

122 FERC ¶ 61,271  
UNITED STATES OF AMERICA  
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Joseph T. Kelliher, Chairman;  
Sudeen G. Kelly, Marc Spitzer,  
Philip D. Moeller, and Jon Wellinghoff.

California Independent System Operator Corporation      Docket Nos. ER06-615-011  
ER06-615-012  
ER07-1257-000

ORDER ON TECHNICAL CONFERENCE AND COMPLIANCE

(Issued March 24, 2008)

1. On August 3, 2007, as supplemented on August 10, 2007 (August 2007 filings), the California Independent System Operator Corporation (CAISO) submitted proposed revisions to its Market Redesign and Technology Upgrade (MRTU) tariff to include information previously contained in its Business Practice Manuals, or BPMs.<sup>1</sup> On September 26, 2007, Commission staff convened a technical conference to discuss provisions in the CAISO's Business Practice Manuals which, in parties' view, should be included in the MRTU tariff.<sup>2</sup> As a result of the technical conference, on November 15, 2007, the CAISO proposed to revise the MRTU tariff to include additional provisions that had originally been included in the Business Practice Manuals.<sup>3</sup> In this order, we accept and reject various proposed tariff revisions, and order the CAISO to submit a further compliance filing.<sup>4</sup>

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<sup>1</sup> CAISO August 3, 2007 Filing, Docket Nos. ER06-615-012 and ER07-1257-000; CAISO August 10, 2007 Supplemental Filing, Docket Nos. ER06-615-011 and ER07-1257-000 (together, "August 2007 filings"). All of the CAISO's Business Practice Manuals are available at <http://www.caiso.com/17ba/17baa8bc1ce20.html>.

<sup>2</sup> Notice of Technical Conference, Docket Nos. ER06-615-012 and ER07-1257-000 (Sept. 11, 2007).

<sup>3</sup> CAISO November 15, 2007 Post-Technical Conference Response, Docket Nos. ER06-615-012 and ER07-1257-000, at 7 (CAISO November 15 filing).

<sup>4</sup> We note that the CAISO's proposed tariff changes responding to compliance directives other than Resource Adequacy or Business Practice Manuals will be addressed (continued...)

## I. Summary of the Proceeding

2. The CAISO filed its proposed MRTU tariff on February 9, 2006. Among other things, MRTU will provide: a day-ahead market for trading and scheduling energy; an hour-ahead scheduling process (HASP) that allows schedule adjustment prior to the real-time market (RTM); a more effective congestion management system; improved market power mitigation measures; system improvements to increase operational efficiency and enhance reliability; a more transparent pricing system; and the opportunity for demand resources to participate in the CAISO markets under comparable requirements as supply. To supplement its proposed MRTU tariff, the CAISO committed to creating a series of Business Practice Manuals that “provide implementation details, examples, templates, timelines, and other information” to market participants.<sup>5</sup> The Business Practice Manuals serve as guides for the internal operation of the CAISO, and document the manner in which the CAISO conducts its operations under the provisions of the MRTU tariff.<sup>6</sup> The Business Practice Manuals are designed to provide consistency and transparency in the implementation of MRTU.<sup>7</sup>

3. The proposed MRTU tariff was conditionally accepted for filing, subject to modifications, in a September 21, 2006 Commission order.<sup>8</sup> In that order, among other things, the Commission directed the CAISO to continue working with stakeholders to develop the Business Practice Manuals and file with the Commission any necessary additions to the MRTU tariff, and directed staff to convene a technical conference to “assist us in the determination of which practices or details remaining in the Business

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in a separate Commission order. We further note that the Commission has already acted on the Resource Adequacy portions of the CAISO’s August 2007 filings. *See Cal. Indep. Sys. Operator Corp.*, 122 FERC ¶ 61,017 (2008) (January 2008 Resource Adequacy Order).

<sup>5</sup> CAISO August 3, 2007 Filing, Docket Nos. ER06-615-012 and ER07-1257-000, at 19.

<sup>6</sup> CAISO November 15 filing, Docket Nos. ER06-615-012 and ER07-1257-000, at 2.

<sup>7</sup> *Id.*

<sup>8</sup> *Cal. Indep. Sys. Operator Corp.*, 116 FERC ¶ 61,274, at P 1 (2006) (September 2006 MRTU Order); *Cal. Indep. Sys. Operator Corp.*, 119 FERC ¶ 61,076 (2007) (April 2007 Rehearing Order); *Cal. Indep. Sys. Operator Corp.*, 120 FERC ¶ 61,271 (2007) (September 2007 Rehearing Order).

Practice Manuals might appropriately belong in the MRTU tariff.”<sup>9</sup> The Commission also directed the CAISO to file proposed tariff language regarding a standard, formalized process for amending the Business Practice Manuals.<sup>10</sup>

4. Over the past two years, the CAISO developed and modified fourteen Business Practice Manuals in concert with its stakeholders.<sup>11</sup> Pursuant to the Commission’s directive, on August 3, 2007, as supplemented on August 10, 2007, the CAISO submitted more than seventy proposed additions to the MRTU tariff reflecting details previously contained only in the Business Practice Manuals.<sup>12</sup>

5. Numerous parties commented on the CAISO’s August 2007 filings. There was little or no objection to any of the Business Practice Manual provisions the CAISO proposed to include in the MRTU tariff. Rather, commenters identified a number of additional provisions they assert: (1) should be included in the MRTU tariff; or (2) are in need of further clarification before a determination can be made whether they belong in the MRTU tariff. The August 2007 filings by the CAISO and the related stakeholder comments formed the basis for Commission staff to convene a technical conference on September 26-27, 2007.

6. Following the technical conference, the CAISO proposed to revise the MRTU tariff to include certain additional provisions that had originally been included in the Business Practice Manuals. To reiterate, in their post-technical conference comments, parties do not object to the CAISO’s proposed inclusions, but instead focus on provisions the CAISO declined to add to the MRTU tariff.

7. These filings<sup>13</sup> and comments<sup>14</sup> are what the Commission acts on today. We note that several parties raise concerns that are beyond the scope of this proceeding.

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<sup>9</sup> *Id.* P 1370.

<sup>10</sup> *Id.* P 1371.

<sup>11</sup> For a complete list of the Business Practice Manuals, see Appendix A.

<sup>12</sup> See CAISO August 10, 2007 Supplemental Filing, Attachment C, Docket Nos. ER06-615-011 and ER07-1257-000, at 29-57.

<sup>13</sup> CAISO August 3, 2007 Filing, Docket Nos. ER06-615-012 and ER07-1257-000; CAISO August 10, 2007 Supplemental Filing, Docket Nos. ER06-615-011 and ER07-1257-000; CAISO November 15 filing, Docket Nos. ER06-615-012 and ER07-1257-000.

<sup>14</sup> Comments were submitted to the Commission on September 7, 2007,  
(continued...)

Generally, such protests relate to: (a) previously-decided policy issues involving the MRTU tariff; or (b) language that is contained only in a Business Practice Manual and not a candidate for inclusion in the tariff because it does not significantly affect rates, terms or conditions of service.<sup>15</sup> As discussed more fully in the body of this order, we decline to act on these requests, as they are beyond the scope of the instant proceeding.

8. Finally, we also address in this order the CAISO's proposed process for modifying Business Practice Manuals, which we refer to as the "BPM change management process." The CAISO submitted its proposal for the BPM change management process in its August 2007 filings, part of which would be incorporated into the MRTU tariff and part of which would be contained in the Business Practice Manual titled "Change Management Process for MRTU Business Practice Manuals" (Business Practice Manual for the BPM change management process). While the BPM change management process was not part of the September technical conference agenda, the CAISO amended its proposal after the September 2007 technical conference, and the modified proposed BPM change management process is reflected in the CAISO's November 15 filing.

## **II. Notice, Intervention and Responsive Pleadings**

9. Notice of the August 3, 2007 compliance filing and the August 10, 2007 supplemental filing was published in the *Federal Register*, 72 Fed. Reg. 46,618 (2007), with comments, protests, or interventions due on August 24, 2007. On August 20, 2007, Indicated Parties<sup>16</sup> filed a motion for extension of time to submit comments. On

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September 18, 2007, November 30, 2007 and December 7, 2007.

<sup>15</sup> See *City of Cleveland v. FERC*, 773 F.2d 1368, 1376 (D.C. Cir. 1985) (finding that utilities must file "only those practices that affect rates and service significantly, that are reasonably susceptible of specification, and that are not so generally understood in any contractual arrangement as to render recitation superfluous") (*City of Cleveland*).

<sup>16</sup> Indicated Parties are the California Municipal Utilities Association (CMUA); the California Public Utilities Commission (CPUC); the Transmission Agency of Northern California (TANC); the City of Santa Clara, California, doing business as Silicon Valley Power (SVP); the M-S-R Public Power Agency (M-S-R); the City of Redding, California (Redding); the Modesto Irrigation District (Modesto); the Metropolitan Water District of Southern California (Metropolitan); the Bay Area Municipal Transmission Group (Bay Area Municipals); the Northern California Power Agency (NCPA); Western Power Trading Forum (WPTF); Sacramento Municipal Utility District (SMUD); the Imperial Irrigation District (Imperial); Alliance for Retail Energy Markets (AREM) and the Cities of Anaheim, Azusa, Banning, Colton, Pasadena and Riverside, California (Six Cities).

August 22, 2007, the Commission granted the requested extension, establishing a filing deadline of September 7, 2007 for initial comments and September 26, 2007 for reply comments.

10. Notices of intervention and timely motions to intervene were filed by a number of entities, as listed in Appendix B to this order. On September 18, 2007, Coral Power, L.L.C. (Coral) filed a motion to intervene out-of-time, and on September 19, 2007, EPIC Merchant Energy, LP (EPIC) also filed a motion to intervene out-of-time. Numerous parties submitted comments and/or protests along with their motions to intervene. The CAISO, CMUA, Six Cities and Southern California Edison Company (SoCal Edison) all filed timely reply comments.

11. Notice of the post-technical conference schedule was published in the *Federal Register*, 72 Fed. Reg. 57,561 (2007), establishing November 15, 2007 as the deadline for the CAISO to file its post-technical conference response. Intervenor comments were due on November 30, 2007, with reply comments due on December 7, 2007.

12. The CAISO timely filed its post-technical conference response. Post-technical conference comments were filed by Metropolitan, Modesto, Pacific Gas and Electric Company (PG&E), SVP/M-S-R, SMUD, SoCal Edison, TANC and WPTF.

13. Reply comments were filed by the CAISO, WPTF, SoCal Edison and the California Department of Water Resources State Water Project (SWP). WPTF filed an answer to the CAISO's reply comments.

### **III. Discussion**

#### **A. Procedural Matters**

14. As stated in our prior order conditionally accepting the Resource Adequacy provisions of the August 2007 filings, pursuant to Rule 214 of the Commission's Rules of Practice and Procedure, the timely notices of intervention and timely, unopposed motions to intervene serve to make the entities that filed them parties to this proceeding.<sup>17</sup> In addition, we have previously granted late filers Coral and EPIC party status in this proceeding as well.<sup>18</sup>

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<sup>17</sup> January 2008 Resource Adequacy Order, 122 FERC ¶ 61,017 at P 18 (citing 18 C.F.R. § 385.214 (2007)).

<sup>18</sup> *Id.*

15. Rule 213(a)(2) of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.213(a)(2) (2007), prohibits an answer unless otherwise ordered by the decisional authority. We are not persuaded to accept WPTF's answer and will, therefore, reject it.

**B. New Tariff Provisions from the Business Practice Manuals**

16. It is appropriate for Business Practice Manuals to contain implementation details, such as instructions, guidelines, examples and charts, which guide internal operations and inform market participants of how the CAISO conducts its operations under the MRTU tariff.<sup>19</sup> Whether provisions included in the Business Practice Manuals must be filed under section 205 of the Federal Power Act (FPA)<sup>20</sup> and made part of the CAISO's MRTU tariff is determined through the "rule of reason,"<sup>21</sup> which discerns those provisions significantly affecting rates, terms and conditions of service, which therefore must be filed for Commission approval.<sup>22</sup> The Commission's policy, as implemented through the rule of reason, is that only those practices that significantly affect rates, terms and conditions fall within the directive of section 205(c) of the FPA.<sup>23</sup>

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<sup>19</sup> See September 2007 MRTU Order, 116 FERC ¶ 61,274 at P 1358.

<sup>20</sup> 16 U.S.C. § 824d (2000 & Supp. V 2005).

<sup>21</sup> See *City of Cleveland* at 1376; See, e.g., *Public Serv. Comm'n of N.Y. v. FERC*, 813 F.2d 448, 454 (D.C. Cir. 1987) (holding that the Commission properly excused utilities from filing policies or practices that dealt with only matters of "practical insignificance" to serving customers); *Midwest Independent Transmission System Operator, Inc.*, 98 FERC ¶61,137 at P 61,401 (stating "It appears that the proposed Operating protocols could significantly affect certain rates and service and as such are required to be filed pursuant to Section 205."), *clarification granted*, 100 FERC ¶ 61,262 (2002).

<sup>22</sup> See April 2007 Rehearing Order, 119 FERC ¶ 61,076 at P 656 (citing the rule of reason policy); See generally *Prior Notice and Filing Requirements under Part II of the FPA*, 64 FERC ¶ 61,986 (1993) (explaining Commission jurisdiction with respect to all rates and charges that are "for or connected with" and all agreements that "affect or relate to," jurisdictional activities).

<sup>23</sup> See *City of Cleveland* at 1376 (D.C. Cir. 1985) (finding that utilities must file "only those practices that affect rates and service *significantly*, that are reasonably *susceptible* of specification, and that are not so generally understood in any contractual arrangement as to render recitation superfluous") (emphasis added); see also *Preventing Undue Discrimination and Preference in Transmission Service*, Order No. 890, 72 Fed. (continued...)

17. The Commission, in its September 2006 MRTU Order, found that the “rule of reason” test requires a case-by-case analysis, comparing what is in the MRTU tariff against what is in the Business Practice Manuals.<sup>24</sup>

18. Except as discussed below, we conditionally accept the CAISO’s proposed tariff modifications that will include in the MRTU tariff those essential provisions that significantly affect rates, terms and conditions. However, since the CAISO submitted its proposed tariff revisions in the November 15 filing only in red-line format, we direct the CAISO to submit formal tariff sheets reflecting its proposed tariff revisions within 60 days from the date of issuance of this order.

**1. BPM for Market Instruments**

**a. Attachment D of the BPM for Market Instruments**

19. Attachment D of the Business Practice Manual for Market Instruments (titled “Calculation of Default energy Bids”) concerns the calculation of default energy bids when generators are mitigated to alleviate local market power concerns. Attachment E (“Calculation of Bid Adders”) provides eligibility criteria, calculations, and procedures for bid adders associated with default energy bids. TANC argues that the entirety of Attachments D and E to this Business Practice Manual should be included in the MRTU tariff because, in TANC’s view, placing a bid and paying a bid adder significantly affect terms, prices and conditions of service.<sup>25</sup> TANC explains that Attachment D contains details pertaining to the calculation of default energy bids, and the means for and limitations on submitting default energy bids, including discussions of LMP pricing. Specifically, TANC states that section D.3 (titled “Characteristics of the Default Energy Bid”), which details the characteristics of a default energy bid, is absent from the corresponding MRTU tariff section 39.7.1.2 (titled “Calculation of Energy Default Bids,” “LMP Option”). TANC further states that section D.4.1.2 of Attachment D of the

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Reg. 12,266 (Mar. 15, 2007), FERC Stats. & Regs. ¶ 31,241, at P 1650 (2007), *order on reh'g*, Order No. 890-A, 73 Fed. Reg. 2984 (Jan. 16, 2008), FERC Stats & Regs. ¶ 31,261 (2007) (stating that Business Practice Manuals that mostly involve “general operating procedures” need not be filed with the Commission); *See generally Prior Notice and Filing Requirements under Part II of the FPA*, 64 FERC ¶ 61,986 (1993) (explaining Commission jurisdiction with respect to all rates and charges that are “for or connected with” and all agreements that “affect or relate to,” jurisdictional activities).

<sup>24</sup> September 2006 MRTU Order, 116 FERC ¶ 61,274 at P 1370.

<sup>25</sup> TANC September 7, 2007 Protest, Docket No. ER06-615-012, *et al.*, at 29.

Business Practice Manual for Market Instruments (titled “Incremental Heat Rate Curve”), which provides the formula for calculating incremental heat rates from average rates, is absent from corresponding sections of the MRTU tariff. TANC argues that these sections should be included in the MRTU tariff because they significantly affect rates, terms and conditions of service.

20. The CAISO responds to TANC’s comments, arguing that Attachments D and E of the Business Practice Manual for Market Instruments should not be included in their entirety in the MRTU tariff. Specifically, the CAISO points to its November 15 filing, in which it states that in the Commission’s June 2007 MRTU Compliance Order,<sup>26</sup> the Commission found that the “rule of reason” does not require the CAISO to describe supporting documentation for exercising the negotiated rate option for default energy bids in the MRTU tariff. The CAISO states that for similar reasons, the Commission should find that the supporting documentation concerning default energy bids contained in Attachment D does not need to be included in the tariff. The CAISO further states that in its August 3 filing, it added to the MRTU tariff all details in Attachments D and E that were appropriate for inclusion in the tariff, consistent with the Commission’s “rule of reason.” The CAISO argues that TANC fails to specify which additional details it believes should be moved from Attachment D and E into the MRTU tariff, and why the CAISO’s changes were insufficient. The CAISO states that for these reasons, the Commission should reject TANC’s argument that all of Attachments D and E should be included in the MRTU tariff.

### **Commission Determination**

21. We reject TANC’s request for inclusion in the MRTU tariff of all the information contained in Attachments D and E to the BPM for Market Instruments because we find that, except as discussed below, the information contained in these attachments does not significantly affect rates, terms and conditions of service. We find that, with the exception of formulas pertaining to calculation of the variable cost option for default energy bids, the CAISO strikes the appropriate balance regarding inclusion in the MRTU tariff of information that significantly affects rates, terms and conditions of service regarding the calculation of default energy bids, and relegation of supporting detail to the Business Practice Manuals. Similarly, the CAISO strikes the appropriate balance between the tariff and the manuals for bid adders, specifically in MRTU tariff section 39.8 (titled “Eligibility for Bid Adder”) and, therefore, Attachment E need not be included in its entirety in the MRTU tariff.

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<sup>26</sup> See CAISO November 15 filing, Docket Nos. ER06-615-012, *et al.*, at 54 (citing *Cal. Indep. Sys. Operator Corp.*, 119 FERC ¶ 61,313, at P 344 (2007) (June 2007 MRTU Compliance Order)).

22. TANC specifically requests inclusion in the MRTU tariff of section D.3, which details the characteristics of a default energy bid. The Commission finds that, with the exception of MRTU tariff sections 39.7.1.1 (titled “Variable Cost Option”), MRTU tariff sections 39.7.1, 39.7.1.2 and 39.7.1.3 (titled “Calculation of Default Energy Bids,” “LMP Option,” and “Negotiated Rate Option,” respectively), which describe the characteristics of the three methodologies for calculating a default energy bid, contain those characteristics of the default energy bids that significantly affect rates, terms and conditions of service. These tariff sections describe each methodology and the components used by the CAISO to calculate them. For example, in regard to the negotiated rate option, the MRTU tariff states that the Scheduling Coordinator is obligated to submit a proposed default energy bid along with supporting information and documentation. Accordingly, we find that section D.3 of the Business Practice Manual for Market Instruments, which contains supplemental information regarding the methodologies, does not significantly affect rates, terms and conditions of service, and, therefore, is appropriately included in the Business Practice Manual. Therefore, we reject TANC’s request to require the CAISO to include section D.3 of the Business Practice Manual for Market Instruments in its MRTU tariff.

23. We grant, however, TANC’s request to require the CAISO to include in its MRTU tariff the formula for calculating incremental heat rates, which is contained in that section D.4.1.2 of the Business Practice Manual for Market Instruments. We find that, while MRTU section 39.7.1.1 describes the process for calculating the Variable Cost Option for Default Energy Bids, it does not include the formula for calculating one of the components of the Variable Cost Option rate, the incremental heat rate curve. Since this formula is used to calculate the default energy bid, which is the rate the generator will be paid if local market power mitigation is applied to it and it has selected the Variable Cost Option, this formula significantly affects rates, terms and conditions of service and, therefore, should be included in the tariff.<sup>27</sup> In addition, we find that it would enhance the clarity of the MRTU tariff to include section D.4.1 of Attachment D to the Business Practice Manual for Market Instruments (titled “Variable Cost Option”) because it summarizes the Variable Cost Option calculation process in a readily comprehensible formula. Further, we note that section D.4.1 states that “[t]he Cost-Based DEB (default energy bid) will be calculated based on the Incremental Heat Rate curve (for gas fueled

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<sup>27</sup> See *KeySpan-Ravenswood, LLC v. FERC*, 474 F.3d 804, 811 (D.C. Cir. 2007) (finding that the Commission erroneously concluded that the rule of reason did not require the ISO to file its method for translating installed capacity into unforced capacity because in fact the translation methodology significantly affected the ISO’s compliance with reliability rules).

units) multiplied by the Gas Price Index.”<sup>28</sup> But, MRTU tariff section 39.7.1.1, which describes the Variable Cost Option, fails to state that the incremental heat rate curve is used in the calculation, and instead only references “the Heat Rate supplied by the resource owner on file in the Master File.”<sup>29</sup> Accordingly, we direct the CAISO to include within the MRTU tariff sections D.4.1 and D.4.1.1 of Attachment D to the Business Practice Manual for Market Instruments and to file tariff sheets reflecting this change within 60 days from the date of issuance of this order.

**b. MRTU Tariff Sections 8.3.7 and 8.1**

24. Metropolitan states that the CAISO’s revision to MRTU tariff section 8.3.7 (titled “Bidding Requirements, Including Submission to Self-Provide an Ancillary Service”) may conflict with existing MRTU tariff section 8.1 (titled “Ancillary Services,” “Scope”). MRTU tariff sections 8.3.7 and 8.1 relate to submissions to self-provide ancillary services. Metropolitan notes that the proposed section 8.3.7 may conflict with existing MRTU tariff section 8.1 because it appears Scheduling Coordinators may submit bids for ancillary services from resources located outside the CAISO control area, but omits any reference to allowing submissions to self-provide an ancillary service outside the CAISO control area even if permitted pursuant to existing transmission contracts (ETCs), transmission ownership rights (TORs), or converted rights. Metropolitan requests that the Commission withhold approval of any proposed tariff changes for MRTU tariff sections 8 (titled “Ancillary Services”) and 30 (titled “Bids, Including Self-Schedules, Submission for All CAISO Markets”) until more time is allowed for review and the CAISO makes a new filing.

**Commission Determination**

25. We agree with Metropolitan’s argument that revised MRTU tariff section 8.3.7 appears to conflict with the existing MRTU tariff section 8.1. In regard to submission of bids to self-provide ancillary services, MRTU section 8.1 states: “The CAISO will not accept Submissions to Self-Provide Ancillary Services that are imports to the CAISO Control Area over the interties with interconnected Control Areas, except from Dynamic System Resources certified to provide Ancillary Services or if provided pursuant to ETCs, TORs or Converted Rights.”<sup>30</sup> Revised MRTU section 8.3.7 fails to state that the CAISO will accept submissions to self-provide ancillary services that are imports to the CAISO control area provided pursuant to ETCs, TORs or converted rights. We direct the

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<sup>28</sup> See BPM for Market Instruments at Att. D, D.4.1.

<sup>29</sup> See MRTU tariff section 39.7.1.1.

<sup>30</sup> See MRTU tariff section 8.1.

CAISO to revise MRTU tariff section 8.3.7 to clarify that it will accept submissions to self-provide ancillary services that are imports to the CAISO control area that are provided pursuant to ETCs, TORs or converted rights. We direct the CAISO to submit tariff sheets reflecting this change within 60 days from the date of issuance of this order.

## **2. BPM for Market Operations**

### **a. MRTU Tariff Sections 30.7.3.1 and 34.2.2**

26. WPTF argues that the CAISO has not clarified the treatment of ancillary services bids and prices in real-time.<sup>31</sup> WPTF argues that by adding a rule to MRTU tariff section 30.7.3.1 (titled “Validation Prior to Market Close and Master File Update”) that requires bids for ancillary services, and deleting a sentence from MRTU tariff section 34.2.2 (titled “Real Time Ancillary Services Procurement”) that requires bids for regulation, the CAISO has created an ambiguity as to which ancillary services bids are required. WPTF adds that it is not clear whether the CAISO actually inserts bids at \$0 for regulation services for the real-time market or whether it only inserts \$0 ancillary service bids for the operating reserve services. WPTF argues that the Commission should direct the CAISO to remove references in the tariff and the Business Practice Manuals that allow it to insert bids with \$0 bids for regulation not offered in the real-time market to the extent a resource is capable of providing more regulation than it was awarded or self-provided in the day-ahead market. In its December 7 filing, SWP concurs with this argument.

27. In its December 7 filing, the CAISO states that it does not believe it created any ambiguity, but rather added detail that provides more explanation on how bids are treated through the scheduling infrastructure and business rules system (SIBR) process. The CAISO also explains that the tariff revisions were made to build on the market rules that are already included in the MRTU tariff. The CAISO notes that its only purpose in modifying MRTU tariff sections 30.7.3.1 and 30.7.6.1 was to consolidate the bid validation rules and to delete a sentence from section 34.2.2 regarding regulation because it was not accurate. The CAISO proposes revisions to MRTU tariff sections 30.7.3.1 and 30.7.6.1 (titled “Validation of Ancillary Services Bids”) to further clarify the bid validation rules.

### **Commission Determination**

28. We find, contrary to WPTF’s assertion, that the CAISO’s revisions to MRTU tariff sections 30.7.3.1 and 34.2.2 do not create ambiguity. Section 30.7.3.1 of the MRTU tariff, as amended, clearly identifies the CAISO’s policy and circumstances under

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<sup>31</sup> The discussion in this section involves tariff revisions filed by the CAISO in response to comments filed by WPTF on September 18, 2007.

which the CAISO will insert a \$0 ancillary services bid for operating reserve. Consequently, we direct the CAISO to file this proposed tariff revision within 60 days from the date of issuance of this order.

**b. MTRU Tariff Section 31.3.1.2**

29. WPTF states that MRTU tariff section 31.3.1.2 (titled “Treatment of Ancillary Services Bids in IFM”) implies that a day-ahead must offer obligation exists for ancillary services that are unrelated to any must-offer provisions previously filed by the CAISO.<sup>32</sup> WPTF notes that this conveys an unjust presumption by the CAISO that all resources are providing ancillary services up to their maximum allowable levels. WPTF requests that the Commission reject the CAISO’s proposed changes in MRTU tariff section 31.3.1.2, as the CAISO has provided no rationale for the language and no justification for its presumption.

30. In its December 7 reply comments, the CAISO states that it recognizes that there exists language in MRTU tariff section 31.3.1.2 that could be read as extending ancillary services bids for the full amount of ancillary services capacity of a resource. The CAISO states this was not the intent of the revisions, and proposes further revisions to clarify MRTU tariff section 31.3.1.2. The CAISO states that SIBR does not extend ancillary services bids above the bid-in amount of capacity reflected in the bid for use in the integrated forward market (IFM). The CAISO’s proposed MRTU tariff clarifications provide that the IFM co-optimizes energy and ancillary services bids, based on the amount of capacity reflected in the bids, and ancillary services bids that are not associated with an associated energy bid will be co-optimized based on zero opportunity costs.

**Commission Determination**

31. The CAISO’s proposed tariff revisions submitted in its December 7 reply comments clarify the treatment of energy and ancillary services bids in the IFM. Therefore, we accept that proposed language and direct the CAISO to submit tariff sheets reflecting this change within 60 days from the date of issuance of this order.

**c. MRTU Tariff Section 30.7.6.1**

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<sup>32</sup> The discussion in this section involves tariff revisions filed by the CAISO in response to comments filed by WPTF on September 18, 2007.

32. The CAISO proposes, in its November 15 filing, to modify MRTU tariff section 30.7.6.1 to state circumstances in which ancillary services bids will be generated or will be erased by SIBR.<sup>33</sup>

33. WPTF objects to the CAISO's proposed revision to MRTU tariff section 30.7.6.1, which would allow the CAISO to erase ancillary services bids for operating reserves if the ancillary services bids are submitted in the real-time market without an accompanying energy bid. WPTF notes that the CAISO does not explain why this change is necessary and WPTF argues that this change appears to be inconsistent with the CAISO's policy regarding physical withholding. WPTF requests that the Commission reject the above provision in MRTU tariff section 30.7.6.1 and direct the CAISO to modify this section such that ancillary services bids are retained and energy bids are generated. SWP concurs with WPTF's argument.

34. In its December 7 reply comments, the CAISO responds that it revised its MRTU tariff to include additional detail regarding bid validation rules at the suggestion of its independent auditor. The CAISO states that the proposed revisions to MRTU tariff sections 30.7.3.1 and 30.7.6.1 were intended to provide further clarification regarding the existing MRTU software functionality as stated in the SIBR rules. In addition, the CAISO proposes revisions that clarify that it will insert energy bids to cover any day-ahead award or self-provision of operating reserves only after the close of the HASP or real-time market. The CAISO, however, states that its proposed revisions to MRTU tariff section 30.7.6.1 clarify that in the event that a Scheduling Coordinator fails to submit an energy bid, in the absence of a day-ahead commitment, the CAISO will erase the ancillary service bid. The CAISO states that this allows Scheduling Coordinators the maximum flexibility on how, when, and if they will submit energy bids to cover their ancillary services commitments. The CAISO requests that the Commission accept its proposed revisions to MRTU tariff sections 30.7.3.1 and 30.7.6.1 and reject WPTF's arguments.

### **Commission Determination**

35. We find that the CAISO's revisions to MRTU tariff sections 30.7.6.1 and 30.7.3.1, as amended in its December 7 reply comments, clarify existing MRTU functionality with respect to the treatment of non-Resource Adequacy resources in the day-ahead, HASP and real-time markets, and are consistent with previously-accepted MTRU tariff

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<sup>33</sup> The discussion in this section involves tariff revisions filed by the CAISO as a result of an independent auditor's review of the consistency of the MRTU tariff and corresponding Business Practice Manuals.

language.<sup>34</sup> Specifically, the CAISO's modification clarifies that if an ancillary services bid submitted in the HASP/real-time market is not accompanied by an energy bid, that ancillary services bid will be erased. In the day-ahead market, however, the CAISO's revisions provide that if a resource with a day-ahead award or qualified self-provided ancillary services does not submit an energy bid to cover the awarded or self-provided ancillary services by close of HASP and the real-time market, the CAISO will generate or extend an energy bid as necessary to cover the awarded or self-provided ancillary services capacity. The CAISO has adequately explained why its proposed tariff revisions are appropriate. Therefore, we accept the CAISO's proposed tariff revisions and order the CAISO to file these proposed revisions within 60 days from the date of issuance of this order.

**d. MTRU Tariff Section 30.5.2.6**

36. WPTF states that revisions to MRTU tariff section 30.5.2.6 (titled "Ancillary Services Bids") conflict with MRTU tariff section 30.7.6 (titled "Validation and Treatment of Ancillary Services Bids") concerning the relationship between energy bids and self-provided ancillary services.<sup>35</sup> WPTF notes that these contradictory tariff sections make it difficult to figure out the CAISO policy regarding energy bids and self-provided ancillary services.

37. In its December 7 reply comments, the CAISO argues that there is no conflict between MRTU tariff sections 30.5.2.6 and 30.7.6. The CAISO states that the rules for the day-ahead and the real-time markets are not identical, and that the provisions in these sections reflect different rules. Further, the CAISO states that WPTF misunderstands these rules under the MRTU tariff. The CAISO points to MRTU tariff section 30.5.2.6.2 (titled "Spinning Reserve Capacity Bid Information"), which provides that a Scheduling Coordinator is required to submit an energy bid in the real-time market, but if it does not, the CAISO will insert a self-schedule.

**Commission Determination**

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<sup>34</sup> See MRTU tariff section 30.7.6.1 (detailing the treatment of ancillary services bids in the real-time market); *see also* MRTU tariff section 11.10.1.1 (detailing the treatment of ancillary services bids in the day-ahead market).

<sup>35</sup> The discussion in this section involves tariff revisions filed by the CAISO in response to comments filed by WPTF on September 18, 2007.

38. We find there is no conflict between MRTU tariff sections 30.5.2.6 and 30.7.6. MRTU tariff section 30.5.2.6 details the treatment of ancillary service bids in the day-ahead market, while MRTU tariff section 30.7.6 details the treatment of ancillary service bids in the real-time market. These are two distinct markets. Consequently, the rules for the treatment of ancillary service bids in the two markets are not identical, and WPTF has presented no compelling explanation as to why they should be the same. Therefore, we deny WPTF's request. However, because the CAISO's November 15 filing only included redlined tariff sheets, we direct the CAISO to submit formal tariff sheets for revised MRTU tariff section 30.5.2.6 within 60 days from the date of issuance of this order.

**e. Insertion of Self-Schedules**

39. WPTF argues that the CAISO's proposal to insert self-schedules and energy bids for Scheduling Coordinators who self-provide ancillary services and provide residual unit commitment (RUC) capacity is inappropriate.<sup>36</sup> WPTF argues that this tariff change was unsolicited by parties participating in the Business Practice Manual technical conference. WPTF states that it would be unjust and unreasonable for the CAISO to schedule or dispatch and compensate resource owners as if they had submitted self-schedules. WPTF states that the Commission should reject the proposed tariff revision and require the CAISO to redraft these provisions to address WPTF's concerns and the Commission should direct the CAISO to formally file for such changes under section 205.

40. In its December 7 reply comments, the CAISO states that WPTF's argument that the proposed insertion of self-schedules for scheduling coordinators is improper because it may significantly harm a Scheduling Coordinator by increasing the likelihood of that Scheduling Coordinator having to supply energy at a low price is without merit. Further, the CAISO notes that all of the details the CAISO proposes to add to the MRTU tariff regarding self-schedules or extensions of energy bids are from pre-existing SIBR rules. The CAISO notes that a Scheduling Coordinator always has the option of resubmitting its bids prior to market close, and therefore always has ultimate control of the bids that it submits. The CAISO requests that the Commission reject all of WPTF's arguments concerning CAISO's proposal to insert self-schedules and energy bids for Scheduling Coordinators that self-provide ancillary services and provide RUC capacity.

**Commission Determination**

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<sup>36</sup> The discussion in this section involves tariff revisions filed by the CAISO as a result of an independent auditor's review of the consistency of the MRTU tariff and corresponding Business Practice Manuals.

41. In the CAISO's December 7 reply comments, the CAISO proposes to revise MRTU section 30.7.3.1 to state that it "will generate a Proxy Bid or extend an Energy Bid or Self-Schedule to cover any RUC Award or Day-Ahead Schedule in the absence of any Self-Schedule or Economic Bid components, or to fill in any gaps between any Self-Schedule Bid and any Economic Bid components to cover a RUC Award or Day-Ahead Schedule."<sup>37</sup> The CAISO's previous MRTU tariff section 30.7.3.1 did not include the possibility of the CAISO generating a proxy bid or extending an energy bid to cover any RUC award. Pursuant to MRTU tariff section 30.7.3.1, the CAISO does not plan to schedule or dispatch and compensate resource owners that have not submitted self-schedules, but rather this section allows the CAISO to fill in any gaps in a Scheduling Coordinator's self-schedule. We find that the CAISO's proposed MRTU tariff revision, submitted in its December 7 reply comments, adequately addresses WPTF's concern and serves to clarify the CAISO's procedures as to how and when it will insert a self-schedule for a Scheduling Coordinator. Therefore, we direct the CAISO to file its proposed tariff revision to MRTU tariff section 30.7.3.1, as submitted in its December 7 reply comments, within 60 days from the date of issuance of this order.

**f. MRTU Tariff Section 31.3.1.2**

42. WPTF argues that the CAISO incorrectly revised MRTU tariff section 31.3.1.2 to set the opportunity cost of ancillary services at zero for the IFM co-optimization when Scheduling Coordinators fail to provide a day-ahead energy bid or provide an "incomplete" energy bid. WPTF states that this proposal will significantly disadvantage ancillary services providers by ignoring the energy opportunity value under certain conditions when the resources are selected to provide ancillary services. WPTF also notes that section 4.3 (titled "Ancillary Services Procurement") of the Business Practice Manual for Market Operations contains text and an example of this proposal. WPTF states that the CAISO should be directed to assume that offered ancillary services are provided from the range of energy offered by the Scheduling Coordinator and not from the capacity above the energy bid curve. Further, WPTF states that rather than assuming a zero energy value over any ranges of offered ancillary services not covered by energy bids, the CAISO should instead extend the energy bid as it does in other places throughout the MRTU tariff when bid components are missing or incomplete, relying on the proxy bid curve registered for the unit. In its December 7 reply comments, SWP concurs with this argument.

43. In its December 7 reply comments, the CAISO proposed editorial revisions to section 31.3.1.2, to clarify that the IFM co-optimizes energy and ancillary services bids

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<sup>37</sup> CAISO December 7, 2007 Post-Technical Conference Reply Comments, Docket Nos. ER06-615-012 and ER07-1257-000, at Att. A, MRTU tariff section 30.7.3.1 (CAISO December 7 reply).

based on the amount of capacity reflected in the bids, and that ancillary services bids and/or ancillary services bid components that are not associated with an energy bid will be co-optimized based on zero opportunity costs. The CAISO states that these provisions do not represent a new co-optimization policy, but rather implement policy that the Commission has already approved. Therefore, the CAISO asserts, WPTF's attempts to characterize the provisions of section 31.3.1.2 as new policy that deserves fresh scrutiny by the Commission are inappropriate, outside the scope of this proceeding, and should be rejected.

### **Commission Determination**

44. We find that the CAISO's proposed revision in its December 7 reply comments adequately addresses WPTF's concerns by clarifying the treatment of energy and ancillary services bids in the IFM. We direct the CAISO to file tariff sheets reflecting this proposed revision to MRTU tariff section 31.3.1.2 within 60 days from the date of issuance of this order.

#### **g. BPM for Market Operations Section 6.4.4**

45. WPTF argues that items listed in section 6.4.4 (titled "Close Day-Ahead Market") of the Business Practice Manual for Market Operations, which detail the actions the CAISO will take in the event of a "market disruption," should be included in the MRTU tariff. WPTF requests that the Commission direct the CAISO to add detail to its tariff regarding the list of actions it will take in the event of a market disruption.

46. In its December 7 reply comments, the CAISO states that it will add to the MRTU tariff a summary of the actions it could take in the event of a market disruption. The CAISO notes that it will add such a summary in a future MRTU tariff filing.

### **Commission Determination**

47. We find that the actions the CAISO will take in the event of a market disruption could significantly affect rates, terms and conditions of service. Consequently, we accept the CAISO's commitment to add to the MRTU tariff a summary of the actions it could take in the event of a market disruption. This should alleviate WPTF's concerns. In addition, the Commission directs the CAISO to revise its MRTU tariff to include a definition of "market disruption" as provided for in section 6.4.4 of the Business Practice Manual for Market Operations. We direct the CAISO to submit these tariff revisions within 60 days from the date of issuance of this order.

#### **h. Competitive Path Assessment**

48. WPTF points out that the CAISO plans to withdraw its schedule for updating the competitive path assessment<sup>38</sup> annually by deleting language from MRTU tariff section 39.7.2.1 (titled “Timing of Assessments”). WPTF argues that the deletion of the requirement for annual reassessments is unjust and unreasonable.

49. In its December 7 reply comments responding to comments raised on issues discussed at the September technical conference, the CAISO states that it proposed to delete from MRTU tariff section 39.7.2.1 the language prescribing annual updates because the Commission directed the CAISO to make seasonal designations beginning the second year of MRTU. The CAISO states that rather than include language regarding the annual calculation and posting of designations that will be outdated within a year, the CAISO deleted the language to facilitate more frequent posting as required in subsequent years. To resolve this issue, the CAISO states it is willing to add the following sentence to MRTU tariff section 39.7.2.1: “The CAISO will calculate and post path designations not less than once prior to the start of MTRU, and not less than four times each year thereafter to provide timely season path designations.”

### **Commission Determination**

50. We find that the CAISO’s proposed tariff modification adequately complies with our prior directive<sup>39</sup> and satisfies WPTF’s concern. Therefore, we direct the CAISO to submit the modification within 60 days from the date of issuance of this order.

#### **i. MRTU Tariff Section 31.2**

51. As described by section 6.5.1 of the Business Practice Manual for Market Operations (titled “Reliability Requirement Determination & Local Market Power Mitigation”), the reliability must-run (RMR) process is not necessarily automated. PG&E notes that the CAISO plans to revise MRTU tariff section 31.2 (titled “Market Power Mitigation and Reliability Requirement Determination”) to describe the RMR determination process as “automated.” PG&E argues that the proposed revision to MRTU tariff section 31.2 must be modified by replacing the proposed phrase, “The Reliability Requirement Determination (RRD) process is the automated process for determining RMR,” with the original phrase, “The RRD process determines RMR.”

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<sup>38</sup> The competitive path assessment is used to identify where local market power mitigation may be warranted. *See generally* September 2006 MRTU Order, 116 FERC ¶ 61,274 at P 1006-08.

<sup>39</sup> *Id.* P 1031.

52. In its December 7 reply comments, the CAISO explains that it modified MRTU tariff section 31.2 in its November 15 filing in response to comments made at the September technical conference that the original language was confusing because it suggested that the RRD process was the process for dispatching RMR units. The CAISO states that it offered the change to refer to this process as the “automated” process for dispatching RMR units in order to distinguish it from the “manual” process for dispatching RMR units.

### **Commission Determination**

53. The Commission finds that the CAISO’s proposed modification to MRTU tariff section 31.2 adequately distinguishes the automated process for dispatching RMR units from the manual process, and, contrary to PG&E’s objections, eliminates the potential confusion associated with the original language. Accordingly, we direct the CAISO to file tariff sheets reflecting the language proposed in its November 15 filing within 60 days from the date of issuance of this order.

### **3. BPM for Settlements and Billing**

#### **a. MRTU Tariff Sections 11.5.6.2.3 and 11.5.8.1.1**

54. PG&E and SoCal Edison argue that there remain inconsistencies between the Business Practice Manual for Settlements and Billing and the MRTU tariff. PG&E proposes revisions to MRTU tariff sections 11.5.6.2.3 (titled “Settlement of Excess Cost Payments for Exceptional Dispatches used for Transmission-Related Modeling Limitations”) and 11.5.8.1.1 (titled “Settlement and Allocation of Excess Costs Payments for Emergency Energy Purchases, Other than Exceptional Dispatch Energy, to Scheduling Coordinators”) so that the tariff coincides with charge codes described in the Business Practice Manual. Specifically, PG&E states that section 11.5.6.2.3 of the MRTU tariff must be modified by replacing the phrase “Exceptional Dispatch at the Resource Specific” with the phrase “delivered Exceptional Dispatch quantity at the Resource-Specific.” PG&E argues that this must be done to ensure that the MRTU tariff is consistent with charge code 6488 as described in the Business Practice Manual for Settlements and Billing.

55. PG&E further states that section 11.5.8.1.1 of the MRTU tariff must be modified by replacing the phrase “purchase and the simple average” with the phrase “delivered purchase quantity and the simple average.” PG&E argues that this change must be made to ensure that the tariff coincides with charge code 6482 as described in the Business Practice Manual for Settlements and Billing.

56. In its December 7 reply comments, the CAISO maintains that it believes the existing MRTU tariff language is consistent with the Business Practice Manual, but states

that it has no objection to PG&E's proposed tariff changes to MRTU tariff sections 11.5.6.2.3 and 11.5.8.1.1, as they will provide additional clarity to the tariff.

### **Commission Determination**

57. We find that PG&E's suggestions serve to clarify the MRTU tariff. Accordingly, we accept the CAISO's offer to incorporate PG&E's proposed changes to MRTU tariff sections 11.5.6.2.3 and 11.5.8.1.1 and direct the CAISO to submit such tariff revisions within 60 days from the date of issuance of this order.

#### **b. MRTU Tariff Section 11.10.7**

58. PG&E argues that descriptions of charge codes 1302, 1303 and 3303 in the Business Practice Manual for Settlements and Billing – concerning allocation of costs associated with voltage support – should be modified to be consistent with section 11.10.7 (titled “Voltage Support”) of the MRTU tariff. Similarly, SoCal Edison claims that the CAISO stated in its November 15 filing that it is revising section 11.10.7 of the MRTU tariff based on a comment submitted by WPTF regarding one of the Business Practice Manual configuration guides.<sup>40</sup> SoCal Edison argues that a configuration guide should not provide the rationale for changing the MRTU tariff, but rather should be written to be consistent with the tariff. In addition, SoCal Edison contends that the revision to MRTU tariff section 11.10.7 represents a change to a previously resolved matter.

59. In its December 7 reply comments, the CAISO indicates that it submitted proposed tariff language that would change the filed cost allocation to be consistent with the language in the Business Practice Manual. The CAISO agrees, however, that this proposed revision is unrelated to MRTU and would require approval of the CAISO

Governing Board and a section 205 filing to amend the previously-accepted MRTU tariff language. As a result, the CAISO concedes that the Business Practice Manual should change in this instance, and commits to withdrawing the proposed tariff revision.

### **Commission Determination**

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<sup>40</sup> The Business Practice Manual configuration guides, as included in the Business Practice Manual for Settlements and Billing, contain the calculation logic for determining charges and payments to business associates under MRTU. In addition to calculation formulae, configuration guide content provides background information and business rules, as well as both input and output specifications for all calculations executed within a Settlement Run. *See* BPM for Settlements and Billing, section 2.1.1, at 11.

60. We direct the CAISO to withdraw this proposed change to the MRTU tariff and to reinstate the original language of MRTU tariff section 11.10.7. We direct the CAISO to submit such tariff revisions within 60 days from the date of issuance of this order.

#### **4. BPM for Congestion Revenue Rights**

##### **30-Day Rule**

61. The “30-day rule” is the requirement that participating transmission owners must notify the CAISO 30 days in advance of all planned outages for facilities rated above 200 kV.<sup>41</sup> WPTF argues that the 30-day rule exemption policies found in section 10.3.1 of the Business Practice Manual for Congestion Revenue Rights (CRRs) (titled “Monthly Outage Methodology for Reporting Exceptions to 30 Day Outage Rule”) should be included in the MRTU tariff. WPTF asserts that section 10.3.1 of the Business Practice Manual for CRRs contains more than two pages of additional language describing how a participating transmission owner can receive an exemption from the 30-day rule for certain qualifying significant transmission facilities. WPTF argues that the criteria used to determine which outages qualify under the 30-day rule and the criteria for obtaining an exemption have the potential to significantly affect terms and conditions of service to market participants. Specifically, WPTF states that the CAISO’s proposed process for granting exemptions to the 30-day rule has the potential to affect congestion charges, CRR charges and payments, and the balance of power between certain market participant customer classes, i.e., participating transmission owners versus non-participating transmission owners. In support of its position, WPTF argues that the CAISO will allow participating transmission owners to propose a list of significant facilities (as defined in section 4.2.1.1, titled “Planned Outage Scheduling of Transmission Equipment Significant to Congestion Revenue Rights,” of the Business Practice Manual for Outage Management) that can be exempted from the 30-day rule. WPTF adds that for facilities granted this exemption, market participants other than participating transmission owners would be provided with little or no notice when a facility outage was scheduled.

62. WPTF further states that the test employed by the CAISO in determining whether significant facilities can be exempted from the 30-day rule is based on whether the CAISO’s CRR revenue adequacy will be significantly and adversely affected by an outage at that facility (see Appendix B of the Business Practice Manual for CRRs). WPTF argues that this test does not consider how the charges and payments to individual market participants will change. WPTF states that the CAISO’s revenue adequacy is the net impact of charges and payments over all market participants, and argues that using revenue adequacy as a metric for granting exemptions does nothing to protect individual market participants from significant harm.

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<sup>41</sup> See BPM for CRRs at 10.3.1.

63. Finally, WPTF notes that based on the language in the November 15, 2007 version of the Business Practice Manual for CRRs, the CAISO's proposal for granting exemptions to significant facilities does not appear to be open to stakeholder participation or comment.

64. In response to WPTF's comments, the CAISO states that it is inappropriate for WPTF to raise at this time arguments concerning the level of detail in the MRTU tariff regarding which transmission outages must be requested 30 days in advance. The CAISO argues that the Commission already considered and accepted the CAISO's proposal to include in a Business Practice Manual, rather than in the MRTU tariff, the criteria used to determine what constitutes a "significant transmission outage."<sup>42</sup> As such, the CAISO argues that WPTF's claim that additional outage detail should be included in the tariff constitutes a collateral attack on the April 2007 MRTU Rehearing Order, and should therefore be rejected.

65. The CAISO further asserts that WPTF's claim that market participants other than participating transmission owners would be provided with little or no notice when a facility outage is scheduled is incorrect. The CAISO explains that for facilities exempt from the 30-day rule, the outage scheduling rules will remain as they exist under the current market, i.e., maintenance outages must be requested at least 72 hours in advance, absent a forced outage. The CAISO adds that the 30-day rule approved by the Commission was not for the purpose of providing notice to the market when a facility is scheduled out, but rather for the purpose of allowing the CAISO to model outages more accurately in the monthly CRR process, in order to minimize the risk of CRR revenue inadequacy.

66. The CAISO states that WPTF's argument regarding the test used by the CAISO to determine whether a significant facility can be exempted from the 30-day rule reflects a misunderstanding of how the revenue adequacy guarantee will operate under MRTU. Specifically, the CAISO argues that charges and payments to individual market participants are not relevant criteria in determining exemptions from the 30-day rule, as there are no differential impacts on individual market participants. The CAISO adds that under the "full funding" of all CRRs approach, it will ensure that all CRRs will be settled at their full value by allocating any necessary costs due to revenue inadequacy to measured demand.

67. The CAISO further disputes WPTF's contention that its proposal for granting exemptions to significant facilities is not open to stakeholder participation. The CAISO argues that it has conducted a comprehensive stakeholder process on CRR issues,

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<sup>42</sup> CAISO December 7 reply at 22 (citing *Cal. Indep. Sys. Operator Corp.*, 119 FERC ¶ 61,076, at P 646 (2007) (April 2007 MRTU Rehearing Order)).

including rules for scheduling significant transmission maintenance outages. Specifically, the CAISO points to its July 20, 2007 compliance filing in Docket No. ER07-869-001, highlighting various stakeholder activities regarding several CRR rules, including the 30-day rule. The CAISO further argues that it has engaged in additional stakeholder processes addressing the 30-day rule since its July 20 compliance filing, including conference calls with the Transmission Maintenance Coordinating Committee and a discussion paper concerning the methodology the CAISO would use to determine what outages should be exempt from the 30-day rule based on criteria provided in the Business Practice Manual for Outage Management. The CAISO states that throughout this process it solicited input from stakeholders on how the exceptions list should be developed. The CAISO argues that this stakeholder process has provided market participants ample opportunity to provide input. Moreover, the CAISO adds that it has made clear to stakeholders that as it gathers more empirical data it will evaluate how outages of specific facilities affect revenue adequacy, and if further refinement is necessary, it will implement a stakeholder process to review options.

### **Commission Determination**

68. We grant WPTF's request to include in the MRTU tariff the 30-day rule exemption policies found in section 10.3.1 of the Business Practice Manual for CRRs. Contrary to the CAISO's assertion, we never faced the precise question, and so, therefore, never squarely decided whether the definition of "significant" and the exemption to the 30-day rule more properly belong in the MRTU tariff or the Business Practice Manuals.<sup>43</sup> Therefore, WPTF is not estopped from raising its concern that the process for granting significant exemptions from the 30-day rule could impact the value of individual CRRs and, consequently, significantly affect rates, terms and conditions of transmission service. Further, we note that the issue raised by WPTF is distinct from overall CRR revenue adequacy. If overall, CRRs remain simultaneously feasible after an outage occurs, the CAISO will remain revenue adequate because there will be sufficient day-ahead congestion rights to fund the CRRs. However, even though an outage does not impact revenue adequacy, the same outage could result in different congestion patterns, which will impact the value of individual CRRs.

69. Some outages can dramatically impact the value of certain CRRs and increase the credit risk underlying counterflow CRRs. Further, as we pointed out in the April 2007 MRTU Rehearing Order, advance notice of an outage will allow for more accurate allocation of congestion rights and precise outage information across the West, leading to more informed planning decisions.<sup>44</sup> Accordingly, we require the CAISO to include in

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<sup>43</sup> April 2007 MRTU Rehearing Order, 119 FERC ¶ 61,076 at P 645.

<sup>44</sup> *Id.*

the MRTU tariff the 30-day rule exemption policies found in section 10.3.1 of the Business Practice Manual for CRRs within 60 days of issuance of this order.

## **5. BPM for Outage Management**

### **BPM for Outage Management Section 3.2.1**

70. TANC argues that section 3.2.1 (titled “Long Range Outage Requests”) of the Business Practice Manual for Outage Management includes details on priority of requests that affect terms of the outage request process that are absent from the MRTU tariff. In its November 15 filing, the CAISO stated that its long-term outage reporting process and informational requirements have been in place for a number of years and were formerly contained in the CAISO’s outage coordination protocol.<sup>45</sup> TANC states that these terms are fundamental to rates, terms and conditions of service and, consistent with the rule of reason, should be incorporated into the MRTU tariff.

71. In its December 7 reply comments, the CAISO counters that section 3.2.1 of the Business Practice Manual for Outage Management should not be included in the MRTU tariff, in part because much of the information set forth in section 3.2.1 is also set forth in section 9 of the MRTU tariff (titled “Outages”), specifically in section 9.3.6 (titled “Maintenance Outage Planning”). Further, the CAISO states that TANC provides no evidence to suggest that the rule of reason should be applied differently to the MRTU tariff than it is to the currently-approved CAISO tariff. Finally, the CAISO asserts that TANC’s argument constitutes an untimely request for rehearing of, and collateral attack on, a prior Commission order and should be rejected.

### **Commission Determination**

72. We disagree with TANC’s assertion that the details of priority requests in section 3.2.1 of the Business Practice Manual for Outage Management should be included in the MRTU tariff. As the CAISO points out, the majority of section 3.2.1 of the Business Practice Manual for Outage Management is already contained in MRTU tariff section 9.3.6, which has been approved by the Commission. For example, both the MRTU tariff and the Business Practice Manual for Outage Management require transmission owners and participating generators annually to provide the CAISO with a list of all proposed outages for the following year no later than October 15. Also, both the tariff and the manual require the list to include, for each generating unit outage and transmission outage, information such as facility name and location code, scheduled start and end date, and, where there is a possibility of flexibility, the earliest start date, latest finish date, and outage duration. We find that MRTU tariff section 9 contains an adequate level of

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<sup>45</sup> CAISO November 15 filing at 94.

specificity regarding outage management and does not need further supplementation from the Business Practice Manual for Outage Management. Therefore, we will not require the CAISO to modify its previously-filed MRTU tariff language.

**C. Business Practice Manual Change Management Process**

73. In its August 3, 2007 filing, the CAISO states that the change management proposal it developed is “a hybrid of best practices taken from other ISO stakeholder processes and the processes used during the 2006-2007 stakeholder review of the current BPMs.”<sup>46</sup> The CAISO notes that between April 18, 2007 and June 26, 2007, the CAISO posted four drafts of tariff language to implement the Business Practice Manual for the BPM change management process,<sup>47</sup> incorporating stakeholder input and revisions to further develop the BPM change management process. The CAISO states that it has made refinements and clarifications to further improve the BPM change management process in response to comments from stakeholders in this proceeding and at the September technical conference and proposes revised tariff language in its November 15 filing.

74. Under the CAISO’s proposal, the BPM change management process is initiated through the submission of a proposed Business Practice Manual revision request. This request may come from either a market participant or CAISO staff seeking a change to a Business Practice Manual. Proposed revision requests may encompass any change to a Business Practice Manual, including additions, edits, deletions, revisions, or clarifications to a Business Practice Manual, Business Practice Manual attachment, or Business Practice Manual exhibit. Proposed revision requests will be submitted to the CAISO electronically, and will be open to comment by any interested stakeholder or CAISO management.

75. The CAISO also proposes to establish a BPM change management process coordinator, who will ensure that proposed revision requests are processed and reviewed in accordance with the provisions set forth in the Business Practice Manual for BPM Change Management. Specifically, the coordinator will categorize new revision requests into one of three categories, ranging from those of major significance to requests that are beyond the scope of the Business Practice Manual. The CAISO also proposes to conduct an impact analysis on proposed revisions which, if accepted, will affect CAISO systems. This impact analysis will assess the impact of the proposed revision request on CAISO

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<sup>46</sup> CAISO August 3, 2007 Transmittal Letter, Docket Nos. ER06-615-012 and ER07-1257-000, at 37.

<sup>47</sup> This is the process for changing the contents of the Business Practice Manuals.

computer systems, CAISO operations, the CAISO market, market participants, or business functions.

76. The CAISO proposes to establish a regularly-occurring monthly BPM change management process meeting to discuss pending revision requests with all interested stakeholders.<sup>48</sup> After the monthly meeting, the BPM change management process coordinator will, after considering public comments and all relevant impacts on stakeholders' business needs, issue a recommendation for action on each pending revision request. This recommendation report will be posted to the CAISO website for comment.

77. Following the issuance of a final decision on a proposed revision to a Business Practice Manual, the submitter of a proposed Business Practice Manual revision request or any affected market participant may submit an appeal to the CAISO for reconsideration of the final decision. A CAISO committee comprising at least three CAISO executives will meet in a public session to consider public comments by the appellant and any interested stakeholder, and then review the appeal and publish its decision.

78. Any changes to the Business Practice Manual for BPM change management process must be approved by the CAISO governing board, not simply CAISO staff. The CAISO also proposes that the BPM change management process coordinator will submit a written report to the CAISO governing board at each board meeting, indicating the status of pending proposed revision requests and summarizing why previously-considered proposed revisions have been accepted or rejected.

79. In certain emergency circumstances, however, the CAISO proposes to exercise "the right" to take expedited action, bypassing the normal proposed revision request process. The CAISO states that it will take reasonable steps to communicate with market participants and any other directly-affected entities prior to taking expedited action, if possible.

### **1. CAISO Authority over Change Management Process**

80. Indicated Parties and TANC<sup>49</sup> assert that the CAISO's control over the BPM change management process is unreasonably tilted in favor of the CAISO without any Commission oversight or other impartial or more equitable review process. These

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<sup>48</sup> CAISO November 15 filing, Att. A, MRTU tariff 22.11.1.5.

<sup>49</sup> The City of Santa Clara, doing business as Silicon Valley Power (SVP), as well as the M-S-R Public Power Agency (M-S-R) filed in support of TANC's protest.

commenters contend that the proposed revision requests will be reviewed by a BPM change management coordinator (a CAISO employee). Then the coordinator, with guidance from other CAISO departments, affected stakeholders, and the submitter of the proposed revision request, will classify the revision request as falling into one of three categories. Ultimately, Indicated Parties state, the BPM change management coordinator issues a recommendation for action, followed by a comment process, with the final decision delivered by the coordinator. Indicated Parties contrast the CAISO's proposal with the processes in other organized markets, noting that ERCOT and PJM rely on stakeholder processes to vet proposals before being presented to the governing board. Indicated Parties request that the Commission consider whether, as a matter of RTO accountability and governance, it is necessary and appropriate to vest so much exclusive authority in CAISO staff for BPM change management.

81. Both Indicated Parties and TANC also contest the proposed revision request appeal process, emphasizing how the appeals process is biased towards the CAISO. TANC states that if a market participant chooses to appeal the proposed revision request decision, the appeal must be made to a committee consisting of "three CAISO executives" who will rule on the appeal. TANC requests that the Commission reject the CAISO's proposed BPM change management appellate that was submitted in the CAISO's August 2007 filings. Indicated Parties similarly protest the provision that the CAISO will form a committee of three CAISO executives to consider public comments on the disputed proposed revision request, and then publish its decision on the appeal. Indicated Parties state that it supports proposals that provide for some level of accountability for appeals of the CAISO's change management determinations. Modesto requests that the Commission: (1) find that the CAISO has not complied with the September 2006 MRTU Order's requirements; and (2) order a well-documented BPM change management process commensurate with the relief requested in the Indicated Parties' protest.

82. PG&E recommends that the MRTU tariff explicitly require that the Business Practice Manual for BPM change management process set out the procedure for establishing the membership of the CAISO committee of executives that will consider appeals of the BPM change management process coordinator's final decision on any proposed revision request. PG&E states that this addition would affect MRTU tariff section 22.11.1.6 (titled "Right to Appeal to CAISO"), which addresses the right to appeal. PG&E asserts that unless the process for establishing the committee is set out in advance, appellants may feel that they are not receiving an unbiased consideration of the concerns raised in their appeals.

### **Commission Determination**

83. We find that the CAISO has complied with the Commission's directive in the September 2006 MRTU Order to include a BPM change management process as part of

the MRTU tariff.<sup>50</sup> As with much of the rest of the MRTU tariff, key provisions of this policy are spelled out in the tariff, with implementation details left for inclusion in the Business Practice Manuals. We disagree with Modesto's contention that the CAISO has not complied with our prior order and accept the CAISO's proposal as filed on August 3, 2007 and modified on November 15, 2007. We direct the CAISO to submit tariff sheets reflecting those modifications within 60 days from the date of issuance of this order.

84. Regarding commenters' concerns that the CAISO's BPM change management proposal grants it too much autonomy, we disagree. The Business Practice Manuals exist to provide additional implementation details and transparency about the CAISO's operations to market participants. While stakeholder input into these practices is valuable, ultimately it is the CAISO that will implement any proposed changes. We note that the CAISO's BPM change management process provides several opportunities for market participants to comment on proposed changes. It would be inappropriate to require a stakeholder voting mechanism like those in ERCOT or PJM, as the CAISO stakeholder process and governing board are not organized in the same fashion as the cited organized markets. We remind parties, however, that if rates are rendered unjust or unreasonable as a result of action or inaction on the part of the CAISO with respect to changes to the Business Practice Manuals, parties may avail themselves of their rights under section 206 of the FPA.<sup>51</sup>

85. PG&E requests that the CAISO establish the appeals committee in advance, so that appellants feel as though they are receiving an unbiased consideration of their concerns. In its November 15 comments, the CAISO proposes revisions to MRTU tariff section 22.11.1.6, which now states that "[s]tanding meeting dates and the BPM appeals committee composition will be established at least three months in advance."<sup>52</sup> We find that the CAISO's proposed language adequately addresses PG&E's concerns and direct the CAISO to submit tariff sheets incorporating that change within 60 days from the date of issuance of this order.

## **2. MRTU Tariff Section 22.11.1.1**

86. According to TANC and Modesto, the CAISO's November 15 filing proposes to delete a sentence in MRTU tariff section 22.11.1.1 (titled "BPM Proposed Revision

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<sup>50</sup> September 2006 MRTU Order, 116 FERC ¶ 61,274 at P 1071.

<sup>51</sup> 16 U.S.C. § 824e (2000 & Supp. V 2005).

<sup>52</sup> CAISO November 15 filing, Att. A, MRTU tariff 22.11.1.6.

Request Submittal”) providing that the CAISO may prepare an impact analysis for proposed Business Practice Manual revision requests that it has received.<sup>53</sup> TANC and Modesto state that, while the CAISO has reflected a similar concept in proposed changes to MRTU tariff section 22.11.1.4(b), this latter section is only relevant to “Category B” revision requests<sup>54</sup> and does not encompass all categories of proposed Business Practice Manual revisions, as did the sentence the CAISO proposes to delete in section 22.11.1.1. Thus, TANC and Modesto request that the Commission direct the CAISO to reinstate the original provision into MRTU tariff section 22.11.1.1.

87. The CAISO replies in its December 7 comments that there is no need to reinstate the provision struck from MRTU tariff section 22.11.1.1, as the CAISO deleted this provision in order to streamline the tariff and remove any unnecessary language. The CAISO states that, and as TANC and Modesto point out, certain other tariff provisions address the circumstances in which the CAISO will perform an impact analysis for proposed Business Practice Manual revision requests.

### **Commission Determination**

88. For the reasons cited by the CAISO, we find that MRTU tariff section 22.11.1.4(b) adequately describes the circumstances under which the CAISO may conduct an impact analysis. While Modesto and TANC are correct in pointing out that this tariff section only applies to “Category B” revision requests, we find it is unnecessary for the CAISO to undertake an impact analysis for “Category A” requests – grammatical or other minor changes – or “Category C” requests – proposed revisions that are beyond the scope of the Business Practice Manuals and may have tariff implications. Therefore, we will not require the CAISO to make any additional changes to the November 15 version of this tariff section. However, since the CAISO submitted its proposed revision to MRTU tariff section 22.11.1.1 in only red-line format, we direct the CAISO to submit formal tariff sheets for this revised MRTU tariff provision within 60 days from the date of issuance of this order.

### **3. Consistency between the MRTU Tariff and the BPM for the**

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<sup>53</sup> See CAISO November 15 filing, Att. A, MRTU tariff 22.11.1.1.

<sup>54</sup> “Category B” revision requests are revisions that may be of “substantial significance,” including changes to the CAISO or other market participants’ systems that will be subject to the BPM proposed revision request review and action process unless urgent or emergency circumstances exist as described in the MRTU tariff. See generally CAISO August 3, 2007 filing, Docket Nos. ER06-615-011 and ER07-1257-000, at proposed MRTU tariff section 22.11.1.4.

### **BPM Change Management Process**

89. In its September 7 filing, TANC states that the proposed MRTU tariff section 22.11.1.4 (titled “Type and Treatment of BPM PRRs”) sets forth three categories of requests to revise the Business Practice Manuals. According to TANC, section 2.4.3 (titled “Types of BPM PRRs”) of the Business Practice Manual for the BPM change management process also provides information on the three types of proposed revision requests, however the information contained in the Business Practice Manual and the information in MRTU tariff section 22.11.1.4 are different. TANC asserts that requiring market participants to review somewhat similar information in the MRTU tariff and the corresponding Business Practice Manual would create confusion and does not provide a clear and transparent process for the BPM change management process. Thus, TANC argues, the entire description of the proposed revision request types and treatment should be included in the MRTU tariff.

### **Commission Determination**

90. We disagree with TANC’s argument that the entire description of the proposed revision request types should be included in the MRTU tariff. As amended in its November 15 filing, the CAISO’s revised tariff language adequately describes the different categories of proposed revision requests. The additional details contained in the Business Practice Manual for the BPM change management process do not significantly impact rates, terms, or conditions, and therefore do not need to be included in the MRTU tariff. However, we agree with TANC that the fact that the tariff and the Business Practice Manual contain different language to describe the same process could lead to misunderstanding and confusion with respect to the BPM change management process. We find it would be beneficial to all parties for the CAISO to maintain consistency between Business Practice Manual section 2.4.3 and MRTU tariff section 22.11.1.4. This will eliminate the potential for confusion in the future. Therefore, we direct the CAISO to alter either MRTU tariff section 22.11.1.4 or Business Practice Manual section 2.4.3, as appropriate, and file any necessary tariff changes within 60 days from the date of issuance of this order.

#### **4. Expedited Action Due to Emergency Circumstances**

91. In its September 7 comments, TANC states that it is concerned with the CAISO’s ability to unilaterally change a Business Practice Manual in emergency circumstances without being subject to the provisions of the Business Practice Manual for the BPM change management process. Indicated Parties also raise concerns regarding the CAISO’s ability to change a Business Practice Manual in emergency circumstances. Specifically, the parties object to proposed MRTU tariff section 22.11.1.7 (titled “CAISO Expedited Action in Emergency Circumstances”), which allows the CAISO to “take expedited action to change or clarify a provision of a BPM under emergency

circumstances.”<sup>55</sup> TANC and Indicated Parties state that the CAISO’s proposal is unclear as to the exact scope of circumstances that the CAISO may consider emergencies, specifically those that would adversely affect the “competitiveness or efficiency of the CAISO Market.”<sup>56</sup> TANC and Indicated Parties request that the Commission direct the CAISO to delete the phrase “or the competitiveness or efficiency of the CAISO Market” from MRTU tariff section 22.11.1.7 as well as from the Business Practice Manual for the BPM change management process. Further, Indicated Parties request that the Commission direct the CAISO to consult with the appeals committee prior to taking emergency action.

92. In its December 7 reply comments, the CAISO responds that the provision in MRTU tariff section 22.11.1.7 and the Business Practice Manual for the BPM change management process is necessary to ensure that the CAISO has sufficient authority to take expedited action in emergency circumstances. Therefore, the CAISO argues, deletion of the provision could leave the CAISO without the ability to change or clarify Business Practice Manual language when necessary. The CAISO also notes that this provision is similar to the authority granted to other ISOs and RTOs.

### **Commission Determination**

93. We agree that it is important for the CAISO to maintain flexibility during emergency circumstances. We further agree that flexibility during emergency circumstances should extend to permitting the CAISO to modify its Business Practice Manuals without adhering to all of the protocols included in the Business Practice Manual for the BPM change management process. In addition, we agree that the CAISO need not, nor should it, define all circumstances warranting expedited action. The issue, then, is the degree to which the CAISO should retain authority to modify the manuals without following the usual BPM change management process procedures. We find that the CAISO’s discretion in making such modifications to the Business Practice Manuals should not be wholly unfettered, as this would undermine the fundamental purpose of including certain key features of the BPM change management process in the MRTU tariff. Accordingly, while we find it reasonable to allow the CAISO to change or clarify Business Practice Manuals during emergency circumstances or other situations that “adversely affect System Reliability or security or the competitiveness of the market,” we find that the CAISO has not sufficiently shown that allowing such changes for “efficiency reasons” would be just and reasonable. Therefore, we direct the CAISO to delete the

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<sup>55</sup> CAISO August 3, 2007 Filing, Docket Nos. ER06-615-012 and ER07-1257-000, at Att. B, MRTU tariff section 22.11.1.7.

<sup>56</sup> *Id.*

word “efficiency” from proposed MRTU tariff section 22.11.1.7 and file this modified tariff provision within 60 days from the date of issuance of this order.<sup>57</sup>

## 5. Stakeholder Comment Period on Proposed Revision Requests

94. In response to concerns raised at the September technical conference by PG&E and others, the CAISO states in its November 15 filing that it has added language in section 2.4.4 of the Business Practice Manual for the BPM change management process (titled “BPM Change Management PRR Review and Action”), specifying that stakeholders have a minimum of 10 business days to provide written comments on a newly-posted proposed revision request. The CAISO also proposes changes to MRTU tariff section 22.11.1.5 (titled “BPM PRR Review and Action”) to reflect the new provision in the Business Practice Manual.<sup>58</sup>

95. In its November 30 comments, PG&E states that the CAISO’s proposed tariff language does not accomplish what PG&E requested, specifically that, in the absence of an emergency, a minimum of 10 business days be given in which to prepare comments. Instead, PG&E asserts, the CAISO reserves complete discretion over the comment period. PG&E notes, for example, that MRTU tariff section 22.11.1.5 decrees that “comments must be delivered electronically to the CAISO within ten (10) Business Days

*or otherwise as specified in a Market Notice*” (emphasis added by PG&E). PG&E states that to properly incorporate its recommendation, the tariff language should be modified to read:

Comments must be delivered electronically to the CAISO as specified in a Market Notice. A minimum of 10 Business Days will be provided for comments on the BPM PRR, unless a shorter time is necessary as provided in Section 22.11.1.8,

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<sup>57</sup> If the CAISO still believes that there are certain circumstances under which it would be just and reasonable, as well as necessary, to modify a Business Practice Manual for “efficiency” reasons without adhering to the standard tariff protocol, the CAISO may provide further justification upon submission of this tariff modification.

<sup>58</sup> The CAISO claims that MRTU tariff section 22.11.1.5 corresponds to section 2.4.4 of the Business Practice Manual for the BPM change management process, not MRTU tariff section 22.4.3 (as PG&E had asserted). CAISO December 7 reply at 32-33.

in which case the CAISO shall give interested stakeholders as much time to comment as is reasonably practicable.<sup>59</sup>

PG&E adds that comments are called for at two other points in the MRTU tariff, later in section 22.11.1.5 and also in section 22.11.1.4, and that the language it proposes should be added to both of these sections as well.

96. The CAISO contends that it is unnecessary to modify MRTU tariff section 22.11.1.5 to state that stakeholders will have 10 business days to comment on a proposed revision request, unless an urgent request is filed, or to make a similar change to the comment period following the impact analysis and recommendations for final action. The CAISO maintains that it should have the authority to implement a shorter comment period when circumstances require. Further, the CAISO argues, it anticipates that it will need to deviate from the normal written comment period of 10 business days only in rare circumstances, and that even if it exercises its authority to allow less than 10 business days for comment, stakeholders will still be permitted to comment on the proposed changes at the stakeholder meeting held to address that revision request. Therefore, the CAISO states, the Commission should reject PG&E's suggested changes.

### **Commission Determination**

97. While we agree that it is important for the CAISO to have the authority to implement a shorter comment period under emergency circumstances, it should not have the exclusive authority to arbitrarily change the comment period, as MRTU tariff section 22.11.1.5 appears to permit. We therefore direct the CAISO to revise the MRTU tariff to allow the CAISO to shorten the comment period during emergency circumstances, rather than more broadly "as specified in a Market Notice." Further, it also may be reasonable for the CAISO to shorten the comment period when entities submit urgent proposed revision requests that would render the normal 10-day comment period infeasible. Accordingly, we also direct the CAISO to clarify that the comment period may be

shortened pursuant to the provisions set forth in MRTU tariff section 22.11.1.8 (titled "Urgent Requests by Entities for BPM Revisions"). These tariff changes shall be filed within 60 days from the date of issuance of this order.

## **6. BPM for the BPM Change Management Process**

### **a. Inclusion of the Entire BPM for the BPM Change Management Process in the MRTU Tariff**

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<sup>59</sup> PG&E November 30 Response, Docket Nos. ER06-615-012 and ER07-1257, at 5.

98. TANC and Modesto, with support from SVP/M-S-R, state that the CAISO has failed to include the complete Business Practice Manual for the BPM change management process in the MRTU tariff, which they claim the Commission directed it to do in the September 2006 MRTU Order. Similarly, SMUD states that it continues to support the position of CMUA that the plain language of the September 2006 MRTU Order requires the CAISO to file its formal process for amending Business Practice Manuals – the Business Practice Manual for the BPM change management process – in the MRTU tariff. SMUD contends that there is no reason to exclude the Business Practice Manual for the BPM change management process from the MRTU tariff. SMUD maintains that it is not a complex technical matter, that inclusion of the Business Practice Manual for the BPM change management process will not add significant length to the MRTU tariff, nor will it burden the tariff with detailed instructions, modeling assumptions or equations. Further, SMUD asserts, the BPM change management process is a key protection for market participants to ensure that when the CAISO or another market participant proposes changes to Business Practice Manuals that impact other interested parties, there is a tariff-controlled process in place to consider such changes.

99. The CAISO responds that its Business Practice Manual for the BPM change management process is intended to contain implementation detail consistent with the MRTU tariff and should serve as a guide for readers that describes the processes to be used in making changes and clarifications to the Business Practice Manuals. However, the CAISO contends, the Business Practice Manual for the BPM change management process should not be a part of the MRTU tariff. According to the CAISO, the Commission did not conclude that the CAISO must include the BPM change management process in its MRTU tariff. Instead, the CAISO states, the Commission accepted a CAISO proposal to include this process in its MRTU tariff.<sup>60</sup> The CAISO argues that the MRTU tariff already includes ample detail for the Commission to approve the CAISO's BPM change management process in accordance with the rule of reason. Finally, the CAISO reiterates that the MRTU tariff already contains more detail on change management procedures than other ISOs and RTOs and that some other ISOs and RTOs include no detail on their change management provisions in their tariffs.

### **Commission Determination**

100. As we stated above, the CAISO has complied with the Commission's directive in the September 2006 MRTU Order to include a BPM change management process as part of the MRTU tariff. Contrary to commenters' assertions, the September 2006 MRTU Order did not direct the full inclusion of the entire Business Practice Manual for the BPM change management process into the MRTU tariff, only language outlining such a

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<sup>60</sup> September 2006 MRTU Order, 116 FERC ¶ 61,274 at P 1371.

process.<sup>61</sup> While protesters are correct in stating that the Business Practice Manual for the BPM change management process is not a complex technical tome, and while we agree that it would not result in a voluminous addition to the MRTU tariff, the protesters are incorrect in assuming these details justify inclusion in the MRTU tariff. The rule of reason only requires filing of provisions that significantly affect rates, terms and conditions.<sup>62</sup> We agree with the CAISO that it has included sufficient detail in the MRTU tariff, with the exception of the items discussed elsewhere in this order.

**b. Inclusion of Terms in the MRTU Tariff**

101. TANC and Modesto contend that inclusion of certain terms from the Business Practice Manuals would increase the clarity of the MRTU tariff concerning the BPM change management process and would not be administratively burdensome. TANC and Modesto seek inclusion of what they characterize as basic notice and opportunity to participate provisions that are essential to transparency in the BPM change management process. TANC and Modesto list the following as specific examples of such provisions they contend belong in the MRTU tariff: Business Practice Manual section 2.4.1 (titled “Review and Posting of BPM Proposed Revision Requests”); information from Business Practice Manual section 2.4.2 (titled “Withdrawal of a BPM Proposed Revision Request”); and the composition of the appeals committee described in Business Practice Manual section 2.4.10 (titled “Appeal of a BPM PRR Final Decision”). With respect to section 2.4.1 of the manual, TANC and Modesto present two separate concerns. The first issue deals with the requested addition of the following phrases: (1) the CAISO “may provide information to the submitter that will correct the BPM PRR and render it complete;” (2) the CAISO will review the BPM proposed revision request for completeness “within 10 Business Days after it is completed or corrected;” and (3) the CAISO will publish a Market Notice “within 10 Business Days of receipt.” The second issue TANC and Modesto present from section 2.4.1 of the manual is the omission of the phrase “on the CAISO Market structure, CAISO operations and Market Participants, to the extent that the submitter may know this information,” which they argue adds the necessary detail to the impacts and benefits required of suggested proposed revision requests.<sup>63</sup>

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<sup>61</sup> See September 2006 MRTU Order, 116 FERC ¶ 61,274 at P 1071.

<sup>62</sup> See *City of Cleveland* at 1376 (D.C. Cir. 1985) (utilities must file “only those practices that affect rates and service significantly, that are reasonably susceptible of specification, and that are not so generally understood in any contractual arrangement as to render recitation superfluous”).

<sup>63</sup> TANC November 30, 2007 Post-Technical Conference Comments, Docket Nos. ER06-615-012 and ER07-1257-000, at 10; Modesto November 30, 2007 Post-

(continued...)

### **Commission Determination**

102. We direct the CAISO to include select terms requested by TANC and Modesto. We agree with TANC and Modesto that without incorporating the phrase “on the CAISO Market structure, CAISO operations, and Market Participants, to the extent that the submitter may know this information” into MRTU tariff section 22.11.1.1, a market participant’s proposed BPM revision request may not sufficiently explain the impact of the request, and thereby be rendered incomplete despite that market participant’s best intentions. Rejections of BPM revision requests in such circumstances would reduce the efficiency and effectiveness of that process. Also, this additional language will ensure that the impacts and benefits are broadly considered. Therefore, we direct the CAISO to include this phrase in MRTU tariff Section 22.11.1.1.<sup>64</sup> However, we reject the requests of TANC and Modesto to include certain additional details from Business Practice Manual sections 2.4.1, 2.4.2, and 2.4.10, as these provisions do not significantly affect the rates, terms and conditions of service contained in the MRTU tariff.

#### **c. MRTU Tariff Section 22.11.1.5**

103. Section 22.11.1.5 of the MRTU tariff outlines the BPM proposed revision request review and analysis process. TANC asserts that without additional detail the MRTU tariff provision is incomplete. Specifically, TANC contends that information about the process by which any stakeholder may comment on a posted proposed revision request and the types and details of a recommendation report by a BPM change management process coordinator significantly affects the BPM change management process and should be included in this section of the MRTU tariff.

### **Commission Determination**

104. We disagree with TANC’s argument that MRTU tariff section 22.11.1.5 should contain the stakeholder comment process as well as details of the change management coordinator’s recommendation report. The process by which a stakeholder provides comments does not significantly affect rates, terms, and conditions of service, nor do the

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Technical Conference Comments, Docket Nos. ER06-615-012 and ER07-1257-000, at 7.

<sup>64</sup> Revised MRTU tariff section 22.11.1.1 would read as follows, in pertinent part:

“ . . . . The BPM PRR shall include a description of the requested revision, the reason for the suggested change, the impacts and benefits on the CAISO Market structure, CAISO operations and Market Participants, to the extent that the submitter may know this information, a list of affected BPM sections and subsections . . . .”

merits of the change management coordinator's recommendation report. This information is supplemental and secondary in nature and does not fall under the Commission's rule of reason. Therefore, we reject TANC's suggestion.

**D. Issues Raised by Stakeholders that are beyond the Scope of this Proceeding**

**1. Provisions in the Business Practice Manuals**

105. In the Business Practice Manual for Market Operations, WPTF argues that language in section 7.6.1.2 (titled "Long Range Outage Requests") explaining how the CAISO will perform the real-time co-optimization of energy and ancillary services creates uncertainty about the CAISO's intentions with respect to whether ancillary service bids should be included in the MRTU tariff. SWP, in its December 7 reply comments, concurs with this argument.

106. WPTF also asserts that section 7.2.3.5 (titled "Dispatch Instruction Breakdown") of the Business Practice Manual for Market Operations, regarding dispatch instructions, is incomplete. WPTF states that the Commission should direct the CAISO to define and use within the Business Practice Manual a designator that would clearly specify that such energy is energy being dispatched for ramping or to deal with other physical constraints so that energy settlements are unambiguous.

107. SoCal Edison raises concerns with the configuration guides associated with the Business Practice Manual for Settlements and Billing. SoCal Edison argues that, while changes to the guides are reflective of the on-going effort to clarify and define the technical aspects of the charge codes, they present implementation issues. To mitigate implementation issues resulting from these changes, SoCal Edison asks the Commission to require the CAISO to implement a revision history log. Further, SoCal Edison asserts that there are inconsistencies between the business names found in the configuration guide formulas and the billing determinant names in Settlement and Market Clearing ("SaMC") system equations for many of the settlement charge codes. In light of this, SoCal Edison argues that the CAISO should ensure that the configuration guides are synchronized with SaMC specifications prior to communicating and distributing updated documents.

108. TANC and SVP/M-S-R argue that the first sentence of section 8.5 (titled "Priority Nomination Process for Years after CRR Year One") of the Business Practice Manual for CRRs is inconsistent with the first sentence of MRTU tariff section 36.8.3.5.1 (titled "Tier 1- Priority Nomination Process"). TANC and SVP/M-S-R state that the CAISO, in its November 15 filing, agreed that the MRTU tariff is correct by providing an explanation that "CRR Year One" is a defined term that means the first period of time for which the CAISO conducts an annual CRR Allocation as defined in the Business Practice Manuals. TANC and SVP/M-S-R ask that the Commission order the CAISO to review

the Business Practice Manual for CRRs to be consistent with the proposed MRTU tariff in this regard.

109. Regarding the Business Practice Manual for Outage Management, PG&E and SoCal Edison both take issue with the CAISO's process for determining which transmission outages must be noticed 30 days in advance of the month in which the outage is scheduled and for determining the list of facilities that are exempt from that requirement. Specifically, PG&E argues that the currently proposed Business Practice Manual language is not workable, necessary or consistent with the tariff. SoCal Edison states that increasing the outage submittal requirements to the CAISO from three days to 30 days does not improve the outage coordination process, but will instead increase its complexity. SoCal Edison also requests that the Commission direct the CAISO to include all of the recommendations given by the Transmission Maintenance Coordination Committee regarding the exemption criteria.

110. Regarding the Business Practice Manual for Definitions and Acronyms, TANC and SVP/M-S-R argue that the CAISO is not using consistent tariff and Business Practice Manual terms, and urge the Commission to order the CAISO to revise the Business Practice Manuals to be consistent with the proposed MRTU tariff language.

#### **Commission Determination**

111. As we have stated above, provisions contained in the CAISO's Business Practice Manuals are not required under section 205 of the FPA to be on file with the Commission unless they significantly affect rates, terms or conditions of service. This proceeding was initiated to address only those provisions in the Business Practice Manuals that should be included in the MRTU tariff.<sup>65</sup> The CAISO's Business Practice Manuals are not on file with the Commission, and therefore we will not direct the CAISO to revise any provision found within a particular Business Practice Manual that belongs in the manual, rather than the tariff. However, we agree with the commenters that the CAISO should strive for consistency in terminology between the MRTU tariff and Business Practice Manuals. Such uniformity will serve to reduce confusion and misunderstanding. The CAISO should revise its MRTU tariff or Business Practice Manuals accordingly.<sup>66</sup>

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<sup>65</sup> Notice of Technical Conference, Docket Nos. ER06-615-012 and ER07-1257-000 (Sept. 11, 2007).

<sup>66</sup> We note that in the event of conflict in terminology between the MRTU tariff and the Business Practice Manuals the terminology as it exists in the MRTU tariff should prevail. *See* MRTU tariff section 1.3.2(k) ("Rules of Interpretation").

## 2. Proposed Changes to Existing MRTU Tariff Language

112. WPTF argues that the Commission should direct the CAISO to revise the Business Practice Manual for Market Operations and section 31.3.1.2 of the MRTU tariff (titled “Treatment of Ancillary Services Bids in the IFM”) to provide that, for operating reserve capacity not bid by the Scheduling Coordinator in real-time, the CAISO will: (i) insert a bid; (ii) indicate what that level of bid will be and how it will be established; and (iii) indicate if and when that bid will be modified by the CAISO systems. WPTF further requests that the Commission direct the CAISO to remove all language from the Business Practice Manual for Market Operations and section 31.3.1.2 of the MRTU tariff that suggests that ancillary services purchased by the CAISO in real-time will be paid based on a capacity value of zero. Instead, WPTF urges the Commission to direct the CAISO to reinsert language indicating that resource owners will be compensated in real-time based on the opportunity value of their resources.

113. WPTF states that under MRTU tariff section 30.7.3 (titled “DAM Validation”) and section 4.3 of the Business Practice Manual for Market Operations (titled “BPM Change Management PRR Review and Action”), the CAISO proposes to assign ancillary services to generating capacity that is not otherwise committed to providing energy via self-schedule or a day-ahead energy bid. WPTF states that this proposal may require Scheduling Coordinators to provide ancillary services and energy to the CAISO that they do not wish to offer. WPTF requests that the Commission direct the CAISO to modify its policies and processes to allow Scheduling Coordinators to specify the total amount of capacity that is available to the IFM for energy and ancillary services, and to make appropriate conforming changes to the MRTU tariff and the Business Practice Manual for Market Operations. In its December 7 filing, SWP concurs with this argument.

114. WPTF further claims that MRTU tariff section 31.3.1.2 and section 4.2.1.2 of the Business Practice Manual for Market Operations (titled “Final Qualification Process”) provide that when a generator with a partial Resource Adequacy obligation makes a submission to self-provide ancillary services, the CAISO proposes to disqualify the entire ancillary services self-schedule if the CAISO determines that any of the capacity dedicated to self-provide ancillary services is needed to provide energy instead. WPTF states that the CAISO has provided no basis to extend its rights to convert self-provided ancillary services to capacity that does not have a Resource Adequacy obligation. WPTF argues that the Commission should direct the CAISO to modify the MRTU tariff to ensure that it may not disqualify any of a Scheduling Coordinator’s self-provided ancillary services without considering whether the resource is a partial Resource Adequacy Resource.

### Commission Determination

115. We reject WPTF’s and SWP’s arguments as beyond the scope of this proceeding. They raise substantive issues regarding the revision of provisions contained within the

MRTU tariff, which was conditionally accepted in our September 2006 MRTU Order. These issues are beyond the compliance requirements of the September 2006 MRTU Order. Furthermore, the scope of the instant proceeding was limited to determining which provisions contained in the Business Practice Manuals should be included in the MRTU tariff. As such, changes to existing MRTU policies are beyond the scope of this proceeding.

116. However, in regard to WPTF's request to modify the MRTU tariff to ensure that the CAISO may not disqualify any of a Scheduling Coordinator's self-provided ancillary services without considering whether the resource is a partial Resource Adequacy resource, the CAISO agreed in its December 7 filing that, "if the resource is a partial [Resource Adequacy] resource, then the CAISO would only be able to disqualify that portion of the capacity that has an Energy offer obligation."<sup>67</sup> However, we find that MRTU tariff section 31.3.1.2 does not make such treatment clear. Consequently, we direct the CAISO to revise the MRTU tariff to clarify that, for a partial Resource Adequacy resource's self-provided ancillary services capacity, the CAISO would only be able to disqualify the portion of the capacity that has an Energy offer obligation. We direct the CAISO to submit tariff sheets reflecting this revision within 60 days from the date of issuance of this order.

### **3. Other Issues**

117. SoCal Edison states that the CAISO says it will have the ability to post all shadow prices,<sup>68</sup> but does not state if it will be able to post them by day one of MRTU. SoCal Edison requests that the CAISO clarify when it will be able to post all intertie prices.

118. WPTF argues that the CAISO has not adequately addressed concerns regarding the level of settlement-related detail contained in the MRTU tariff, and contends that the CAISO's tariff language relating to settlements fails to meet the rule of reason. Specifically, WPTF argues that the CAISO's process for determining the appropriate level of detail to be included in the MRTU tariff has been insufficient. WPTF argues that although the CAISO concedes that modifications or clarifications to the tariff language were needed in certain instances, the CAISO advocates that the current process for resolving deficiencies works well, and that no additional reviews or steps are needed. In support of its position, WPTF argues that market participants should not bear the burden

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<sup>67</sup> CAISO December 7 Reply, Docket Nos. ER06-615-012 and ER07-1257-000, at 50.

<sup>68</sup> A shadow price is the economic value of a constraint, as calculated by the CAISO's redispatch model.

of finding settlement errors or inconsistencies and raising them in audits and stakeholder review.

119. WPTF contends that the scope of the audit being performed by PricewaterhouseCoopers does not currently address whether the level of detail or specificity in the MRTU tariff is sufficient. Moreover, WPTF argues that the audits are not providing any useful information to market participants and that any audit results will not be available until just prior to MRTU go-live.

120. To ensure that the MRTU tariff meets the rule of reason in the area of MRTU settlements, WPTF urges the Commission to direct the CAISO to amend the scope of the audit by PricewaterhouseCoopers, such that it includes an assessment of whether the tariff language provides sufficient detail about the MRTU algorithms with respect to price and quantity. WPTF further asks the Commission to direct the CAISO to make available to market participants any interim findings provided to CAISO by PricewaterhouseCoopers during its audit.

### **Commission Determination**

121. We decline the requests of SoCal Edison and WPTF for Commission intervention in these matters. These requests do not relate to specific provisions in the CAISO's Business Practice Manuals that should be added to the MRTU tariff or specific compliance directives in prior Commission orders, and therefore are outside the scope of this proceeding. Further, while arguably settlement-related information like the timing of billing and interest accrual significantly affect rates, terms and conditions of service, the timing and contents of interim audit reports does not.

#### **E. Miscellaneous**

##### **1. Post-MRTU Implementation BPM Technical Conference**

122. At the September technical conference, the CAISO, other participants and Commission staff agreed that an additional technical conference should be convened approximately six months after MRTU implementation. This technical conference will provide all parties with a final opportunity to identify any details in new or revised Business Practice Manual language developed after November 15, 2007, which commenters believe should be included in the MRTU tariff.

123. Accordingly, we direct staff to convene a technical conference six months following MRTU implementation to provide parties with a final opportunity to identify remaining provisions contained only in the Business Practice Manuals that should be included in the MRTU tariff.

##### **2. Consistency in the BPMs**

124. In response to questions raised by commenters during the September technical conference regarding consistency between certain provisions in the Business Practice Manuals and the CAISO's MRTU tariff, the CAISO assures the Commission that it has procedures in place to confirm the consistency of the tariff, Business Practice Manuals and systems under development to implement MRTU.<sup>69</sup> The CAISO states that it has engaged in the services of a number of independent consultants to ensure consistency in the MRTU systems and related documents.<sup>70</sup> The Commission notes that even though the individual Business Practice Manuals are not filed with the Commission, it is imperative that the information contained within each manual is consistent with the MRTU tariff.

The Commission hereby orders:

(A) The CAISO's proposed changes to its MRTU tariff are accepted as discussed in the body of this order.

(B) The CAISO is directed to submit a compliance filing within 60 days from the date of issuance of this order, consistent with the body of this order.

(C) The CAISO's proposed MRTU tariff changes that are the subject of other compliance directives will be addressed in future Commission orders.

(D) Commission staff is hereby directed to convene a technical conference, as discussed in the body of this order.

By the Commission.

( S E A L )

Nathaniel J. Davis, Sr.,

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<sup>69</sup> CAISO November 15 filing at 14.

<sup>70</sup> *Id.*

Docket Nos. ER06-615-011, *et al.*

43

Deputy Secretary.

**APPENDIX A – BUSINESS PRACTICE MANUALS**

BPM for Market Operations

BPM for Market Instruments

BPM for Settlements & Billing

BPM for Scheduling Coordinator Certification & Termination

BPM for Congestion Revenue Rights

BPM for Managing Full Network Model

BPM for Rules of Conduct Administration

BPM for Outage Management

BPM for Metering

BPM for Reliability Requirements

BPM for Credit Management

BPM for Compliance Monitoring

BPM for Definitions & Acronyms

BPM for BPM Change Management

**APPENDIX B – INTERVENORS**

Alliance for Retail Energy Markets

Bay Area Municipal Transmission Group

California Department of Water Resources, State Water Project

California Electricity Oversight Board

California Municipal Utilities Association

California Public Utilities Commission

Cogeneration Association of California

Coral Power LLC

Energy Producers & Users Coalition

EPIC Merchants Energy LP

Golden State Water Company

Imperial Irrigation District

Metropolitan Water District of Southern California

Modesto Irrigation District

Northern California Power Agency

NRG Companies (NRG Power Marketing, Inc., Cabrillo Power I, LLC, Cabrillo Power II, LLC, El Segundo Power, LLC and Long Beach Generation LLC)

Powerex Corporation

Sacramento Municipal Utility District

City and County of San Francisco, California

City of Santa Clara, California and the M-S-R Public Power Agency

Docket Nos. ER06-615-011, *et al.*

46

Six Cities (Anaheim, Azusa, Banning, Colton, Pasadena and Riverside, California)

Southern California Edison Company

Transmission Agency of Northern California

Western Area Power Administration

Western Power Trading Forum

Williams Power Company

Document Content(s)

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