California Independent
System Operator Corporation

Memorandum

To: ISO Board of Governors

From: Anthony Ivancovich, Assistant General Counsel

Sidney Davies, Assistant General Counsel

Date: December 8, 2008

Re: **Regulatory Update**

This memorandum does not require Board action.

Federal Energy Regulatory Commission (FERC) Matters and Related Decisions of the Court of Appeals

Market Redesign and Technology Upgrade (MRTU)

- **Order on December 21, 2007 MRTU Tariff Filing (Docket Nos. ER08-367 and ER06-615)**

On December 4, FERC issued an order accepting the ISO's December 21, 2007 filing of the updated MRTU tariff subject only to minor compliance obligations. This filing included numerous revisions to reflect recent amendments in the currently effective tariff that will rollover into MRTU, to update terminology in compliance with FERC orders, and to include changes that conform existing tariff provisions to MRTU. In addition, the tariff amendment included substantive tariff changes, including the ISO's authority to revert to the pre MRTU tariff during the first 30 days of MRTU operations.

Responsible Attorneys: Mike Dozier, Anna McKenna and Sidney Davies

- **Order Accepting Elimination of Decremental Bidding Rule (Docket No. ER08-1011)**

By letter order dated November 26, FERC accepted the ISO's proposed amendment to the MRTU tariff to remove the prohibition against submitting energy bids in the Hour Ahead Scheduling Process and Real-Time Energy Market at a price lower than was cleared in the Day-Ahead Market. No party had submitted a protest.

Responsible Attorney: Sidney Davies

- **Order Accepting Resource Adequacy Compliance Filing (Docket Nos. ER06-615 and ER07-1257)**

By letter order dated October 31, FERC accepted the ISO's February 8, 2008 compliance filing. The tariff amendments concerned modifications of resource adequacy related tariff provisions. No comments or protests were filed.

Responsible Attorney: Sidney Davies

- **Deferred MRTU Functionality Tariff Amendment (Docket No. ER09-213)**

On October 31, the ISO submitted a tariff amendment to defer four MRTU functionalities: (1) enforcement of generating units' Forbidden Operating Regions of real-time; (2) unlimited operational ramp rate changes for generating units; (3) procurement of incremental Ancillary Services in the Hour-Ahead Scheduling Process (HASP); and (4) automation of the commitment process for Extremely Long-Start Resources. These changes do not materially affect the benefits of MRTU.

Responsible Attorneys: Anna McKenna and Sidney Davies

- **Price Caps and Floors (Docket No. ER09-241)**

On November 3, the ISO filed tariff amendments to implement a price cap and a price floor for energy, residual unit commitment capacity, and ancillary services, effective at MRTU *go live*. The price cap and floor would limit the settlement of locational marginal prices, residual unit commitment prices and ancillary services marginal prices in all of the MRTU markets. The proposed price cap of $2,500/MWh and price floor of negative $2,500/MWh will provide a prudent and appropriate layer of protection against the most extreme price outcomes during the critical initial stages of MRTU operations.

Responsible Attorney: Anna McKenna

- **Parameter Tuning and Demand Clearing (Docket No. ER09-240)**

On November 4, the ISO filed tariff amendments regarding a set of configurable software parameters that are designed to allow the ISO markets to clear optimally while preserving certain scheduling priorities. The software parameters in question are numerical values pre-set by the ISO in the market optimization software that guide the software through the adjustment of certain market inputs, or constraints and that have no inherent price value associated with them (*e.g.,* the flow limit on a transmission line or a price-taker self-schedule). The amendment also modifies the rule that currently requires the market clearing software to exhaust all bids with prices before engaging in any adjustments to the *non-priced quantities*, such as self-schedules. The relaxation of this inflexible rule is necessary because market simulation results have clearly demonstrated that this could lead to market and operational solutions that are not efficient or consistent with good utility practice. Finally, the filing satisfies a directive from FERC better explain the use of parameters to relax a transmission constraint in clearing of Demand in the Day-Ahead Market.

Responsible Attorney: Anna McKenna

- **Metered Subsystem Agreement Filings (Docket Nos. ER09-188, 259, 292, 321, 332)**

On October 31 and November 7, 13, 20, and 24, the ISO filed revisions to its Metered Subsystem ("MSS") agreements with Riverside, NCPA, Santa Clara (SVP), Vernon, and Anaheim, respectively. These MSS agreements specify the ISO tariff provisions and special alternative provisions that are applicable to governmental entities that choose to operate MSSs, including extensive provisions regarding the applicability of ISO charges and ISO emergency operations authority. The revisions update the agreements to align them with the new provisions of the MRTU tariff, particularly the provisions addressing rights and obligations regarding ISO charges and settlements. The revisions also update defined terms, recognize the North American Electric Reliability Corporation and Western Electricity Coordinating Council reliability standards as they apply to each party, update technical and contact information, and clarify numerous other provisions of the agreements to reflect more accurately the intent of the parties. In addition, the agreement with NCPA includes clarifications of NCPA's role as the MSS Aggregator for several governmental entities. The agreements with NCPA and Santa Clara also include special provisions governing their treatment as "load following" entities. While the other agreements were filed as executed by both parties, the NCPA and Santa Clara agreements were filed executed only by the ISO. In the case of NCPA, this was because NCPA's execution process could not be completed in time for the ISO's filing date. In the case of Santa Clara, this was because Santa Clara was not in a position to determine whether or not it could agree to all of the proposed changes by the ISO's filing date. The ISO requested that FERC make all of these revised agreements effective as of the implementation date of MRTU.

Responsible attorneys: Mike Dozier and Anna McKenna

- **Big Creek Physical Scheduling Plant Agreement Filing (Docket No. ER09-344)**

On November 26, the ISO filed revisions to its Big Creek Physical Scheduling Plant agreement with Southern California Edison Company ("SCE"). The agreement governs the treatment of SCE's Big Creek Hydroelectric Project, which consists of 23 generating units, as a single Physical Scheduling Plant. The revisions update the agreement to align it with the new provisions of the MRTU tariff, particularly to specify the manner in which the ISO and SCE will separate out SCE's Eastwood Pumped Storage Plant from the rest of Big Creek for purposes of operations, scheduling, and Settlements. The ISO and SCE also clarified the manner in which the ISO's metering, telemetry, regulation, outage coordination, and operating requirements will apply to Big Creek, and removed provisions describing the original operation of Big Creek under the agreement as a test case in order to specify this current submittal as an ongoing operating agreement. The ISO requested that FERC make this revised agreement effective as of the implementation date of MRTU.

Responsible Attorney: Mike Dozier

- **Integrated Balancing Authority Area Compliance Filing (Docket No. ER08-113)**

On September 19, FERC issued its order conditionally accepting the ISO's proposed tariff revisions to establish an Integrated Balancing Authority Area (IBAA) for the Sacramento Municipal Utility District (SMUD) and Turlock Irrigation District (TID) external balancing authorities. On November 25, , after several weeks of stakeholder discussions, the ISO submitted its filing to comply with the September 19 order. The compliance filing included: (1) adjustments to prices for customers who use the California Oregon Transmission Project and already pay transmission losses to the Western Area Power Administration or the Transmission Agency of Northern California; (2) clarifications of the requirement that the ISO file any changes to the IBAA with FERC; (3) identification of default pricing points; and (4) a description of the process and procedures related to individual market efficiency enhancement agreements under which market participants may obtain a negotiated price for interchange transactions.

Responsible Attorneys: Anna McKenna and Andrew Ulmer

- **Market Power Mitigation Measures for Exceptional Dispatches (Docket Nos. ER08-1178 and EL08-88))**

On October 16, FERC issued an order accepting subject to refund the ISO's tariff amendment to mitigate bids of resources when using Exceptional Dispatch tariff authority . In the same order, FERC initiated an investigation into the justness and reasonableness of all the Exceptional Dispatch tariff language in light of two concerns. First, the Commission noted that the premise of its finding in September 2006 that Exceptional Dispatches would be rare and infrequent is no longer valid. Second, the Commission expressed concern that non-resource adequacy resources may not be appropriately compensated under the ISO's proposal, though FERC recognized that mitigation may be appropriate. In this regard, FERC cited its ICPM order and prior orders requiring that non-resource adequacy resources be compensated when dispatched by the ISO out of market. FERC scheduled a technical conference to discuss issues related to the ISO's Exceptional Dispatch tariff authority and options for how non resource adequacy resources should be compensated. FERC specifically requested comments on its proposal to require the ISO to offer any resource given an Exceptional Dispatch a choice of accepting a 30-day designation in accordance with the ISO's Interim Capacity Payment Mechanism (ICPM) or compensation in accordance with the ISO's Supplemental Revenues proposal. The ISO participated at the technical conference and filed post-technical conference comments on November 24. In its comments, the ISO explained how FERC's compensation proposal might work and emphasized the importance of making the proposal compatible with the resource adequacy program and the ICPM structure, which honors partial designation. In addition, the ISO defended the scope if its proposal to mitigate bids of resources when subject to Exceptional Dispatch.

Responsible attorney: Sidney Davies

- **Congestion Revenue Rights Tariff Amendment (Docket No. ER08-1508)**

On November 7, FERC issued an order approving the ISO's filing that proposed revisions to the Congestion Revenue Rights provisions in its currently-effective tariff in advance of the implementation date of its MRTU Tariff. The tariff filing addressed timing issues associated with the load migration calculation tool. FERC granted the ISO's request for waiver of the prior notice requirements and accepted the proposed ISO Tariff revisions effective September 10, 2008. The tariff revisions modify the allocation process by: (1) incorporating the application of Year One rules for the first quarter of 2009, and Year Two rules for the last three quarters of 2009; (2) changing the sequence of the allocation tiers under Year Two rules; and (3) postponing adjustments to Congestion Revenue Rights holdings due to load migration until after the 2009 release process is completed. FERC also rejected the request by protestors to consolidate this proceeding with the filing made to implement the Integrated Balancing Authority Area policy.

Responsible Attorney: Anna McKenna

- **Reliability Must-Run Contract for MRTU (Docket No. ER06-615)**

On November 21, the ISO submitted a compliance filing regarding the MRTU-adapted version of the Reliability Must-Run contract. FERC had required the ISO conform a pre-existing contract definition to be consistent with the definition in the MRTU tariff.

Responsible Attorney: Sidney Davies

Reliability Coordinator and Ancillary Services Procurement (Docket No. ER09-169)

On October 29, the ISO filed to amend its current tariff and MRTU tariff to: (1) delete references to the ISO as the Reliability Coordinator for Western Electricity Coordinating Council Reliability Coordinator (WECC) effective as of January 1, 2009; (2) adopt more generalized references to reliability criteria applicable to Ancillary Services procurement to reflect anticipated and possible future changes to reliability criteria for these services that may be adopted by WECC and/or the North American Electricity Reliability Corporation; and (3) incorporate by reference the latest version of the NAESB WEQ business practice standards in compliance with FERC Order No. 676-C . Although no party objected to the purpose of the tariff amendment, parties filed comments and one party filed a limited protest proposing specific tariff changes that would address their concerns. In its answer filed on December 4, 2008, the ISO agreed to make certain revisions on compliance.

Responsible Attorney: Andrew Ulmer

2009 Grid Management Charge (GMC) Extension (Docket Nos. ER09-235 and ER09-236)

The GMC formula rate and $195 million revenue requirement cap have been the subject of two previous extensions through the 2007 and 2008 calendar years. The current extension is scheduled to terminate on December 31, 2008. Thus, on October 31, the CAISO filed a request with FERC seeking a further extension of the current GMC formula rate and revenue requirement cap until December 31, 2009 or MRTU implementation, whichever occurs first. There were no protests or comments filed in response to the October 31 submission, and on December 2, 2008, the Commission approved the extension request.

Responsible Attorney: Judi Sanders

Generator Interconnection Process Reform (GIPR) filing (Docket No. ER08-1317)

On November 25, the ISO submitted its compliance filing with revisions that the ISO had agreed to make as well as other minor changes that FERC had directed. In addition, on November 10, Optisolar an interconnection customer with a project in the transition cluster, filed a request for rehearing which seeks to have its interconnection request studied earlier, in the serial study group, instead of the transition cluster. The ISO filed an answer stating that Optisolar’s request was addressed and resolved in the related tariff waiver request filing and was outside the scope of this proceeding.

Responsible Attorneys: Bill Di Capo and Sidney Davies

Green Borders Unexecuted Large Generator Interconnection Agreement (Docket No. ER07-1034)

On June 14, 2007, the ISO and Southern California Edison Company (SCE) filed an unexecuted Large Generator Interconnection Agreement with Green Borders Geothermal, LLC specifying the terms for the interconnection of Green Borders' proposed new 62 MW generating facility to the ISO controlled grid. On July 31, 2008, SCE filed an offer of partial settlement. One issue remains in dispute, namely the status of, and cost responsibility for, telecommunication facilities located on the Green Borders side of the interconnection that are deemed necessary to implement the special protection system and remedial actions schemes. FERC has directed that the parties develop a stipulated set of facts and file briefs on this issue based on those facts. Pursuant to the scheduling order, the parties submitted a joint stipulation of facts on October 22. The ISO filed its direct testimony on December 3.

Responsible Attorney: Bill Di Capo

Geysers Interconnection Agreement Dispute (Docket Nos. ER08-1193 and ER08-1289, 1290, 1291, 1292)

On June 30,, Pacific Gas and Electric Company (PG&E) filed revisions to its pre-existing generator interconnection agreement with Calpine to add four Geysers qualifying facilities after expiration of their Public Utility Regulatory Policies Act power purchase agreements. On July 22, , the ISO filed a protest, arguing that the Geysers units are required to comply with the ISO tariff requirement to enter into a large generator interconnection agreement (LGIA). At the same time, the ISO filed four unexecuted LGIAs. On August 28, , FERC issued an order rejecting PG&E's filing and directing the parties to enter into settlement proceedings regarding the execution of the ISO-filed LGIAs. In response to FERC's order, the parties resolved the matter by filing fully executed LGIAs and a joint motion to dismiss. FERC granted the motion on November 14.

Responsible Attorney: Bill Di Capo

Order No. 890 Compliance Filing -- Transmission Planning (Docket No. OA08-62)

On June 19, FERC issued an order addressing the ISO's proposed transmission planning process to comply with Order No. 890. ("Compliance Order"). The Compliance Order required the ISO to make revisions to comply with the following Order 890 principles: coordination; openness; transparency; comparability; dispute resolution; regional participation; and economic planning studies. Following a stakeholder process to address the role of the ISO's Participating Transmission Owners (PTOs) in the transmission planning process, the ISO submitted its compliance filing on October 31. The compliance filing included tariff revisions and revisions to the BPM for Transmission Planning that include the following elements: an annual request window through which any market participant can submit requests for planning studies and projects; a study process that includes joint ISO and PTO studies as well as non-PTO studies; public posting of studies and public comment opportunity; submission of an annual plan to the ISO Board of Governors in February of each year; and treatment of confidential information.

Responsible Attorney: Judi Sanders

Station Power Netting (Docket No. ER05-849)

On October 17, , FERC issued an order accepting (1) the ISO's proposed clarifications to preserve the historic ability of generators to net service to on-site station power load with generation produced from the associated generating unit, (2) the ISO's station power provisions, subject to additional clarifications proposed by the ISO in response to generator comments, and (3) the ISO's compliance filing showing cost support for its station power charges. On November 17, , the ISO submitted a compliance filing which included additional clarifications to its "permitted netting" tariff provisions as directed by FERC. In addition, on December 2, 2008, the ISO submitted an answer to a motion for clarification by NRG in which the ISO explained that it has continually processed station power applications in a timely manner and that any delays in processing of applications have been at the request of the applicants.

Responsible attorneys: Mike Dozier and Sidney Davies

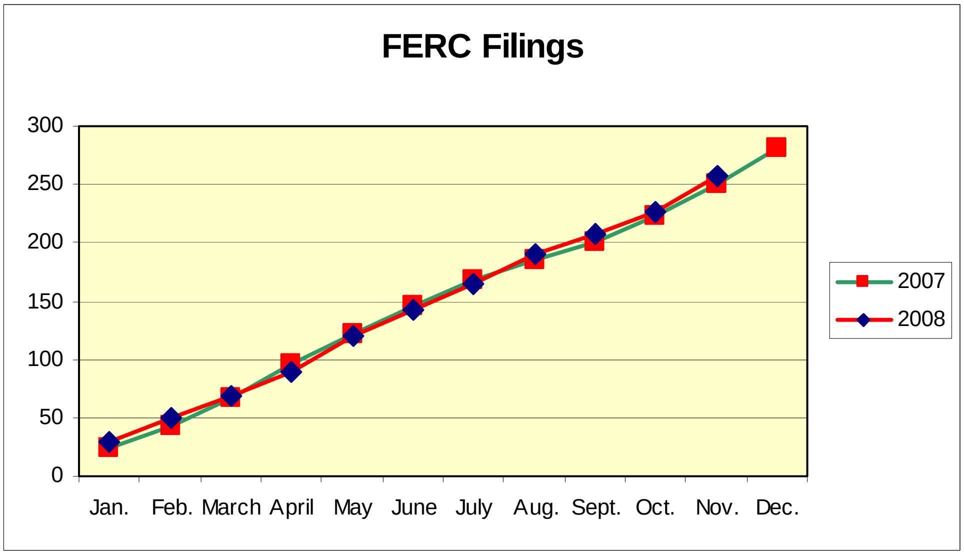
CPUC Matters

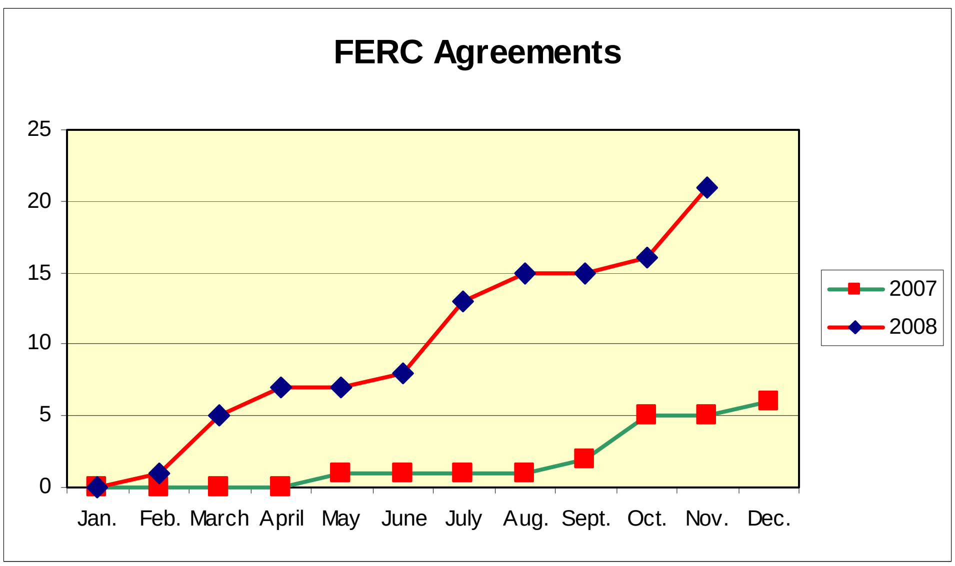
Proposed Decisions Issued in Sunrise Powerlink Transmission Project (A.06-08-010)

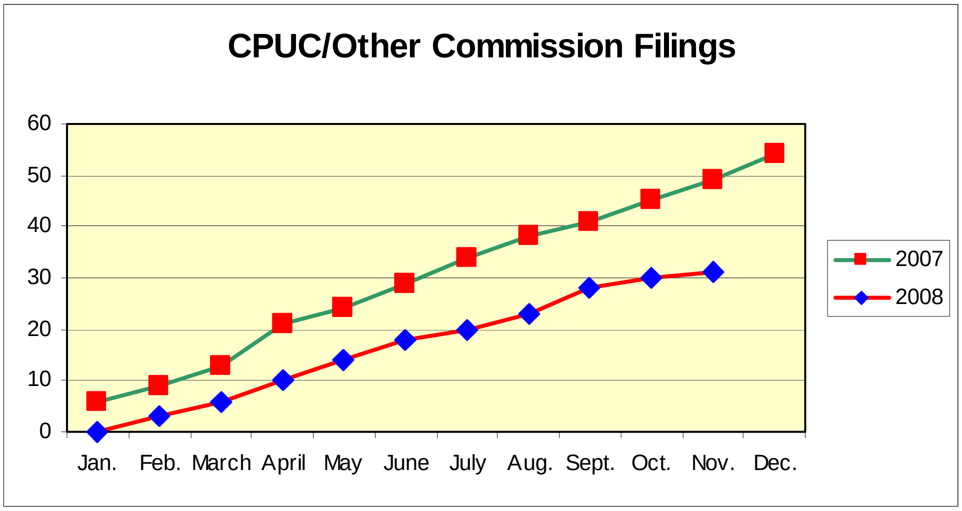
On October 31, two proposed decisions were issued in the Sunrise proceeding at the CPUC. First, Administrative Law Judge Vieth issued a Proposed Decision which denied approval of the Sunrise transmission project. The Proposed Decision found that Sunrise was not required for SDG&E to meet its 20% renewables procurement requirement. Second, Assigned Commissioner Grueneich issued an Alternate Decision ("Grueneich Alternate") which recommended approval of the Sunrise transmission line with certain conditions, including the requirement that San Diego file a compliance plan for approval before construction could be started. On November 18, CPUC President Peevey issued a second Alternate Decision ("Peevey Alternate") which would approve Sunrise without conditions. On November 18, Commissioner Grueneich issued a Ruling on Conditions ("Grueneich Ruling") in response to the comments offered at the oral argument and all-party meeting. The Grueneich Ruling modified the Grueneich Alternate and eliminated the requirement that SDG&E submit a compliance plan. The ISO has urged the CPUC to approve the Peevey Alternate and reject the Proposed Decision and Grueneich Alternate. The CPUC is scheduled to consider the proposed decisions and issue a final ruling on December 18.

Responsible Attorney: Judi Sanders

Filings through November 2008



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2007
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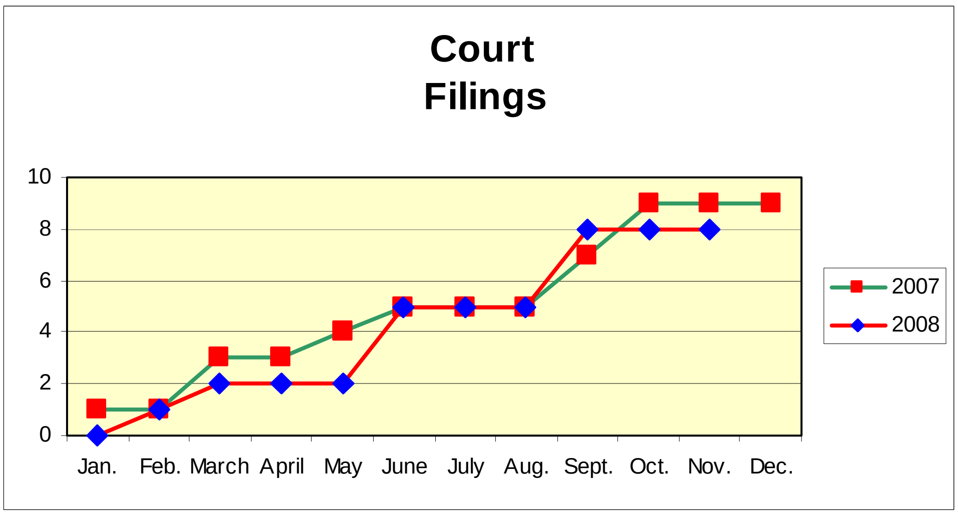
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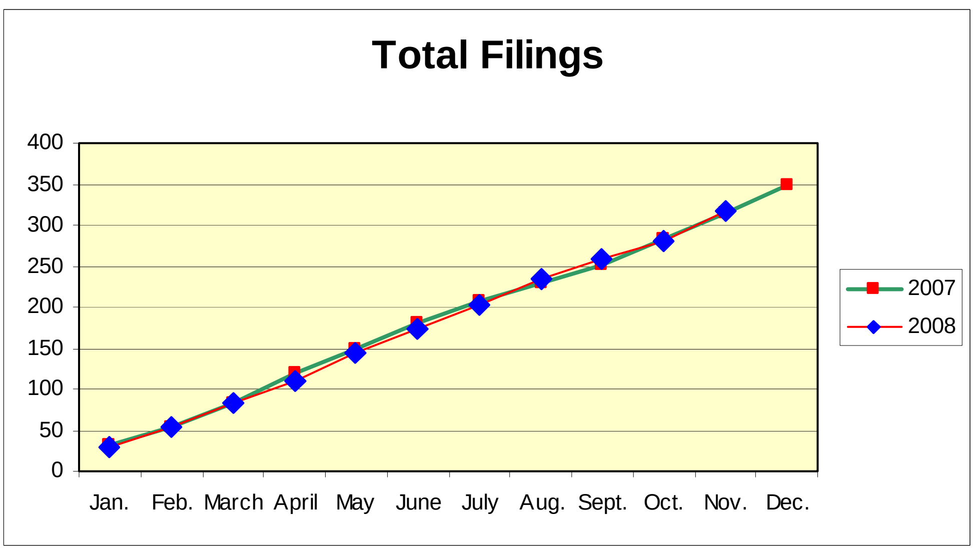
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