



Memorandum

To: ADR/Audit Committee of the ISO Board of Governors

From: Jim Detmers, Vice President, Operations

Date: March 17, 2010

Re: **Acceptance of the 2009 Operations Review Report and a Briefing on the 2010 Operations Review Scope**

This memorandum requires Committee and Board action.

EXECUTIVE SUMMARY

PricewaterhouseCoopers, LLC completed the 2009 Operations Review of the California Independent System Operator Corporation and issued its report on February 17, 2010. The review was completed with no exceptions outstanding. One exception was noted and resolved during the review with no other exceptions identified. Management recommends that the ADR/Audit Committee accept the report as submitted and proposes the following motion:

Moved, that the ADR/Audit Committee accepts the report issued on February 17, 2010 by PricewaterhouseCoopers, LLC for the testing of the 2009 Operations Review, as detailed in the memorandum dated March 17, 2010.

BACKGROUND

In accordance with tariff section 22.1.2.2, Management engaged PwC to perform the annual independent operations review. As discussed at the July 2009 ADR/Audit Committee meeting, Management selected the exceptional dispatch process for the scope of the 2009 Operations Review. Although exceptional dispatch is a necessary feature of ISO operation, the use of exceptional dispatches was higher than expected at start of the new market. Management implemented a multi-faceted approach to review and refine processes in order to reduce the number of exceptional dispatches. Management will continue to communicate with the Board regarding its efforts to optimize the system by minimizing the number of required operator interventions through mechanisms like exceptional dispatch. Selecting exceptional dispatch as the review scope enabled independent validation that the improved processes were in place and being followed, providing valuable feedback for continuous improvement.

PwC used agreed-upon procedures to review:

- The actual operations activities associated with the performance of an exceptional dispatch, and
- The validation of the information provided in the exceptional dispatch tool.

RESULTS

In the essential area of operations activities, no issues were identified. The review focused on the use of exceptional dispatch for unit commitment: 1) prior to the day-ahead market, 2) after the close of the day-ahead market, and 3) in the real-time market. The information needed to be processed to ensure appropriate post-day ahead exceptional dispatches were accounted for in the next day-ahead market run was also evaluated with no exceptions identified.

No exceptions were identified in the review of shift supervisor's control documentation used to validate unit commitments performed by the operations crew. The operations review provided Management a window to not only validate compliance with operating procedures, but also to substantiate the progress in reducing exceptional dispatches as indicated by the limited number of exceptional dispatches during the review period.

The exceptional dispatch tool is a spreadsheet suite that provides the operators with needed information for generating units (*i.e.*, from the masterfile). This information includes items such as the units' resource adequacy (RA) status (full RA, partial RA, or non-RA), power minimum and maximum values, and competitive constraint data. In these areas no exceptions were identified.

As noted above, one exception was initially identified. In the review of the tool, an exception was identified in the "operator assistant" tab of the tool. This portion of the tool was created as a means to gain operator efficiency and reduce the steps needed to document exceptional dispatches. The intent of this tab was to provide the existing exceptional dispatch reason codes and instruction types (*i.e.*, from operating procedures) and, after selection, have the exceptional dispatch tool write directly into the scheduling and logging system. Unfortunately, this integration was not achieved. So, although the tab remains available in the tool, it is not being used by the operators because the operating procedure provides operators with the needed information. The exception identified that this unused portion of the tool was not kept in sync with the procedure when it was revised to include greater granularity of types and codes. The tool was refreshed the next day after the exception was identified and actions to prevent recurrence were implemented. PwC performed an additional test and found no exceptions. No exceptional dispatches during the 22 days in which the procedure and the tool were not in full alignment were identified that would have used the more granular reason codes or instruction types. Based on the review, there was no impact as a result of this short-term inconsistency.

ONGOING REVIEWS

Management is working on the process for the scope of the 2010 Operations Review. A request for input on possible review items was noticed to the market on February 17, 2010. The ISO had received two suggestions as of the date of this memo. The first was for exceptional dispatch, which we accomplished last year, and the second involved activities outside of our focus for the operations review. We have responded to both of the entities who submitted input.

At the July 2009 ADR/Audit Committee meeting when we discussed selecting exceptional dispatch as the review area for 2009, we also identified three additional areas for focus on creating tighter processes and controls. These areas were transmission limit biasing, pre-market validation, and constraint management. All three of these areas are receiving greater attention and focus this year, with the transmission biasing and constraints being part of an on-going stakeholder process and the pre-market validation being reviewed for process changes. Although these areas are important, changes are expected in these processes and are therefore not the best choice for this year's review scope. Once the changes have been established and implemented, these areas will be considered for future reviews.

We are finishing the identification process for the 2010 Operations Review scope. We will report back to the committee on our recommendations at a subsequent ADR/Audit Committee meeting.