

ATTACHMENT A

Commission Criteria	Cal-ISO Characteristics and Functions
I. CHARACTERISTICS	
<p>1. Independence from market participants.</p>	<p>In the October 30, 1997 order approving the formation of the Cal-ISO (October 1997 order), FERC found that the Cal-ISO governance is structured in a fair and non discriminatory manner in accordance with Order 888. 81 FERC at 61,446-54. Order 888 explains that a fair and nondiscriminatory governance structure is one in which the “ISO [is] independent of any individual market participant or any one class of participants.” Order 888 at pp. 31,370-31. The Cal-ISO independence from market participants is achieved through split decision making between independent Cal-ISO officers, and a board of governors comprised of market participants, where “(1) no one voting class [is] able to block or veto an action; (2) no two classes together [are] able to form a sufficient majority to make decisions, and (3) no entity (including its affiliates and subsidiaries) [is] able to participate in more than one voting class.” 81 FERC at 61,453.</p>
<p>a. The RTO, its employees and any non-stakeholder directors must not have financial interests in any electricity market participants.</p>	<p>In the October 1997 order, FERC found that the Cal-ISO as a not-for-profit entity has no financial interest in any market participant. 81 FERC at 61,454. FERC ordered the Cal-ISO to prohibit its employees from possessing securities of market participants. In conformance with FERC’s directive, the Cal-ISO employees code of conduct prohibits employees from owning securities issued by a Market Entity or any affiliate thereof. Cal-ISO Employees Code of Conduct (a)(4)-(5). Moreover, the Code prohibits employees from acting as brokers or otherwise purchasing or selling electricity except for ordinary personal uses, or to the extent necessary to carry out the ISO’s functions. Cal-ISO Employees Code of Conduct (a)(1)-(2). Finally, the Code prohibits employees from being employed by a Market Entity without the express approval of the governing board. Moreover, the Cal-ISO has no non-stakeholder directors, thus issues related to the independence of such stakeholders do not arise.</p>

<p>b. An RTO must have a decisionmaking process that is independent of control by any market participant or class of participants.</p>	<p>As noted above, the stakeholder balanced board of the Cal-ISO precludes control of decision making by any market participant or class of participants. Moreover, because the Cal-ISO is a not-for-profit entity, none of its assets are under any circumstances to inure to the benefit of any private person. (See Cal-ISO Articles of Incorporation, V-A.) Accordingly no issues arise related to ownership of the Cal-ISO by market participants, be such ownership de minimis or otherwise.</p>
<p>c. The RTO must have exclusive and independent authority to file changes to its transmission tariff with the Commission under Section 205 of the Federal Power Act.</p>	<p>Section 19 of the Cal-ISO Tariff preserves the Cal-ISO's unilateral right to modify the rates, terms, and conditions of its tariff.</p>
<p>2. Appropriate scope and regional configuration. The RTO must serve an appropriate region. The region must be of sufficient scope and configuration to permit its required functions and to support efficient and nondiscriminatory power markets.</p>	<p>The Cal-ISO second largest control area in the country and the fifth largest in the world. The Cal-ISO's service area is adequate to address a large number of issues effectively, such as resolving loop flow issues, minimizing pancaked rates, and providing for coordinated system planning and expansion. The Cal-ISO Controlled Grid includes a large variety of large and small buyers and sellers, and combines three former control areas. The Cal-ISO is working on greater coordination, and possible joint activities with neighboring transmission system operators.</p>
<p>b. Potential geographical configurations:</p>	<p>The Cal-ISO service area corresponds roughly to a NERC Security Coordinator Area.</p>
<p>c. Control of facilities within a region.</p>	<p>The Cal-ISO controls 75% of the area in California. It is continuing to persuade additional entities to become Cal-ISO participants. Recently, Pasadena decertified its individual control area and joined the Cal-ISO.</p>
<p>3. Operational Authority: The RTO must have operational responsibility for all transmission facilities under its control</p>	<p>In the October 1997 order approving the Cal-ISO, the Commission found that the Cal-ISO complies with a similar ISO principle that "An ISO should have control over the operation of interconnected transmission facilities within its region." October 1997 order, 81 FERC at 61,457.</p>
<p>a. RTO may choose to directly operate facilities, delegate certain task, or use a combination. (FERC does not require that an RTO be a single control area. However, "the RTO must have ultimate responsibility for providing nondiscriminatory transmission service for all market participants and for ensuring the short-term reliability of the grid.")</p>	<p>The Cal-ISO directs the operation of all facilities forming part of the ISO Controlled Grid. Cal-ISO Tariff, sections 2.3.1.1.1; and 2.3.</p>
<p>b. The RTO must be the security coordinator for the transmission facilities that it controls.</p>	<p>The Cal-ISO is the WSCC security coordinator for the ISO Controlled Grid. Cal-ISO Tariff, section 2.3.1.1.6.</p>
<p>4. Short Term Reliability. The RTO must have exclusive authority for maintaining the short-term reliability of the grid that it operates.</p>	<p>In the October 1997 order approving the Cal-ISO, the Commission found that the Cal-ISO complies with a similar ISO principle that "An ISO should have the primary responsibility in ensuring short-term reliability of grid operations. Its role in this responsibility should be well-defined and comply with</p>

	applicable standards set by NERC and the regional reliability council.” See 81 FERC at 61,456-57.
a. The RTO must have exclusive authority for receiving, confirming and implementing all interchange schedules.	The Cal-ISO has exclusive authority to receive, confirm and implement all schedules for transmission of power through the ISO Controlled Grid. Cal-ISO Tariff, sections 2.1.1, and 2.2.8.
b. The RTO must have the right to order re-dispatch of any generator connected to the transmission facilities it operates if necessary for reliable operation of the system.	All generating resources scheduled over the Cal-ISO Controlled Grid are subject to control by the ISO during threatened or actual system emergencies. In such cases the Cal-ISO may order a generating unit to be brought on-line, off-line, or to increase or curtail output. Cal-ISO Tariff, section 5.6.
c. RTO must have authority to approve and disapprove all requests for scheduled outages of transmission facilities.	The Cal-ISO has authority to approve and disapprove all requests for scheduled outages of all facilities forming part of the ISO Controlled Grid. Cal-ISO Tariff, section 2.3.3.
d. If the RTO operates under reliability standards established by another entity (like the regional reliability council) the RTO must report if these standards get in the way.	The Cal-ISO must operate within planning and Operating Reserve criteria at least as stringent as those of the WSCC and NERC, and may establish more stringent criteria. Cal-ISO Tariff, section 2.3.1.3.1.
II. MINIMUM FUNCTIONS	
1. Tariff Administration and Design: The RTO must administer its own transmission tariff and employ a transmission pricing system that will promote efficient use and expansion of transmission and generation facilities.	In the October 1997 order approving the Cal-ISO, the Commission found that the Cal-ISO complies with a similar ISO principle that “An ISO should provide open access to the transmission system and all services under its control at non-pancaked rates pursuant to a single, unbundled, grid-wide tariff that applies to all eligible users in a non-discriminatory manner.” See 81 FERC at 61,455-56.
a. The RTO must be the only provider of transmission service and the sole administrator of the Commission approved open access tariff. The RTO must have sole authority to receive, evaluate, and approve or deny any request for transmission service. The RTO must have the authority to review and approve requests for new interconnections. (FERC notes also that the RTO must be the operator of the OASIS site.)	All transmission service through the ISO Controlled Grid is administered by the Cal-ISO. The Cal-ISO is charged with providing open and non-discriminatory access to the ISO Controlled Grid to all eligible customers. ISO Tariff, section 2.1.1. The Cal-ISO operates the OASIS site for facilities within the ISO Controlled Grid.
b. The RTO tariff must not result in transmission customers paying multiple access charges to recover capital costs over facilities that it controls (no pancaking within the RTO). (FERC recommends waiving transmission access charges for inter-regional trades.)	One transmission access charge only applies for transmission of power through the ISO Controlled Grid. Cal-ISO Tariff, section 7.
2. Congestion Management: The RTO must ensure the development and operation of market mechanisms to manage transmission congestion.	In the October 1997 order approving the Cal-ISO, the Commission found that the Cal-ISO complies with two similar ISO principles: 1) that “An ISO should identify constraints on the system and be able to take operation actions to relieve those constraints within the trading rules established by the governing board. These rules should promote efficient trading,” and 2) that: “An ISO’s transmission and ancillary services pricing policies should

	promote the efficient use of and investment in generation, transmission and consumption.” See 81 FERC at 61,458-59.
a. The market mechanism must accommodate broad participation by market participants, and must provide all transmission customers with efficient price signals regarding their transmission usage decisions. The RTO must either operate such markets itself or ensure that the task is performed by another entity that is not affiliated with any market participant. (FERC provides the following guidelines and principles: (1) Market mechanisms should: generally establish clear and tradable right for transmission usage; promote efficient regional dispatch; support the emergence of secondary markets for transmission rights; and provide market participants with the opportunity to hedge locational differences in energy prices; (2) Generators that are dispatched in the presence of transmission constraints should be those that can serve system loads at least cost; (3) Given that the demand for transmission service during periods of congestion exceeds the system’s ability to supply them, the limited transmission capacity should be used by market participants that value that use most highly.)	The Cal-ISO provides market participants with efficient price signals regarding their usage through congestion “Usage Charges” are determined based scheduling coordinator “Adjustment Bids”. In this manner, the CAISO provides use of congested paths to scheduling coordinators who place greatest value on such use. ISO Tariff, section 7.2. The Cal-ISO offers firm transmission rights that create clear and tradable rights to usage charges and scheduling priority, support the emergence of secondary markets, and allow market participants to hedge risks from congestion management. Cal-ISO Tariff, section 9.
3. Parallel Path Flow. The RTO must develop and implement procedures to address parallel path flow issues within its region and with other regions. The RTO must satisfy this requirement with respect to coordination with other regions no later than three years after it commences initial operation.	In the October 1997 order approving the Cal-ISO, the Commission found that the Cal-ISO complies with a related ISO principle that “An ISO should develop mechanisms to coordinate with neighboring control areas.” See 81 FERC at 61,460. This finding was based on the ISO’s commitment to enter into interconnection agreements with neighboring control areas. Such interconnection agreements provide for coordination with neighboring control areas on mitigating adverse conditions, exceedances of real time operating limits, relay actions, voltage control, and other topics. Coordination could be expanded to include parallel path flows within the three year window for compliance set forth in the RTO NOPR.
4. Ancillary services. An RTO must serve as the supplier of last resort of all ancillary services required by Order No. 888, and subsequent orders.	In the October 1997 order approving the Cal-ISO, the Commission found that the Cal-ISO complies with a related ISO principle that: “An ISO’s transmission and ancillary services pricing policies should promote the efficient use of and investment in generation, transmission and consumption.” See October 1997 order at 61,459. The Cal-ISO is the supplier of last resort of ancillary services within the ISO Controlled Grid. See Cal-ISO Tariff, section 2.5.
a. All market participants must have the option to self supply or buy ancillary services from third parties subject to any general FERC restrictions.	Scheduling coordinators have the option to self provide ancillary services. See Cal-ISO Tariff, section 2.5.1.

<p>b. The RTO must have the authority to decide the minimum required amounts of each ancillary service and the locations where must be provided, and ancillary service providers must be subject to the direct or indirect operational control of the RTO. The RTO must promote the development of competitive markets in ancillary services wherever feasible.</p>	<p>The Cal- ISO has authority to determine the quantity and location of ancillary services required within the ISO Controlled Grid. See Cal-ISO Tariff, section 2.5.3.</p>
<p>c. The RTO must ensure that its transmission customers have access to a real-time balancing market. The RTO must either develop and operate such markets itself or ensure that this task is performed by another entity that is not affiliated with any market participants.</p>	<p>The Cal-ISO operates an imbalance energy market. Cal-ISO Tariff, sections 2.5.22; and 23.</p>
<p>5. OASIS and TTC and ATC. The RTO must be the single OASIS site administrator for all transmission facilities under its control and independently calculate TTC and ATC.</p>	<p>In accordance with FERC’s directives in the October 1997 order (81 FERC at 61,459-60), the Cal-ISO administers an OASIS site for the ISO Controlled Grid.</p>
<p>6. Market Monitoring. The RTO must monitor markets for transmission services, ancillary service and bulk power to identify design flaws and market power and propose appropriate remedial actions.</p>	<p>The ISO reviews the operation of the markets it administers to determine whether changes to its operating rules or Protocols would improve the efficiency of those products or to prevent the exercise of market power by any market participant. Cal-ISO Tariff, section 16.3 and Cal-ISO Market Monitoring and Information Protocol (“MMIP”).</p>
<p>a. The RTO must monitor market for transmission service and the behavior of transmission owners, if any, to determine if their actions hinder the RTO in providing reliable, efficient and nondiscriminatory transmission service.</p>	<p>Pursuant to the MMIP, the ISO must address “Gaming” in its review. “Gaming” is defined as taking unfair advantage of the rules and procedures set forth in the PX or ISO Tariffs, protocols or Activity Rules, or of transmission constraints in periods in which exist substantial Congestion, to the detriment of the efficiency of, and of consumers in, the ISO Markets. “Gaming” may also include taking undue advantage of other conditions that may affect the availability of transmission and generation capacity, such as loop flow, facility outages, level of hydropower output or seasonal limits on energy imports from out-of-state, or actions or behaviors that may otherwise render the system and the ISO markets vulnerable to price manipulation to the detriment of their efficiency. MMIP at section 2.1.3.</p>
<p>b. The RTO must monitor markets for ancillary services and bulk power in the markets the RTO operates. This obligation is limited to market that the RTO operates.</p>	<p>The ISO monitors all markets within its control. See MMIP. Moreover, the ISO generally reviews market design flaws that may reveal undue concentrations of market power in generation or other structural flaws. MMIP 2.1.5.</p>
<p>c. The RTO must periodically assess how behavior in markets operated by others (e.g., bilateral power sales markets and power markets operated by unaffiliated power exchanges) affects RTO operations and conversely how RTO operations affect the performance of power markets operated by others.</p>	<p>In reviewing Gaming, as described above, anomalous behavior, MMIP 2.1.1, ISO and PX design flaws, MMIP section 2.1.4, and Market structure flaws, MMIP section 2.1.5, the ISO reviews the effect of behavior in markets operated by others affects ISO market and to its effect on power markets operated by others.</p>

<p>d. The RTO must provide reports on market power abuses and market design flaws to the Commission and affected regulatory authorities. The reports must contain specific recommendations about how observed market power abuses and market flaws can be corrected.</p>	<p>In the RTO NOPR, FERC explicitly acknowledged that the Cal-ISO already has committed to producing annual public reports on market power abuses and market design flaws. RTO NOPR at 188.</p>
<p>7. Planning and expansion. The RTO must be responsible for planning necessary transmission additions and upgrades that will enable it to provide efficient, reliable and non-discriminatory transmission service and coordinate such efforts with the appropriate state authorities.</p>	<p>The Cal-ISO must participate with participating transmission owners and other market participants in a planning process covering a minimum five-year planning horizon. See ISO Tariff, section 3.2.2. While this process places upon the ISO the responsibility to review and approve plans developed in the first instance by transmission owners, the ISO may propose new projects or suggest project changes. If the ISO's suggestions are not accepted by the TO, the issues is resolve through the ISO ADR procedure. In addition, the ISO in coordination with other market participants participates in the coordinated planning processes of the WSCC and the RTG. See Cal-ISO Tariff, section 3.2.1.2.</p>
<p>a. The RTO planning and expansion process must encourage market-driven operating and investment actions for preventing and relieving congestion. (FERC notes that this requirement is met by having congestion pricing and ISO control over planning and expansion.)</p>	<p>The Cal-ISO has implemented congestion pricing through Usage Charges, and participates significantly in the planning and expansion process.</p>
<p>b. The RTO's planning and expansion process must accommodate efforts by state regulatory commissions to create multi-state agreements to review and approve new transmission facilities. The RTO's planning and expansion process must be coordinated with programs of exiting Regional Transmission Groups (RTGs) where necessary. (FERC notes that initially it does not want RTOs to replicate the work of RTGs, but it sees RTG planning functions taken over by RTOs in the future. FERC wants to "encourage regional siting" by requiring "that the RTO planning and coordination system must be able to accommodate the possible future emergence of a regional regulatory system.")</p>	<p>There is nothing in the Cal-ISO planning process that precludes efforts to create multi-state agreements to review and approve new transmission facilities. Moreover, the Cal-ISO coordinates with planning processes of the WSCC and the RTG.</p>
<p>c. If the RTO is unable to satisfy this requirement when it commences operation, it must file a plan with the Commission with specified milestones that will ensure that it meets this requirement no later than three years after initial operation.</p>	
<p>III. OTHER</p>	
<p>Open Architecture. There cannot be a "provision in any RTO proposal that precludes the RTO and its members from improving their organizations to meet market needs."</p>	<p>The ISO bylaws provide for amendment of such bylaws pursuant to a two-thirds vote of the Governors then in office. Some amendments require approval of the Oversight Board.</p>