

Memorandum

To: ISO Board of Governors

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

Date: September 7, 2012

Re: Regulatory Update

This memorandum does not require Board action.

Regulatory Highlights

- **Amendment to extend exceptional dispatch mitigated energy settlement rules and modify residual imbalance energy settlement rules**

On August 28, the ISO filed a tariff amendment seeking changes to its settlement rules to address excessive payments that can be caused by the exercise of market power resulting in payments up to \$1,000 per MWh. First, the ISO proposes to extend the mitigated exceptional dispatch energy settlement to out-of-market exceptional dispatches needed to move a resource from its minimum operating level to its minimum dispatchable level. The mitigated exceptional dispatch rule compensates resources at the market price unless the market price is lower than the actual bid price, in which case the compensation is set at the lower of the resource's cost-based default energy bid or the bid price. Second, the ISO proposes changes to the settlement rules for residual imbalance energy, which is the energy associated with ramping up to a dispatch at the beginning of an hour or ramping down from a dispatch in the previous hour. The ISO is proposing a new settlement rule that pays residual imbalance energy at the market clearing price unless its bid is lower than the market clearing price, in which case the ISO will pay it the lower of its submitted bid or the default energy bid. In both cases, the rule changes eliminate the incentive for participants to bid and participate in the ISO markets in an effort to inflate payments through these two out-of-market mechanisms. The impact on resources not engaged in the exercise of market power will be minimal and the proposed rules will ensure that resources recover their costs. The ISO's filing requested waiver of the 60-day prior notice requirement under the Federal Power Act so that the amendments could be made effective as of August 29, 2012.

Responsible attorneys: Anna McKenna and Sidney Davies

- **Transmission planning and generation interconnection integration (ER12-1855)**

On July 24, FERC issued an order conditionally accepting the ISO's tariff amendment integrating the ISO's transmission planning and generator interconnection procedures for ISO queue cluster 5 (the 2012 cluster) and future clusters. The Board previously authorized the tariff amendment at its March 2012 meeting. FERC accepted the ISO's proposal subject to the clarification that the tariff changes implemented in connection with this proposal do not alter existing rights of earlier queued customers. The ISO filed its compliance filing to reflect the directed clarification on August 23, 2012. The transmission planning and generator interconnection integration initiative improves the transmission planning process and ensures that the transmission process informs and improves the efficiency of the generation interconnection process.

Responsible attorneys: Judi Sanders and Bill Di Capo

Federal Energy Regulatory Commission and related Court of Appeals matters

Tariff amendments and orders

- **Central counterparty amendment (ER12-1856)**

On August 31, FERC conditionally accepted the ISO's filing to become a central counterparty to market transactions in compliance with FERC Order No. 741. Historically, the ISO has been a pass-through. Market participants transacted directly with one another, with the ISO serving as an agent. To comply with Order 741, the ISO amended its tariff to become a central counterparty to market transactions -- a buyer to every seller and vice-versa. FERC's order requires the ISO to file additional tariff language that the ISO had proposed as a way to resolve concerns about the tax-exempt status of certain transmission. That issue is distinct from the tax-exempt status of generation, which is the subject of a proposal that will be presented to the Board this month. Otherwise, the Commission rejected all protests, including concerns about the implications of the change for state greenhouse gas regulation and restrictions on the use of federal preference power. In addition, the Commission granted the ISO's request to relieve it from any obligations that might otherwise apply by virtue of its energy sales, especially reporting obligations associated with market-based rate authority. The central counterparty structure became effective September 1.

Responsible attorneys: Roger Collanton and Dan Shonkwiler

- **Flexible ramping constraint amendment (ER12-50)**

On July 27, the ISO filed an offer of settlement resolving all issues concerning the ISO's proposal to implement the flexible ramping constraint. In October 2011, the ISO submitted its proposal to implement a flexible ramping constraint in its real-time market processes, which would provide compensation for resources that contributed to the relief of that constraint and allocate the costs to load. The constraint allows the ISO to utilize flexible ramping capability during the portions of the day where ramping capability is most needed.

In December 2011, FERC accepted the filing in part, which enabled the ISO to implement the constraint immediately, but set the matter for hearing to address, among other things, the issue of compensation and the allocation of related costs. The parties reached a settlement earlier this summer and all parties either supported or did not oppose the terms of the settlement. The settlement modifies the compensation cost allocation, proposing to allocate costs to both load and generation. The settlement was uncontested at FERC and the ISO anticipates a FERC order accepting the offer of settlement this fall.

Responsible attorney: Anna McKenna

- **Congestion revenue rights tariff clarification (ER12-2245)**

On July 16, the ISO proposed five tariff changes to FERC to reflect clarifications regarding the congestion revenue rights process. These changes were unopposed by stakeholders and represent incremental enhancements that improve the administration of the congestion revenue rights process for the benefit of the ISO and market participants. The five changes will: (1) clarify the amount of congestion revenue rights that a holder is eligible to nominate in the priority nomination process and long term tier of the allocation; (2) clarify how the amount of congestion revenue rights that a holder is eligible to nominate in tier two and tier three of the allocation is adjusted to account for load migration; (3) create more flexibility for the amount of advance notice holders must provide to the ISO for a transaction to become effective on the secondary registration system; (4) harmonize the credit requirements that recipients of congestion revenue rights acquired through load migration must meet with the ISO's generally applicable credit requirements and clarify what happens in the event that those credit requirements are not met; and (5) remove obsolete references in the provisions governing the allocation of merchant transmission congestion revenue rights. To ensure that the tariff amendments are in place for the 2013 annual CRR process, the ISO requested that the tariff amendments be effective as of September 15, 2012.

Responsible attorney: David Zlotlow

- **Order No. 760 - Compliance with data submission (ER12-2488)**

Through FERC Order No. 760, FERC amended its regulations to require each independent system operator and regional transmission organization to deliver to FERC on an ongoing basis a broad array of market information. FERC stated that having this market data provided on an ongoing basis would help it perform market oversight. Order No. 760 also requires all independent system operators and regional transmission organizations to amend their tariffs to reflect this new obligation. On August 20, 2012, the ISO filed its tariff amendments in compliance with Order No. 760.

Responsible attorney: David Zlotlow

- **Order No. 755 - Compensation for regulation services (ER12- 1630)**

On April 27, the ISO filed a tariff amendment to comply with FERC's Order No. 755 directive to compensate regulation resources based on the actual service provided, including both a capacity payment that reflects the marginal unit's opportunity costs and a performance payment that reflects the quantity of regulation service actually provided in response to dispatch signals. These tariff changes are expected to provide additional compensation to resources that respond faster than other resources. Resources that respond with greater accuracy also will receive higher payments. The Board approved this tariff amendment at its March 2012 meeting. On June 8, FERC requested additional information from the ISO on its proposed design to comply with Order No. 755. The ISO filed a response to FERC's request on July 6. No party filed comments in response to the ISO's July 6 filing.

Responsible attorney: Andrew Ulmer

Regulatory contracts

- **Interconnected control area operating agreement with the Nevada Power Company (ER12-1897)**

On May 31, the ISO submitted for filing Amendment No. 5 to the interconnected control area operating agreement between the ISO and the Nevada Power Company and requested an effective date of June 18, 2012. This amendment included changes in the points of interconnection to transition a portion of the Merchant substation from the Nevada Power Company balancing authority area to the ISO balancing authority area and other related changes. In addition, generation interconnected to the Merchant substation, including the Desert Star Energy Center generating facility owned by SDG&E (formerly owned by Sempra Generation and known as the Eldorado Combined Cycle generating facility), transitioned to the ISO balancing authority area. These changes were implemented by the ISO, SCE, SDG&E and the Nevada Power Company on June 18 consistent with the expectations of the parties. On July 5, FERC issued a letter order accepting the amendment effective as of June 18 as requested.

Responsible attorney: John Anders

- **Nevada Hydro large generator interconnection agreements (ER12-1312 and ER12-1305)**

On August 8, FERC issued an order in the two related Nevada Hydro matters setting them for hearing and settlement discussions. This matter concerns the two interconnection agreements with Nevada Hydro for a proposed project and related transmission line that would interconnect to the transmission systems of both SDG&E and SCE. Nevada Hydro's proposed generation project, known as Lake Elsinore Advanced Pumped Storage (LEAPS) is a proposed hydroelectric pumped storage generating facility. FERC's order stated that the parties' filings had raised certain issues of material fact for determination through a hearing, including whether other customers in the interconnection queue would be harmed

if the LEAPS interconnection agreements were not terminated, and whether ISO's treatment of Nevada Hydro's failure to meet project timelines is consistent with treatment of other queue customers who have missed project milestones.

Responsible attorney: Bill Di Capo

- **Dynegy Oakland 2012 reliability must-run contract (ER1-275)**

In an order issued on August 2, FERC accepted the joint settlement offer resolving all issues for the 2012 reliability must-run contract.

Responsible attorney: Sidney Davies

- **Western Antelope Dry Ranch and Western Antelope Blue Sky small generator interconnection agreements (ER12-2207 and ER12-2209)**

On July 5, the ISO filed two unexecuted small generator interconnection agreements with FERC at the interconnection customer's request. The two interconnection agreements relate to parallel solar projects which have the same project sponsor – Silverado Power. Dry Ranch is a 10 MW solar PV project, and Blue Sky Ranch is a 20 MW solar PV project; both projects are located in the Western Antelope, east of Kern River area of SCE's electrical system. The ISO is processing the projects under parallel interconnection requests. To resolve disputes concerning the proposed terms of the agreement, the ISO and Southern California Edison, as the participating transmission owner, filed the unexecuted interconnection agreements for resolution with FERC at the interconnection customer's request. The two agreements contain essentially the same terms. Silverado disputes the reasonableness of two provisions in the interconnection agreements. One provision relates to the appropriate classification of certain protective relays and telecommunication equipment at Antelope substation. Silverado believes the facilities should be classified as network upgrades, while the ISO and SCE have stated that they do not fit the definition of network upgrades and are to be installed solely for the protection of Silverado's generation tie-line. The second provision relates to potential reclassification of facilities needed to interconnect the projects from network facilities to distribution facilities. The reclassification would occur if and when certain upgrades, collectively known as the East of Kern Wind Resource Area (EKWRA) project, are removed from the ISO controlled grid and returned to SCE as distribution facilities. If this were to occur, the upgrades would be reclassified as distribution facilities pursuant to the Transmission Control Agreement entered into by all of the ISO's participating transmission owners. The customer's dispute relates to whether the repayment for its funding of such upgrades would cease following the reclassification. The ISO and SCE maintain that repayment would cease in the event of reclassification. On August 10, FERC issued a deficiency letter relating to the first provision in dispute that seeks technical information regarding the particulars of the protection system and telecom equipment. The ISO's response to the deficiency letter is due on September 10, 2012.

Responsible attorney: Bill Di Capo

Rulemakings and inquiries

- **Small generator interconnection agreements and procedures (AD12-17)**

On July 17, FERC held a technical conference to address issues arising from a petition filed at FERC by the Solar Energy Industry Association which seeks to modify the tests used for small distribution-connected generation facilities to qualify for fast track interconnection procedures under FERC's jurisdiction. The CPUC is also considering a settlement agreement which, if approved, would establish new rules for interconnection on CPUC jurisdictional distribution systems. The ISO submitted comments to FERC after the technical conference that highlighted differences that exist between distribution systems and networked transmission systems and requested that any action in FERC's proceeding not pre-judge the ISO's stakeholder process to examine possible refinements for fast track interconnection procedures applicable to transmission facilities under the ISO's operational control. The ISO also asked FERC to remain flexible with respect to California's efforts to streamline distribution level interconnections.

Responsible attorney: Andrew Ulmer

Report filings

- **Quarterly report on interconnection queue (ER08-1317; ER11-1830)**

On July 30, the ISO filed its quarterly report with FERC on the ISO's progress in processing the interconnection queue over the second quarter of 2012. Among other activities, the ISO noted that it received 65 new interconnection requests during the application window (March 1-31) for the fifth queue cluster. The ISO initiated phase I interconnection studies in August, which are scheduled for completion in December 2012. With respect to work on prior clusters, the report explains that it is in the midst of a combined queue clusters 3 and 4 phase II interconnection study for the 18 projects in queue cluster 3 and the 57 projects in queue cluster 4. The ISO anticipates that this phase II study will be completed in the November-December 2012 timeframe.

Responsible attorney: Bill Di Capo

- **Convergence bidding report (ER11-2128)**

On August 1, 2012, the ISO complied with a FERC directive to file a report 18 months after implementation of convergence bidding to assess the accuracy of the assumptions used to establish the virtual award charge. In its report, the ISO explained that with the redesign of the ISO's grid management charge effective as of January 1, 2012, which included the elimination of the virtual award charge, the directive was rendered moot.

Responsible attorney: Sidney Davies

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

A market disruption is an action or event that causes a failure of an ISO market, related to system operation issues or system emergencies. The ISO reports these market disruptions to FERC on a monthly basis. On July 13, the ISO submitted its monthly report of market disruptions that occurred from May 16 through June 15. On August 15, the ISO submitted its monthly report of market disruptions that occurred from June 16 through July 15. Section 7.7.15 of the tariff authorizes the ISO to take one or more of a number of specified actions in the event of a market disruption, to prevent a market disruption, or to minimize the extent of a market disruption.

Responsible attorney: Anna McKenna

- **Exceptional dispatch reports (ER08-1178)**

The ISO submits two types of monthly exceptional dispatch reports to FERC. On July 15 and August 15, the ISO submitted transactional data including incremental and decremental MW volume, duration and location for exceptional dispatches occurring during the months of May and June, respectively. On June 30 and July 30, the ISO submitted MW hour data and cost data for exceptional dispatches occurring during the months of April and May, respectively. An exceptional dispatch is a dispatch or a commitment issued by the ISO to a resource outside of the operation of the ISO market to address operational needs that cannot be address by the ISO market.

Responsible attorney: Sidney Davies

Other FERC matters

- **SIG Energy complaint (EL12-55)**

On April 4, SIG Energy LLLP filed a complaint at FERC asserting that the ISO violated its tariff on August 17 and 19, 2011, by failing to use the appropriate marginal congestion cost component to settle congestion revenue rights that SIG held at a specific pricing node. The ISO answered SIG's complaint on May 11 arguing that FERC should deny the complaint because the ISO had correctly settled the congestion revenue right. SIG asserted that the ISO deprived SIG of approximately \$4.7 million. On June 29, SIG moved for leave to amend its complaint, seeking to recover congestion revenue rights settlements for the same pricing node and based on the same theory for five additional days in February 2011. The amended complaint claimed an entitlement to an additional \$700,000 in refunds. On July 19, 2012, FERC issued an order denying SIG's complaint and finding that the ISO correctly settled SIG's congestion revenue rights.

Responsible attorneys: Anna McKenna and Burt Gross

- **Complaint of Shell Energy North America (EL12-88)**

On July 25, Shell Energy North America (US) L.P. filed a complaint against the ISO alleging that the ISO's imposition of a tariff-defined penalty for Shell's late submission of meter data is unjust and unreasonable. Shell's primary contention is that its delay in submitting meter data was the unavoidable result of the actions of a third party, Southern California Edison. As an electric service provider, Shell relies on Edison to provide it with the meter data that gets reported to the ISO. Shell claims that Edison provided the data late to Shell which in turn caused Shell to provide the data late to the ISO. Shell also claimed that the ISO settlements process requires several tariff amendments and that the need for the changes justifies a FERC investigation of the ISO's settlement process. On August 14, 2012, the ISO responded to Shell's complaint. The ISO explained that Shell's concerns are fundamentally about retail issues subject to oversight of the CPUC. The ISO also explained that many of the claims Shell raised have been considered and rejected by the FERC in prior proceedings. Finally, the ISO explained that Shell offered no evidence to justify a FERC investigation. Edison provided its own response challenging some of Shell's factual assertions.

Responsible attorney: David Zlotlow

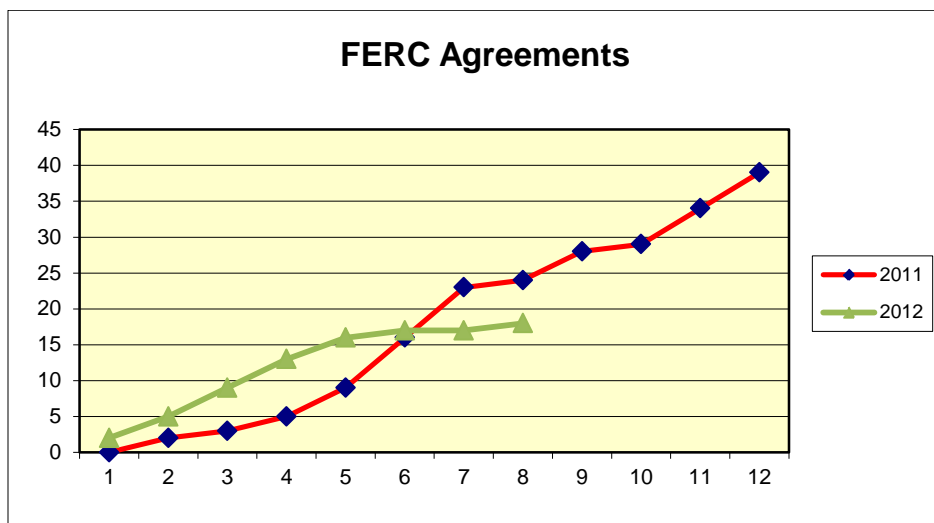
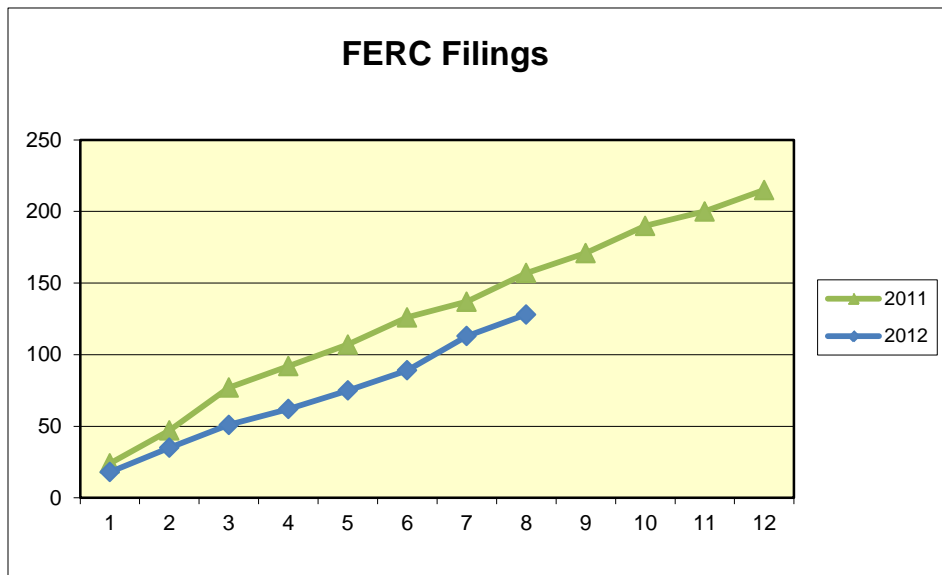
California Public Utilities Commission matters

- **Distribution level interconnection rulemaking (R.11-09-011)**

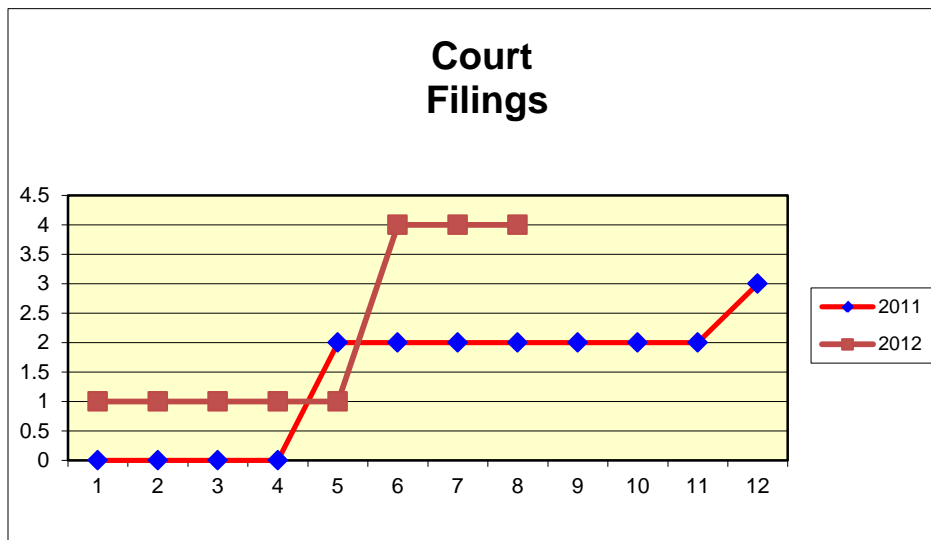
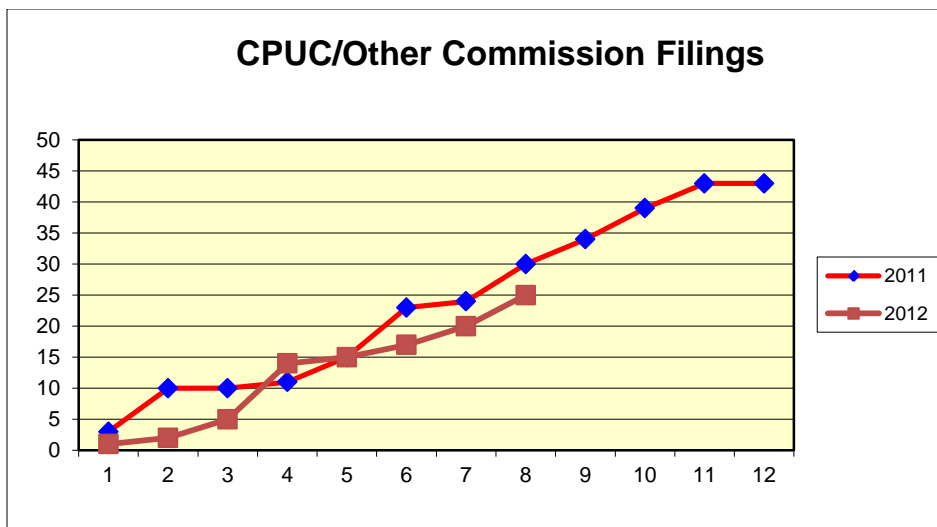
This proceeding concerns proposed changes to CPUC Rule 21, which sets forth the rules for generation interconnecting to the distribution system for purposes of self-generation and/or sale by retail customers back to its own utility or to another utility through such mechanisms as the renewable auction. Distribution interconnected generation that does not fit within the Rule 21 criteria must interconnect to a utility distribution system under the utility's FERC jurisdictional wholesale distribution tariff. Phase 1 of the proceeding has consisted of a settlement procedure under which interested parties have developed a revised Rule 21 tariff with issues identified as the proposed scope of Phase 2. PG&E, SCE and SDG&E are the primary settling parties, along with certain joint party groups consisting of small generators, distributed generation interest groups, and others. The ISO participated in the eight month-process to ensure consistency with ISO interconnection process, although the ISO is not a signatory to the settlement agreement. The ISO submitted comments in support of the proposed settlement. On August 14, the assigned administrative law judge issued a proposed decision accepting the proposed settlement without modification, including the Revised Rule 21 and scope of issues for Phase 2.

Responsible attorney: Bill Di Capo

Regulatory Filings Through August 2012



Regulatory Filings Through August 2012



Regulatory Filings Through August 2012

