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1 PURPOSE

This initial listing of frequently asked questions provides answers to specific SC questions raised during the FERC Refund Rerun. The list of frequently asked questions will be supplemented as the rerun progresses.

2 FREQUENTLY ASKED QUESTIONS

- **Will CT 485 be mitigated? If so, how will it be mitigated?**

  CT 485 is within scope of mitigation and, as such, will be mitigated. In reality CT 485 is a function of other prices ("twice the highest price paid"). Those prices are what are actually mitigated, rather than CT 485. In intervals where the price used as the basis for the penalty is mitigated, CT 485 will become lower.
  The process of how CT 485 is mitigated is fairly straightforward. Once the CT 485-applicable prices are mitigated, the ISO Compliance analyst identifies the highest resulting price paid. The penalty will be twice the highest identified price. This could mean that a transaction that set the price previously may not set the price during the refund rerun.
  For example, if bid A set the price previously at $500 and was mitigated in the refund rerun to $300, and bid B was below 500 which didn't set the price previously was mitigated to $350. B ($350) would be the highest price paid so this transaction is now the basis for the CT485 calculation. CT 485 would drop from $1000 to $700.

- **In the case of the memoties subset, it is not clear from the status report what measure of "metered demand" the $9 million was allocated to and there are several possibilities.**

  For example,
  - Was the $9 million charged to all metered demand within the ISO control area (i.e. spread pro rata across all SCs in the control area in proportion to their metered demand)? Or,
  - Was it spread to metered demand within a specific zone(s)? Or,
  - Was the charge spread to an SC's metered demand in proportion to the SC's net negative deviation?

  The $9 million was spread pro rata across all the SCs in the Control area to their metered demand (ct 1010)

- **A question was raised during the October 29th re-run call with Market Participants relative to mitigation of import transactions and whether they occur on a 10-minute or hourly basis in the ISO system:**

  The ISO settlement system must settle on a 10-minute basis, so the ISO proposes the following to comply with the March 26, 2003 order, paragraph 79.

  The ISO will calculate impacts of 10-minute vs. hourly mitigation outside the settlement system and publish these impacts separately to market participants for review. The ISO would then make appropriate adjustments at the end of the refund rerun settlement production without any impact on the project schedule.

Hourly Mitigation of Import Transactions

- **Please explain in detail how the ISO plans to calculate the impacts of the 10-minute vs. hourly mitigation of hourly imports. Will the ISO do this entirely outside of the settlement system? If so, how does the ISO propose to allocate the adjustments?**

- **Powerex would like the ISO to confirm that the adjustment it plans to make for hourly import transactions will be reversal of the 10 min. MMCP mitigation results to be replaced with mitigation using the hourly MMCP applied against the average of the interval prices paid for the hourly import.**

- **Response:**

First, a file with the transaction price and quantity for each import during the refund period will be determined based on 10-minute settlement records from the preparatory rerun. For transactions in excess of the $250/$150 soft caps, this requires that the 401 and 481 payment codes be added together.

Second, transactions except from mitigation will be identified and dropped out of the analysis. Transactions exempt from mitigation include:

- OOM purchases from CERS.
- Imports made under the DOE order that have been found to be exempt from mitigation.
- Import transactions made more than 24 hours in advance of the operating day that that have been found to be exempt from mitigation.

Third, the hourly MMCPs used to mitigate PX and Ancillary Service transactions will be merged into the file. These hourly MMCPs represent the simple average of the six 10-minute interval MMCPs for each hour.

The adjustment needed to mitigate for each 10-minute interval transaction at the hourly MMCP is then calculated (as follows:

Adjustment = Quantity × {Max[0, (Transaction Price - Interval MMCP)]
- Max[0, (Transaction Price – Hourly MMCP] }

Where a negative number indicates an amount to be subtracted from the SC's refund liability, and a positive number indicates an increase in the SC's refund liability.

Finally, the adjustments for all transactions of each entity over the refund period are summed up to a single number, with a negative number indicating an amount to be subtracted from the SC's refund liability, and a positive number indicating an increase in the SC's refund liability.

An Example is provided in the Excel spreadsheet titled, " **Hourly Mitigation of Import Transactions Example**", located below "FAQ's" at: http://www.caiso.com/docs/2004/08/13/2004081308500721422.html.