**ATTACHMENT B – BLACKLINES**

**Reliability Standards Delegation Amendment Filing**

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**7.2.2.3.1 Applicable Reliability Criteria.**

Applicable Reliability Criteria are the applicable standards established by NERC, WECC and Local Reliability Criteria and include the requirements of the Nuclear Regulatory Commission (NRC).

**7.2.2.3.2 WECC Criteria (Standards).**

(a) Western Interconnection.

The WECC set of standards for the Western Interconnection, which are based on the NERC standards.

The WECC further defines procedures and policies applicable to the Western Interconnection. WECC guidelines include:

 (i) Part 1 – Reliability Criteria for Transmission System Planning

 (ii) Part 2 – Power Supply Design Criteria

 (iii) Part 3 – Minimum Operating Reliability Criteria (MORC)

 (iv) Part 4 – Definitions

(b) Operating Procedures.

The WECC Operating Procedures submitted to WECC by individual utilities and the ISO to address specific operating problems in their respective grids that could affect operations of the interconnected grid.

(c) Dispatcher’s Handbook.

The WECC Dispatcher’s Handbook supplied by WECC to all utilities and Control Areas as a reference for dispatchers to use during normal and emergency operations of the grid.

**7.2.2.3.3 NERC Policies and Standards.**

(a) National Standards

The NERC Reliability Standards are the national level standards approved by FERC for all utilities to follow to allow for safe and reliable operation of electric systems.

(b) Operating Manual

The NERC Operating Manual supplied by NERC to all utilities and Control Areas as a reference for dispatchers to use during normal and emergency operations of the grid.

**7.2.2.3.4 Reliability Standards Agreement.**

Where the responsibility for compliance with a Reliability Standard may be shared between the ISO and another transmission operator or where the responsibility for Reliability Standards regarding transmission operations is not entirely clear from the terms of the Reliability Standard, the ISO and the other transmission operator shall enter into a Reliability Standards Agreement to establish the allocation of those responsibilities.

**7.2.2.3.5 Allocation of Penalties for Noncompliance with Reliability Standards.**

**7.2.2.3.5.1** If another transmission operator, including any Participating TO, has failed to comply with a Reliability Standard for which the WECC, NERC, or FERC imposes a penalty on the ISO, then the transmission operator shall be assigned that portion of the WECC, NERC, or FERC penalty attributable to such non-compliance in proportion to the transmission operator’s fault, as determined mutually or through dispute resolution, in accordance with the terms of a Reliability Standards Agreement between the transmission operator and the ISO, in addition to any other penalties or sanctions applicable under the ISO Tariff.

**7.2.2.3.5.2** If the WECC, NERC, or FERC imposes a penalty on the ISO for failure to comply with a Reliability Standard as a transmission operator, as defined by FERC in its implementation of FPA Section 215, for which another transmission operator is responsible in whole or in part, and the allocation of responsibility is not covered by a Reliability Standards Agreement between the ISO and the other transmission operator, then the ISO and transmission operator shall allocate in proportion to each Parties’ fault as determined mutually or through dispute resolution that portion of the penalty that the ISO reasonably determines is attributable to the noncompliance of the other transmission operator, in addition to any other penalties or sanctions applicable under the ISO Tariff. The ISO shall notify such other transmission operator in writing of the ISO’s allocation of the WECC, NERC, or FERC penalty and the basis for that allocation. If the other transmission operator disputes the ISO allocation of the penalty, then the transmission operator shall notify the ISO of such dispute within ninety (90) days of its receipt of the ISO’s notification. In the event that the ISO and the other transmission operator cannot jointly agree upon the appropriate allocation of the penalty, then the ISO and the other transmission operator shall follow appropriate dispute resolution procedures. In the event the other transmission operator does not pay the portion of the penalty attributable to it in accordance with the ISO’s allocation, as resolved in accordance with this Section and the appropriate dispute resolution procedures, the ISO will use reasonable means to recover the portion of the penalty attributable to that other transmission operator.

**7.2.2.3.5.3** In the event that all or a portion of a WECC, NERC, or FERC penalty imposed on the ISO for noncompliance with a Reliability Standard is not attributable to any other transmission operator pursuant to the terms of a Reliability Standards Agreement, or as otherwise reasonably determined by the ISO pursuant to Section 7.2.2.3.5.2, the ISO shall recover the unattributed amount of the WECC, NERC, or FERC penalty through the applicable provisions of the Grid Management Charge.

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**Appendix F – Schedule 1**

**Part C – Costs Recovered through the GMC**

As provided in Section 8 of the ISO Tariff, the Grid Management Charge includes the following costs, as projected in the ISO's budget for the year to which the Grid Management Charge applies:

1. Operating costs (as defined in Section 8.2.2)
2. Financing costs (as defined in Section 8.2.3), including Start-Up and Development costs and
3. Operating and Capital Reserve costs (as defined in Section 8.2.4)

Such costs, for the ISO as a whole, are allocated to the eight service charges that comprise the Grid Management Charge: (1) Core Reliability Services - Demand Charge, (2) Core Reliability Services – Energy Export Charge, (3) Energy Transmission Services Net Energy Charge, (4) Energy Transmission Services Uninstructed Deviations Charge, (5) Forward Scheduling Charge, (6) Congestion Management Charge, (7) Market Usage Charge, and (8) Settlements, Metering, and Client Relations Charge, according to the factors listed in Part E of this Schedule 1, and

 **adjusted annually for:**

* any surplus revenues from the previous year as deposited in the Operating and Capital Reserve Account, as defined under Section 8.5, or deficiency of revenues, as recorded in a memorandum account;

**divided by:**

1. forecasted annual billing determinant volumes;

**adjusted quarterly for:**

1. a change in the volume estimate used to calculate the individual Grid Management Charge components, if, on an annual basis, the change is 5% or more.

The Grid Management Charge revenue requirement formula is as follows:

Grid Management Charge revenue requirement =

* Operating Expenses + Debt Service + [(Coverage Requirement x Senior Lien Debt Service) and/or (Cash Funded Capital Expenditures)] - Interest Earnings - Other Revenues - Reserve Transfer

Where,

* Operating Expenses = O&M Expenses plus Taxes Other Than Income Taxes and Penalties O&M Expenses = Transmission O&M Expenses (Accounts 560-574) plus Customer Accounting Expenses (Accounts 901-905) plus Customer Service and Informational Expenses (Accounts 906-910) plus Sales Expenses (Accounts 911-917) plus Administrative & General Expenses (Accounts 920-935)
* Taxes Other Than Income Taxes = those taxes other than income taxes which relate to ISO operating income (Account 408.1)
* Penalties = payments by the ISO for penalties or fines incurred for violation of WECC reliability criteria or Reliability Standards, other than payments recovered by the ISO pursuant to Sections 7.2.2.3.5 or 8.10.2.5 (Account 426.3)
* Debt Service = for any fiscal year, scheduled principal and interest payments, sinking fund payments related to balloon maturities, repayment of commercial paper notes, net payments required pursuant to a payment obligation, or payments due on any ISO notes. This amount includes the current year accrued principal and interest payments due in April of the following year.
* Coverage Requirement = 25% of the Senior Lien Debt Service.
* Senior Lien Debt Service = all Debt Service that has a first lien on ISO Net Operating Revenues (Account 128 subaccounts).
* Cash Funded Capital Expenditures = Post current fiscal year capital additions (Accounts 301-399) funded on a pay-as-you-go basis.
* Interest Earnings = Interest earnings on Operating and Capital Reserve balances (Account 419). Interest on bond or note proceeds specifically designated for capital projects or capitalized interest is excluded.
* Other Revenues = Amounts booked to Account 456 subaccounts. Such amounts include but are not limited to application fees, WECC reliability coordinator reimbursements, Line Operator Charges, and fines assessed and collected by the ISO.
* Reserve Transfer = the projected reserve balance for December 31 of the prior year less the Reserve Requirement as adopted by the ISO Governing Board and FERC. If such amount is negative, the amount may be divided by two, so that the reserve is replenished within a two-year period. (Account 128 subaccounts)
* Reserve Requirement = 15% of Annual Operating Expenses.

A separate revenue requirement shall be established for each component of the Grid Management Charge by developing the revenue requirement for the ISO as a whole and then assigning such costs to the seven service categories using the allocation factors provided in Appendix F, Schedule 1, Part E of this Tariff.

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**Master Definitions Supplement,**

**Appendix A to the ISO Tariff**

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| **Reliability Standard** | A requirement approved by FERC under Section 215 of the Federal Power Act to provide for reliable operation of the bulk power system. The term includes requirements for the operation of existing bulk power system facilities, including cyber security protection, and the design of planned additions or modifications to such facilities to the extent necessary for reliable operation of the bulk power system; but the term does not include any requirement to enlarge such facilities or to construct new transmission capacity or generation capacity. |
| **Reliability Standards Agreement** | The agreement between an affected transmission operator, including any Participating TO, and the ISO regarding the assignment of responsibilities for compliance with Reliability Standards, a *pro forma* version of which has been established by the ISO for this purpose. |

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