

Memorandum

To: ISO Board of Governors

From: Nancy Saracino, Vice President, General Counsel & Chief Administrative Officer

Date: December 11, 2013

Re: Regulatory update

This memorandum does not require Board action.

Highlights

- *ISO files tariff amendments incorporating a fifteen-minute real-time market to more effectively and efficiently integrate variable energy resources, align its market design with scheduling reforms mandated in FERC's Order No. 764, and address inefficiencies that will facilitate reinstatement of convergence bidding on the interties*
- *FERC approves the ISO's tariff amendment to improve its ability to administer the queue of generator interconnection projects*
- *FERC approves rules for replacement of resource adequacy capacity for maintenance outages*
- *FERC approves inclusion of additional itemized costs to generator proxy costs and related reduction to ceiling for registered costs from 200 to 150 percent of proxy costs*

Federal Energy Regulatory Commission and related Court of Appeals matters

- **Compliance with FERC Order No. 764 (Docket No. ER14-495)**

On November 27, 2013, the ISO submitted a compliance filing and revisions to its tariff to implement reforms regarding fifteen minute scheduling and the provision of meteorological and forced outage data mandated in FERC's Order No. 764. This filing to comply with Order No. 764 was submitted in connection with a companion ISO filing submitted the prior day under section 205 of the Federal Power Act in Docket No. ER14-480 to implement ISO market enhancements related to Order No. 764. The ISO explains in the compliance filing that the market design changes contained in the November 26 tariff filing are consistent with or superior to the intra-hour scheduling requirements of Order No. 764. The ISO has

requested that FERC issue an order by February 13, 2014 that accepts the November 26 tariff filing effective April 1, 2014.

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

On November 26, 2013, the ISO submitted revisions to the tariff that will enhance its 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 FERC 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 ISO requested that FERC issue an order by February 13, 2014 that accepts the proposed tariff revisions effective April 1, 2014. This will facilitate the proposed schedule for the ISO's new energy imbalance market with other balancing authority areas in the West.

- **Interconnection process enhancements (Docket No. ER12-2484)**

On November 26, 2013, FERC issued an order conditionally accepting, subject to further modifications, the ISO's tariff amendment filed on September 30, 2013, to improve its ability to administer the queue of generator interconnection projects as well as miscellaneous non-substantive tariff revisions to clarify existing tariff provisions. The tariff amendment is effective December 3, 2013. The ISO proposed six interconnection queue-management modifications under its tariff that, taken together, are formulated to improve various aspects of the large generator and small generator interconnection processes to accommodate the needs of interconnection customers. FERC accepted the proposed changes and directed a compliance filing within thirty days of the order to include provisions that pertain to the tender of draft interconnection agreements.

- **Replacement requirement for resource adequacy maintenance outages (Docket No. ER12-2669)**

On November 18, 2013, FERC issued an order accepting the ISO's December 19, 2012 compliance filing deleting tariff sections related to a proposed backstop capacity procurement mechanism. The order additionally corrects a misstatement in the original decision about which capacity procurement mechanism designation the ISO should use to address a shortfall of replacement capacity. In this order, FERC agrees with the ISO that the failure of a scheduling coordinator to provide adequate replacement capacity should be treated as shortfall in resource adequacy capacity under tariff section 43.2.3, rather than a significant event. The designation used will affect how the costs of the procured capacity will be allocated.

- **Motion to intervene in AES Huntington Beach, LLC, Docket No. ER14-177**

On October 24, 2013, AES Huntington Beach, LLC submitted a request for approval of the extension of the Reliability Must-Run Service Agreement between AES and the ISO. This

filing, made in response to the ISO's notice to AES Huntington Beach to extend the agreement for the 2014 contract year, is required by the agreement to allow contract service limits and payments for the 2014 contract year to go into effect January 1, 2014, as previously approved by FERC. On November 14, the ISO intervened in support of the extension of the agreement for 2014, and specifically in support of the contract service limits and rates as filed by AES, for the continued operation on a cost-of-service basis of two synchronous condensers that the ISO has determined are necessary to provide voltage support in the Los Angeles Basin and San Diego/Imperial Valley local areas as the result of the unexpected shutdown of San Onofre Nuclear Generating Station Units 2 and 3.

- **Joint petition for waiver of tariff provisions (Docket No. ER14-291)**

On November 1, 2013, the ISO and California Public Utilities Commission filed a joint waiver of the requirement in the tariff that would allow the ISO to determine the approved project sponsor for the Sycamore-Penasquitos Line. With respect to projects approved in the 2012/2013 ISO planning cycle, the tariff requires that the choice of a project sponsor rests with the siting agency, not the ISO, when all qualified project sponsors intend to seek siting approval from the same siting agency. This would require that the CPUC determine the approved project sponsor for the line. In future cycles, the authority to select the approved project will lie with the ISO. Because this is the only time the CPUC would be required to engage in such a process, the ISO and the CPUC jointly requested that FERC waive the existing tariff provisions to allow the ISO to determine the project sponsor of the line. The four project sponsors that submitted applications to compete to construct and own the Sycamore-Penasquitos Line -- Trans Bay Cable LLC, Abengoa, Elecnor, and San Diego Gas & Electric Company -- have authorized the ISO and CPUC to state that they each either support or do not oppose this waiver request.

- **Commitment costs (Docket No. ER13-2296)**

On October 29, 2013, FERC issued an order accepting the ISO's August 30, 2013 tariff amendment to refine its procedures for determining certain costs included in bid cost recovery and related calculations. FERC accepted the proposed tariff revisions as filed, effective November 1, 2013, as requested. The order allows for the inclusion of additional costs and modifications in the calculation of a resource's proxy costs for start-up and minimum load, generated bids, and variable cost default energy bids and proposed modifications to the calculation of the proxy cost options. In addition, in light of the inclusion of additional costs in the proxy cost option, the order allows for the reduction of the cost cap under the registered cost option from 200 percent of a resource's projected proxy cost to 150 percent.

Regulatory Agreements

- **California Department of Water Resources participating load agreement (Docket No. ER14-406)**

On November 14, 2013, the ISO filed an amended and restated participating load agreement between the ISO and CDWR. The agreement sets forth the terms and conditions that govern the provision of ancillary services and energy by participating load resources in a manner analogous to the participating generator agreement with regard to generating resources. The purpose of the agreement is to allow load resources to participate in the ISO market. The agreement was originally filed in 2001, and CDWR has been providing reliable demand response since then. The ISO and CDWR have been working collaboratively to develop revisions to the agreement that benefit CDWR and the ISO market and that reflect principles developed over the years in recognition of CDWR's primary water delivery obligations as recognized by the tariff, FERC precedent and state law. The ISO requested waiver of the 60 day notice requirement so that the agreement may be made effective as of November 15, 2013, which is the date the current agreement expires.

- **Mesquite Solar large generator interconnection agreement (Docket No. ER13-2489)**

FERC issued a letter order on November 26, 2013, accepting a large generator agreement as filed. The agreement is between the ISO, San Diego Gas & Electric Company and Mesquite Solar 1, LLC, and provides for the interconnection of the 165 MW solar photovoltaic generating facility located near Arlington, Arizona, owned by Mesquite Solar. This generator interconnection would be considered within the ISO balancing authority area though it physically connects to the Hassayampa Switchyard, which is located within the Salt River Project balancing authority area. The implementation of this solution avoided the potential need to complete a new 500 kV switchyard at ISO ratepayer expense.

- **Bonneville intra-hour scheduling agreement (Docket No. ER13-2487)**

FERC issued a letter order on November 26, 2013, granting the ISO's request for waiver of the 60-day notice requirement and accepting an agreement as filed by the ISO on September 30, 2013, effective October 1, 2013. The September 30 filing amended the intra-hour scheduling pilot agreement between the ISO and the Bonneville Power Administration to provide for an extension of a limited pilot program until the ISO and Bonneville implement FERC's Order No. 764, which requires each public utility transmission provider to offer intra-hourly transmission scheduling.

- **NextEra Desert Center large generator interconnection agreement (Docket No. ER14-56)**

FERC issued a letter order on November 20, 2013, granting the ISO request for waiver of the 60-day notice requirement and accepting an agreement as filed by the ISO on October

2, 2013, effective November 1, 2013. The October 2 filing amended the large generator interconnection agreement entered into between the ISO, Southern California Edison, and NextEra Desert Center Blythe, LLC relating to the solar generating facility known as the Genesis McCoy Solar Project. This agreement specifies the terms and conditions under which the ISO and SCE will interconnect the Genesis McCoy Solar Project to SCE's Colorado River substation. This project will receive accelerated deliverability consistent with a letter agreement between SCE and NextEra, which provides for the funding and construction of the interim West of Devers upgrades. These facilities provide interim deliverability for certain generating facilities until the permanent West of Devers upgrades are completed.

Reports filed

- **Market disruption reports (Docket No. ER06-615)**

On November 15, 2013, the ISO submitted its monthly report of market disruptions that occurred September 16 through October 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 (Docket No. ER08-1178)**

On November 27, 2013, the ISO submitted its report for exceptional dispatches occurring during the month of August 2013. In addition to the transactional data, this report includes information concerning the costs of exceptional dispatch. On November 15, 2013, the ISO submitted transactional data including incremental and decremental megawatt volume, duration and location for exceptional dispatches occurring during the month of September 2013. 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. The ISO submits two types of monthly exceptional dispatch reports to FERC.

California Public Utilities Commission matters

- **Application of SDG&E for approval of purchased power tolling agreement to fill local capacity need (Docket A.13-06-015)**

In this proceeding, SDG&E seeks approval of a purchase power tolling agreement with Pio Pico Energy Center to meet local capacity needs identified in Docket A.11-05-023. The ISO actively participated in the prior proceeding and submitted studies that provided the basis for the local needs in San Diego. The ISO intervened in A.13-06-015 and, through testimony, urged the CPUC to approve the agreement. On November 7, 2013, the ISO submitted an opening brief and a reply brief was submitted on November 20, 2013.

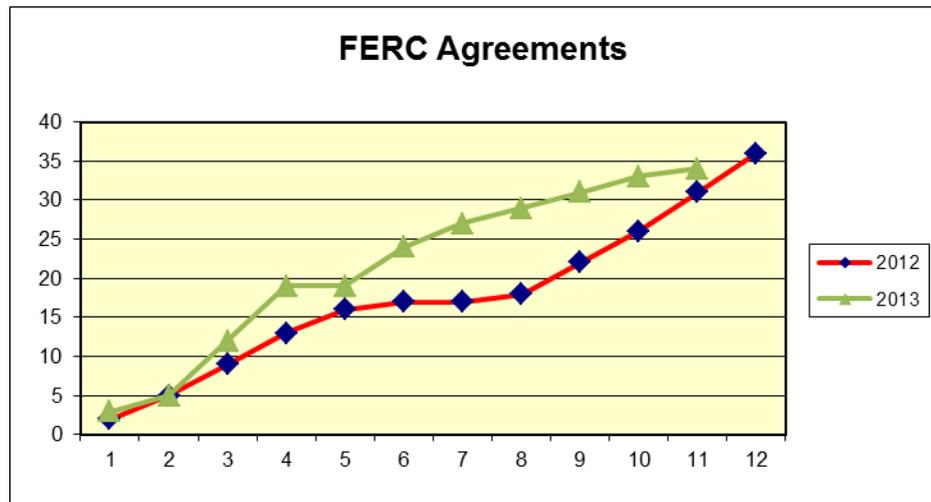
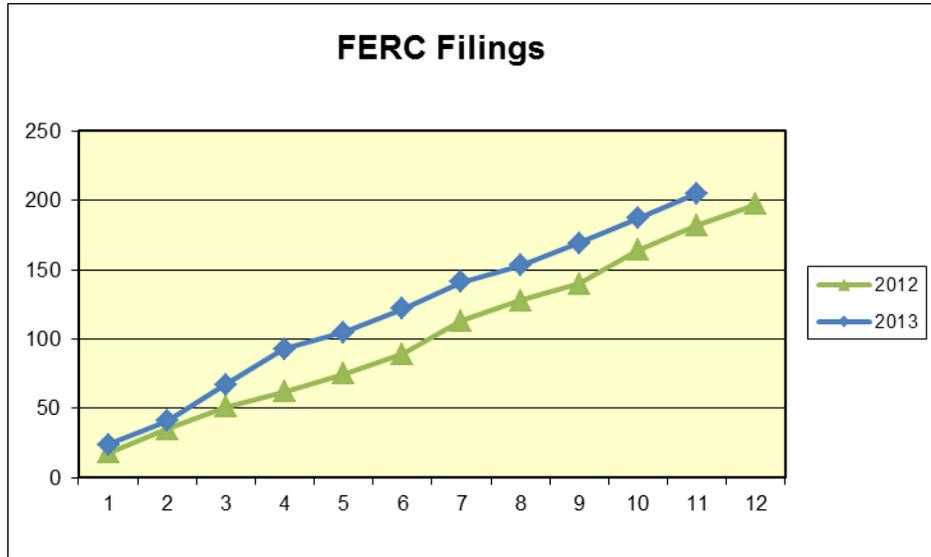
- **Long-term procurement proceeding (Docket R.12-03-014)**

In a revised scoping memo issued on May 21, 2013, the CPUC established Track 4 in the current long term procurement proceeding for the purpose of determining local capacity needs in the LA Basin and San Diego local areas in the absence of SONGS. Track 4 builds on the decision issued in Track 1(D.13-02-015) that authorized SCE to procure up to 1800 MW of new resources that will be needed to replace the once-through cooled units that are anticipated to retire. The ISO's once-through cooling studies, used by the CPUC to determine needs in Track 1, assume that SONGS would remain online. The ISO conducted studies that analyzed local area needs without SONGS in 2018 and 2022, and submitted testimony. The ISO participated in hearings held October 28-November 1, 2013. Opening briefs were submitted on November 25, 2013 and reply briefs will be filed on December 16, 2013.

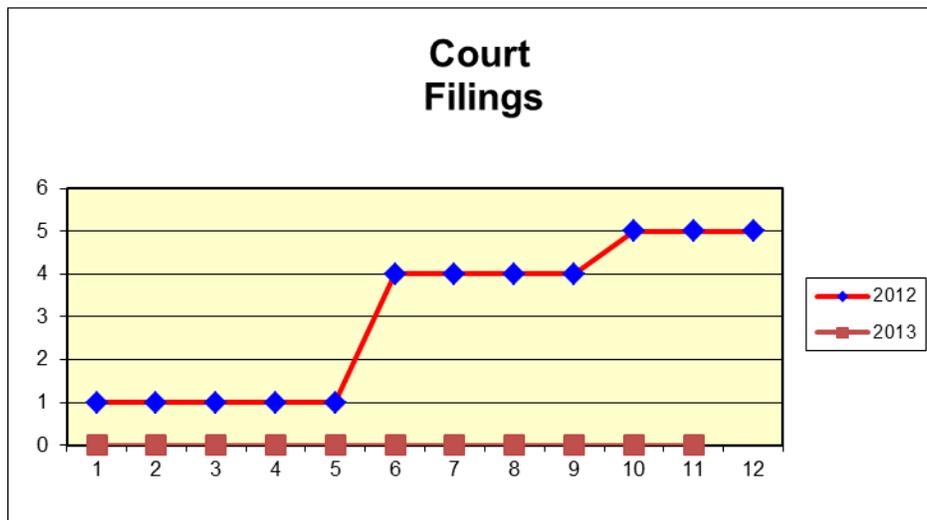
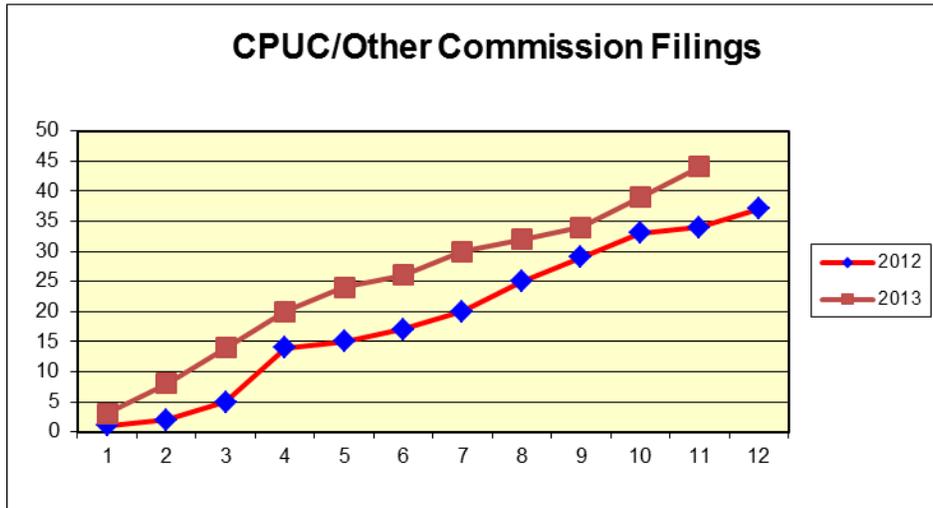
- **Demand response rulemaking (Docket R.13-09-011)**

On September 25, 2013, the CPUC issued Order Instituting Rulemaking 13-09-011 to, among other things, enhance the role of demand response in meeting the state's resource planning needs and operational requirements. Of immediate concern was the issue of maintaining funding for current demand response programs while the CPUC considers re-designing such programs to better align with resource procurement goals and enhance participation in the ISO's wholesale market. The Order sought comments on the merits of bridge funding and a staff pilot proposal. The ISO submitted comments in response to the Order on October 21, 2013 and participated in a prehearing conference and workshop.

Regulatory Filings Through November 2013



Regulatory Filings Through November 2013



Regulatory Filings Through November 2013

