

Memorandum

To: ISO Board of Governors

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

Date: December 10, 2014

Re: Regulatory Update

This memorandum does not require Board action.

Highlights

- *FERC grants a waiver allowing the ISO to apply market clearing prices instead of the pricing parameters that otherwise apply when transmission constraints and the power balance constraint bind*
- *ISO responds to FERC's request for additional information on the amendment to modify commitment cost recovery provisions to ensure resources have a fair opportunity to recover costs during the upcoming winter months*
- *FERC granted the ISO's request for rehearing allowing it to refund the difference between the ISO's study costs and the deposit provided by a project sponsor including interest calculated at the rate the ISO earned on the deposit*
- *FERC approves pro-forma approved project sponsor agreement requiring additional compliance*

Federal Energy Regulatory Commission and related Court of Appeals matters

- **Pay-for performance year one changes (ER15-554)**

On December 2, 2014, the ISO submitted a tariff amendment to implement revisions to its minimum performance threshold for resources providing regulation. The ISO incorporated this minimum performance threshold into its market design in compliance with FERC Order 755, under which the ISO not only compensates regulation resources for their capacity but also compensates them based on how accurately they respond to the ISO's

regulation control signal. The minimum performance threshold requires regulation resources to achieve a monthly accuracy score of at least 50 percent based on a simple average of accuracy measurements taken in each 15 minute interval in which the resource is providing regulation. In this filing, the ISO proposes to: (1) modify the monthly accuracy calculation for regulation resources from a simple average to a weighted average of 15 minute accuracy measurements using instructed mileage as the weight; and (2) reduce the minimum performance threshold from 50 percent to 25 percent.

- **Filing to comply with FERC Order 676-H and request for waiver (ER15-526 and ER15-531)**

On December 1, 2014, the ISO submitted a filing in compliance with FERC Order 676-H, in which FERC directed all public utilities, to incorporate in their tariffs the latest versions of the business practice standards promulgated by the Wholesale Electric Quadrant of the North American Energy Standards Board (NAESB). None of the new NAESB standards adopted in Order 676-H required substantive tariff revisions for implementation. On the same day, the ISO also filed a petition for waiver of certain business practice standards adopted in Order 676-H because the ISO's ancillary service and imbalance energy markets and transmission services differ significantly from the business model and the transmission services contemplated in the pro forma Open Access Transmission Tariff for which the standards are intended.

- **Order granting waiver – Energy Imbalance Market pricing parameters (ER15-402)**

On December 1, 2014, FERC granted the ISO's petition for limited waiver of the pricing parameters in sections 27.4.3.2 and 27.4.3.4 of the ISO tariff for 90 days, effective November 14, 2014, as requested. The waiver permits the ISO to clear energy at market clearing prices rather than the pricing parameters pegged to the bid cap of \$1000 per megawatt hours when the market is required to relax a transmission constraint or the power balance constraint. These measures will protect the market from extreme prices during a transitional period when the ISO and PacifiCorp are transitioning into the new Energy Imbalance market, which went into full production on November 1, 2014. FERC also required informational filings every thirty days, beginning December 15, 2014, informing FERC of the progress on the issues that led to the need for the waiver and the progress on any remedial actions taken to address those issues.

- **Order on compliance and rehearing - competitive transmission improvements (ER14-1206)**

On November 26, 2014, FERC granted the ISO's rehearing request of FERC's March 31, 2014, order conditionally accepting the ISO's tariff revisions to phase 3 competitive solicitation procedures of the ISO's transmission planning process. FERC also accepted in part the ISO's compliance filing with that order. FERC granted the ISO's rehearing request permitting the ISO to pay interest, on refunds for the difference between the ISO's study costs and the deposit provided by a project sponsor, calculated at the rate the ISO earned

on the deposit, as the ISO originally proposed, rather than at the FERC rate, which is typically higher than what the ISO earned.

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

On November 25, 2014, the ISO submitted a response to FERC's November 6, 2014, letter requesting additional information to evaluate the ISO's October 1, 2014 tariff amendment to modify its commitment cost recovery provisions. The amendment is designed to ensure that the ISO's commitment cost mechanisms provide resources with a fair opportunity to recover their costs during the upcoming winter months, when gas prices are more likely to be volatile because of cold weather events. In its November 6, 2014 letter, FERC requested additional analyses, descriptions of additional commitment costs, factors that impact commitment costs, standard resource-specific costs, and impact on local market power and market prices.

- **Order rejecting amendment to eliminate annual operations review (ER14-2963)**

On November 20, 2014, FERC issued an order rejecting the ISO's amendment to eliminate a tariff provision that requires an annual independent review of the ISO's compliance with operations policies and procedures. FERC found that the independent operations review provides market participants with a unique opportunity to provide input into the scope of a review of ISO's operations. FERC also found that given the market design changes that ISO has implemented or will be implementing in the coming years, such as the fifteen minute market and flexible resource adequacy capacity requirements, the independent operations review will be valuable in the near future. FERC stated these market design changes will entail new operations policies and procedures, and an independent review of these operations policies and procedures will ensure that the market design changes are properly implemented.

- **Second compliance filing – energy imbalance market (ER14-1386)**

On November 19, 2014, the ISO made its second compliance filing in the energy imbalance market amendment docket to comply with FERC's October 20, 2014 order directing the ISO to include additional detail about the greenhouse gas bid adder in its tariff.

- **Petition to waive effective date of outage management system tariff revisions (ER14-2372)**

On November 17, 2014, the ISO submitted a petition for temporary waiver of the effectiveness of the tariff provisions associated with the outage management system. In the petition, the ISO requested an effective date of December 31, 2014, instead of December 1, 2014, as previously approved by FERC. FERC granted the waiver on December 1, 2014. On December 4, the ISO filed for an additional waiver to enable it to implement the outage management system no later than the end of February 2015. This

additional delay is necessary to allow the ISO's systems to stabilize after the implementation of numerous enhancements this past fall.

- **Compliance filing – flexible resource adequacy capacity requirements amendment (ER14-2574)**

On November 17, 2014, the ISO submitted a compliance filing in response to FERC's October 16, 2014 order directing the ISO to: (1) clarify flexible resource adequacy showing requirements; (2) explain how it will apply the allocation of responsibilities resulting from any changes in flexible capacity needs due to application of the forecast adjustment; (3) allow combined resources to meet the eligibility criteria for the peak and super-peak flexible capacity categories, or explain why that is not feasible; (4) remove the requirement that a resource must have submitted at least one economic bid in the real-time market on at least 10 days in the previous calendar year, or in the most recent 12-month period for which data is available, in order to automatically receive an effective flexible capacity value; and, (5) modify the ancillary services must-offer obligation to establish such a limited exception for use-limited resources.

- **Order accepting second compliance filing in Order 764 fifteen-minute market amendment (ER14-480-002)**

On November 13, 2014, FERC accepted the ISO's second compliance filing in response to FERC's July 17, 2014 order in the Order 764 fifteen-minute market docket. In its second compliance filing, the ISO removes the requirement that a joint statement must be submitted for protective measures to be unwound in the event that a dispute resolution process concludes that a resource is ineligible to receive such protective measures.

- **Petition to disburse penalty assessments (ER15-404)**

On November 13, 2014, the ISO submitted a petition for approval to disburse proceeds of penalties collected in 2013 for violations of the ISO's rules of conduct.

- **Order conditionally accepting *pro-forma* approved project sponsor agreement (ER14-2824)**

On November 7, 2014, FERC issued an order conditionally accepting the ISO's *pro-forma* approved project sponsor agreement, subject to a further compliance filing to: (1) clarify that the approved project sponsor will not be held accountable for delays caused by the interconnecting participating transmission owner; (2) provide that the ISO may facilitate coordination between the approved project sponsor and the interconnecting PTO(s); (3) revised the assignment provision in a manner consistent with the *pro forma* large generator interconnection agreement assignment provision; (4) include a provision that would require project sponsors to carry insurance in accordance with good utility practice; (5) clarify that the project sponsor submit the project specifications 30 days prior to the procurement of the equipment or material to which the specifications apply; (6) clarify that the approved project sponsor will not be held accountable for delays caused by the interconnecting PTO; (7)

provide that any cost cap or cost containment measure included in an approved project sponsor agreement will exclude the costs of any additional specifications beyond the initial functional requirements for the transmission solution that ISO issued at the time of the competitive solicitation; (8) clarify that the approved project sponsor does not assume liability for losses arising from actions that are not within its control; and, (9) exempt from the indemnification provision a party's own ordinary negligence in the compliance filing ordered herein.

- **Order on interconnection process enhancements 4 and 5 (ER14-2586)**

On November 3, 2014, FERC issued an order accepting, in part, and rejecting, in part, topics 4 and 5 of the ISO's interconnection process enhancements initiative. FERC rejected the ISO's revisions to its fast track review process and ordered clarifications on the revisions to the ISO's generator interconnection and deliverability procedures related to the pre-application report for a small generating facility and the ability for interconnection customers to review and provide written comments on facilities study reports. The ISO submitted its compliance filing consistent with this order on December 3, 2014.

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

On October 31, 2014, FERC accepted the ISO's amendment to include nodal megawatt limit constraints in calculating market participants' congestion revenue rights settlement statements. The amendment is effective September 2, 2014.

- **Motion for relief from interconnection queue reporting requirement (ER08-1317)**

On October 30, 2014, the ISO filed a motion requesting relief from the interconnection queue quarterly progress reports. In its motion, the ISO argues that the ISO's ongoing generator interconnection reforms have continuously improved the interconnection process and justify providing an end-date to the open-ended reporting obligation.

Regulatory Agreements

- **Order accepting certificate of concurrence – Copper Mountain Solar 2 upgrade facilities agreement (ER15-144)**

On November 25, 2014, FERC accepted the ISO's certificate of concurrence with Southern California Edison's filing of an affected participating transmission owner upgrade facilities agreement between Edison, the ISO, and Copper Mountain Solar 2, LLC. The agreement is effective July 24, 2014.

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

On November 17, 2014, FERC accepted the ISO's filing of a metered subsystem agreement between Southern California Edison, the ISO, and Silicon Valley Power. The agreement is effective November 1, 2014.

- **Termination of intra-hour pilot scheduling agreement with Bonneville Power Administration (ER15-409)**

On November 14, 2014, the ISO submitted a notice of termination of the intra-hour pilot scheduling agreement between the ISO and Bonneville Power Administration. The pilot agreement is being terminated as Bonneville has implemented 15-minute scheduling in accordance with the ISO's 15-minute market. The ISO requests that the agreement terminate as of October 21, 2014, the same date Bonneville implemented 15-minute scheduling.

- **Certificates of concurrence – generator interconnection agreements between Pacific Gas & Electric Company and California Department of Water Resources (ER15-227)**

On November 4, 2014, the ISO submitted certificates of concurrence to Pacific Gas & Electric Company's filing of two large generator interconnection agreements with California Department of Water Resources for the San Luis and Oroville Hyatt-Thermolitos facilities. The ISO requests an effective date of January 1, 2015, for the agreements.

- **Certificate of concurrence – Copper Mountain Solar 4 upgrade facilities agreement (ER15-291)**

On October 31, 2014, the ISO filed a certificate of concurrence with respect to the affected participating transmission owner upgrade facilities agreement between Southern California Edison Company, Copper Mountain Solar 4, LLC, and the ISO. The ISO requests an effective date of October 29, 2014.

Reports filed

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

On November 15, 2014, the ISO submitted its monthly report of market disruptions that occurred July 16 through August 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 November 17, 2014, the ISO submitted transactional data including incremental and decremental megawatt volume, duration and location for exceptional dispatches occurring during the month of September 2014. On October 30 and December 1, 2014, the ISO submitted megawatt hour data and cost data for exceptional dispatches occurring during the months of July and August 2014, respectively.

- **Status Report - Crisis Era (EL00-95)**

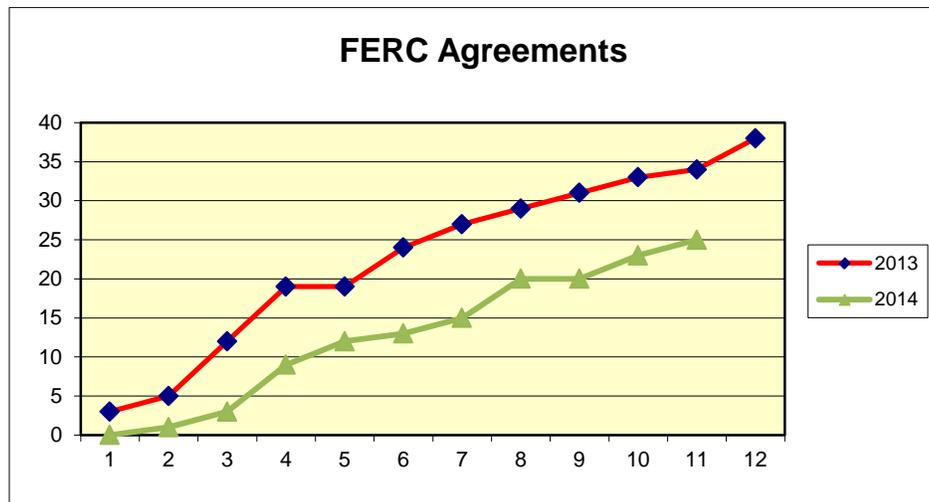
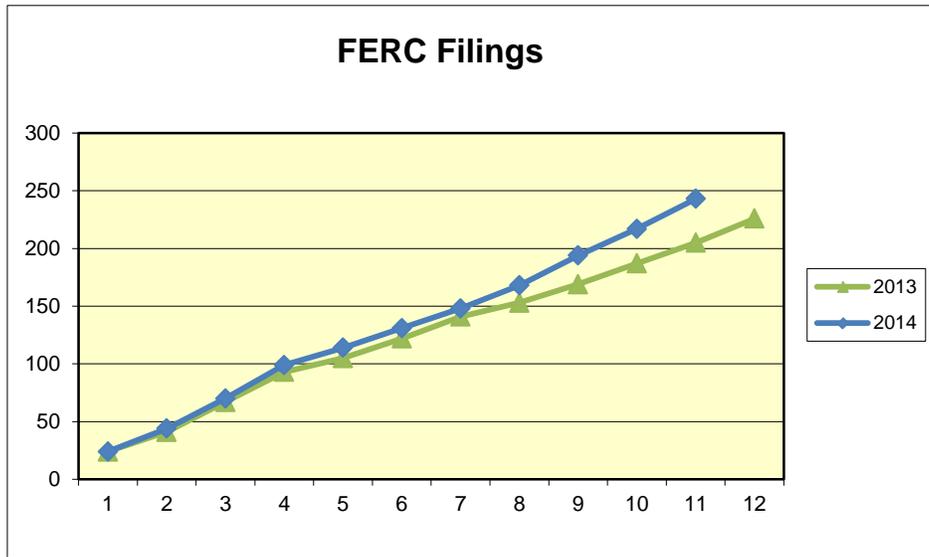
On November 13, 2014, the ISO filed a status report pursuant to the Chief Judge's Order Continuing Suspension of Proceedings and Ordering Further Status Reports issued on August 13, 2014. The ISO reported that there have been no occurrences that alter the conclusion, in previous status reports and the Chief Judge's orders, that the procedural schedule in these proceedings should continue to be suspended pending the outcome of the California refund proceeding.

California Public Utilities Commission matters

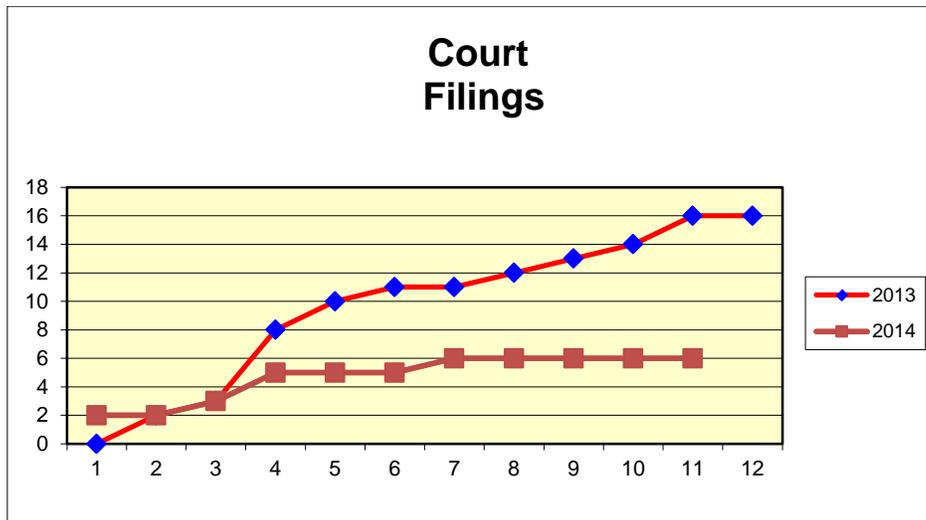
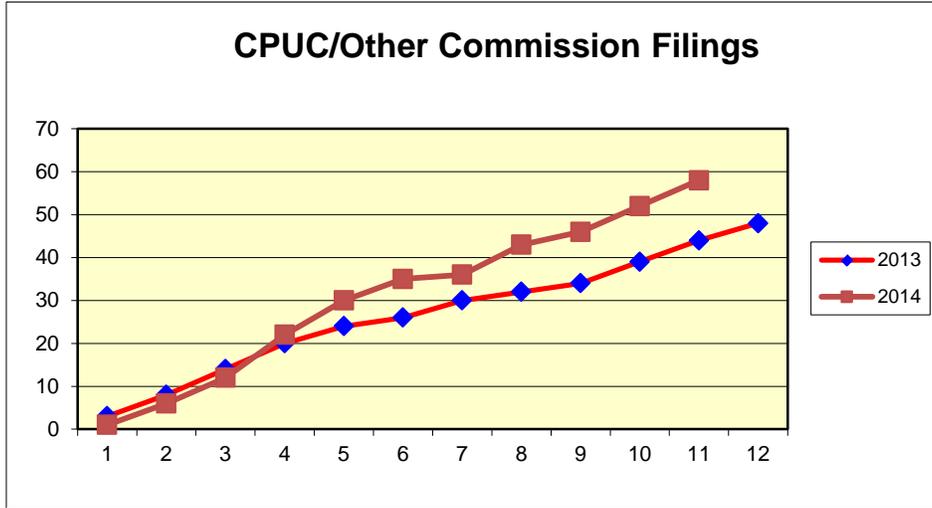
- **Long-term procurement plans (R.13-12-010)**

On November 20, 2014, the ISO submitted the testimony of Drs. Karl Meeusen and Shucheng Liu on the ISO's stochastic study. The stochastic study essentially uses the same input assumptions adopted in the ISO's prior production studies, but incorporates more additional runs that provide probability distributions or patterns based on available historical data and forecast data. Dr. Liu's testimony describes the construct of the stochastic model, the development of the variables, and the capacity shortfalls and renewable curtailments identified by the model. Dr. Meeusen's testimony provides an overview of the results of the stochastic study and makes recommendations regarding how those results should inform the California Public Utility Commission's findings on capacity needs.

Regulatory Filings Through November 2014



Regulatory Filings Through November 2014



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