Public Service Company (ER15-1765)**

On May 21, 2015, the ISO filed with FERC an amendment to its adjacent balancing authority operating agreement with APS that reflects the implementation of a new long-term configuration that will change APS's balancing authority area boundary and locate the Hassayampa-North Gila 500 kV line in the APS balancing authority area. The ISO

requested that FERC accept the amendment to the agreement effective July 23, 2015, the planned implementation date of the long-term configuration.

## **Reports filed**

- **AES Huntington Beach, L.L.C. reliability must run agreement - informational report (ER13-351)**

On June 10, 2015, the ISO submitted an informational filing pursuant to FERC's January 4, 2013 order approving the reliability must-run agreement for synchronous condensers at AES Huntington Beach Generating Station Units 3 and 4, and the May 1, 2014 order granting modification of the reporting schedule, where FERC accepted the ISO's proposal to submit reports by the tenth day following the end of each subsequent three-month period of operations on the hours of operation of the synchronous condensers. The informational report covers the months of March, April, and May 2015.

- **Energy imbalance market pricing waiver (ER15-402)**

On June 3, 2015, the ISO submitted to FERC its report on the performance of the energy imbalance market for April 2015. The report is submitted pursuant to FERC's March 16, 2015, order wherein FERC directed the ISO to refine the monthly reports to "assist the Commission and the parties in determining the extent to which the price spikes continue to be caused by transitional issues, and the extent to which they may be triggered by lack of adequate supply in the EIM." On May 7 and June 12, 2015, the Department of Market Monitoring submitted its assessment of the performance of the energy imbalance market, covering March and April 2015, respectively.

- **Energy imbalance market structural market power informational report ( ER14-1386)**

On May 29, 2015, the ISO submitted to FERC its six-month informational status report following the launch of the energy imbalance market on the presence of structural market power in PacifiCorp's balancing authority areas due to limits on transmission interties into and between these balancing authority areas under the energy imbalance market structure. The report was prepared by the ISO's Department of Market Monitoring. In its June 19, 2014 order, the Commission noted that it may use this information to determine if any action is necessary to address structural market power in PacifiCorp's balancing authority areas under the energy imbalance market structure. In compliance with the June 19 order, on July 23, 2014, the ISO filed a tariff amendment to apply market power mitigation provisions to energy imbalance market transfer constraints into energy imbalance market balancing authority areas. In support of this tariff amendment, the Department of Market Monitoring provided a report on structural competitiveness of PacifiCorp's balancing authority areas. The Commission approved the ISO's July 23 tariff amendment agreeing "with CAISO and the Department of Market Monitoring's arguments that applying real-time local market power mitigation procedures on scheduling constraints limiting transfers of energy into and between PacifiCorp's balancing authority areas would be appropriate."

The six-month informational report concludes that circumstances warranting market power mitigation specified in the July 23 tariff amendment persist and that there is no new information that warrants changing the current application of market power mitigation on the energy imbalance market transfer constraints.

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

On May 15 and June 15, 2015, the ISO submitted to FERC its monthly market disruption reports, for the periods March 16, 2015 through April 15, 2015, and April 16, 2015 through May 15, 2015, 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.

- **Status report on energy crisis proceeding (EL00-95)**

On May 13, 2015, the ISO submitted to FERC a status report as required by the Chief Judge's order continuing suspension of proceedings and ordering further status reports issued in this proceeding. The ISO reported that there have been no occurrences that alter the conclusion reached by the ISO and active parties to this proceeding in previous status reports, and the Chief Judge in his orders, that the procedural schedule in these proceedings should continue to be suspended pending the outcome of the California refund proceeding.

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

On May 7, 2015, the ISO submitted to FERC informational filings containing the rates or formulas used to calculate negotiated default energy bids, custom operations and maintenance adders, and major maintenance adders, that were implemented or modified in the month of April 2015.

- **Exceptional dispatch reports (ER08-1178 and EL08-88)**

On April 30, 2015 and June 30, 2015, the ISO submitted an exceptional dispatch informational report on: 1) the price impact of exceptional dispatches as required by FERC in its September 2, 2009 order in this proceeding, and 2) an analysis of the degree of mitigation as required by the section 34.9.4 of the tariff. These reports covered January 2015 and March 2015, respectively. On May 15, 2015 and June 15, 2015, the ISO submitted to FERC transactional data including incremental and decremental megawatt volume, duration, and location for exceptional dispatches occurring during the months of March and April 2015, 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.



## **California Public Utilities Commission matters**

- **Ruling demand response (R.13-09-011)**

On June 19, 2015, the California Public Utility Commission issued a ruling moving forward with the ISO's proposal for the valuation of load-modifying demand response resources.

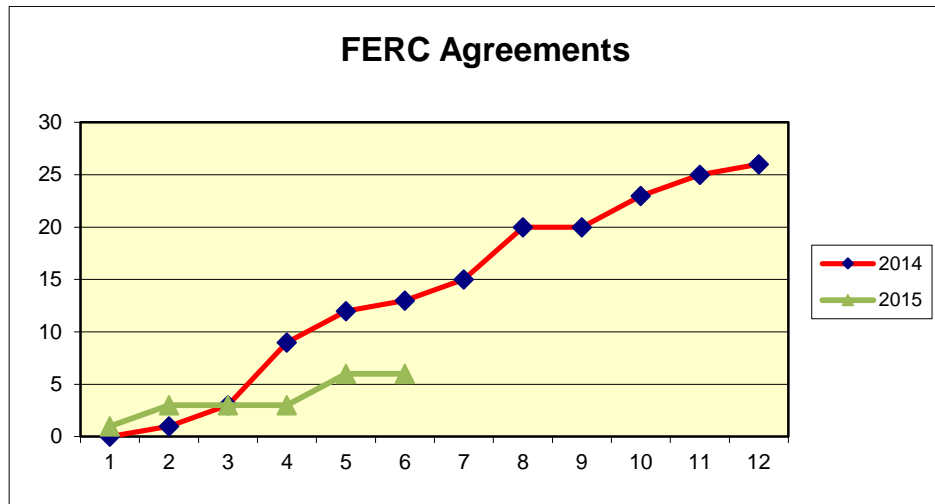
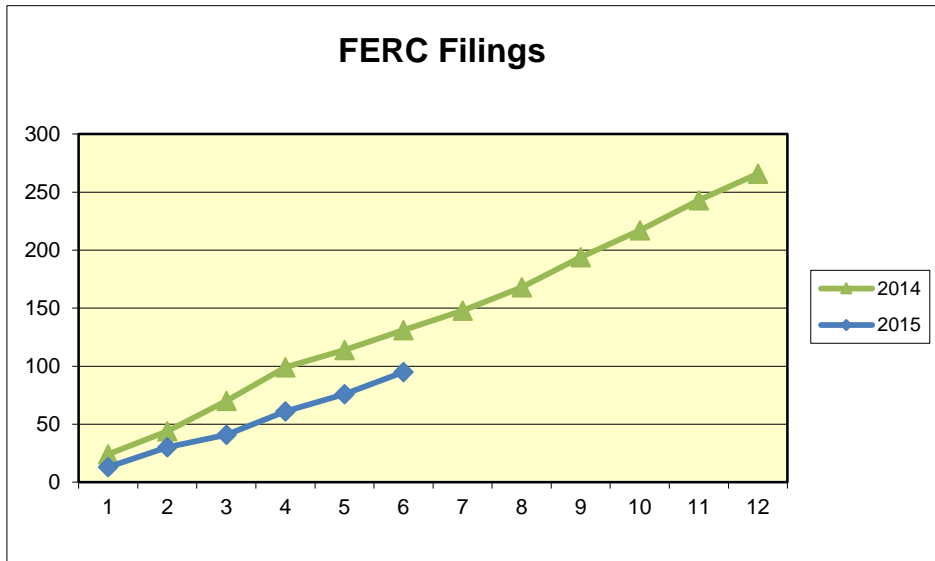
- **Testimony South Orange County reliability enhancement project (A.12-05-020)**

On May 26, 2015 and June 24, 2015, the ISO submitted direct and rebuttal testimony, respectively, supporting San Diego Gas & Electric Company's application for a certificate of public convenience and necessity to construct the South Orange County reliability enhancement project. The project was previously approved as a part of the ISO's 2010-2011 transmission plan.

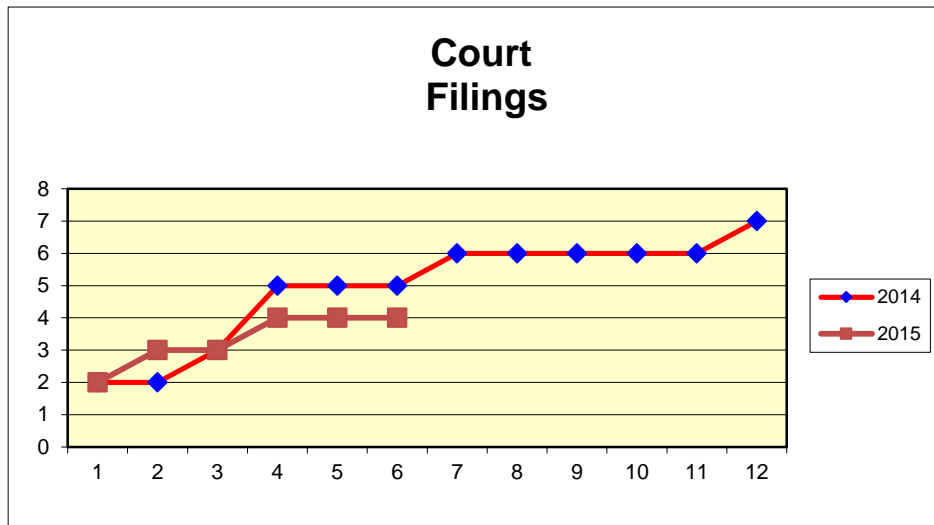
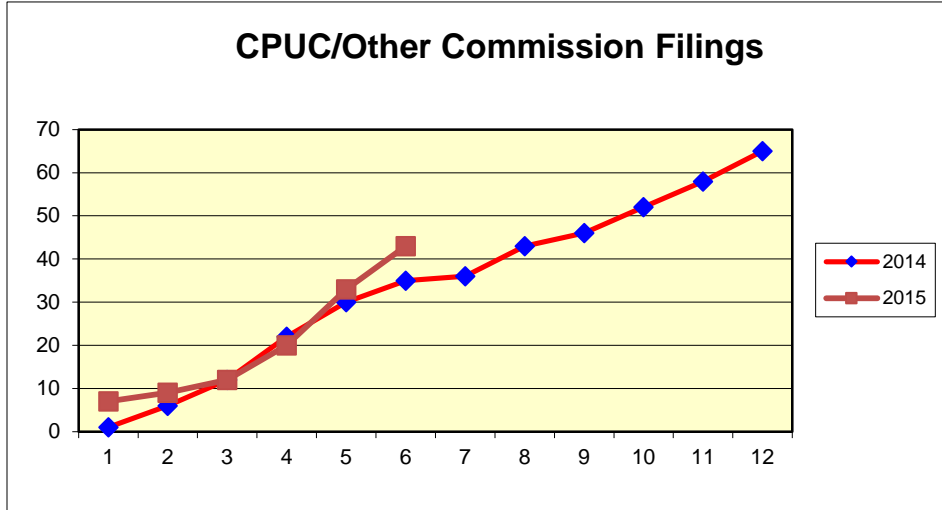
- **Ruling on local and flexible capacity resource adequacy requirements (R.14-10-010)**

On June 25, 2015, the California Public Utility Commission approved local and flexible capacity requirements for 2016 based on studies performed by the ISO. The Commission also adopted the ISO's proposal to cap a load serving entity's local capacity requirement at the load serving entity's system capacity requirement in the monthly resource adequacy process.

# Regulatory Filings Through June 2015



# Regulatory Filings Through June 2015



# Regulatory Filings Through June 2015

