California ISO
Your Link to Power

California Independent
System Operator Corporation

February 29, 2008

The Honorable Kimberly D. Bose
Secretary
Federal Energy Regulatory Commission
888 First Street, NE
Washington, DC 20426

**Re: California Independent System Operator Corporation,**
**Docket Nos. ER08-___-000**
**Amendment to Tariff (Both Current and MRTU) to Implement a Charge for Undelivered Import or Export Bids**

Dear Secretary Bose:

Pursuant to Section 205 of the Federal Power Act[1] and Section 35.15 of the regulations of the Federal Energy Regulatory Commission,[2] the California Independent System Operator Corporation or "CAISO" respectfully submits for filing an original and five copies of proposed amendments to its FERC electric tariffs – both the "CAISO Tariff," meaning the currently effective tariff, and the "MRTU Tariff," which will become effective upon implementation of the CAISO's Market Redesign and Technology Upgrade ("MRTU.)"

As described below, this amendment will establish settlement charges that will be assessed to Scheduling Coordinators who fail to deliver on bids for imports and for exports that have been accepted in the CAISO's real-time markets for energy (the HASP under MRTU).

## I. BACKGROUND

### A. Overview

The purpose of this tariff amendment is to define consequences for Scheduling Coordinators that fail to deliver on bids to import or export real-time energy that the CAISO has accepted and dispatched. The CAISO's dispatch system permits Scheduling Coordinators to indicate that they will not deliver, or "decline" dispatches for import/export energy, recognizing that there could be legitimate reasons to decline. For example, the generator that ultimately backs the transaction might suffer unexpected outages, a marketer might not be able to consummate a transaction as expected, or might find that necessary transmission has become unavailable. A single decline by itself does not tend to cause problems. Simultaneous declines, however, especially of larger MWh quantities, can result in operational problems and market

1 16 U.S.C § 824d.
2 18 C.F.R. § 35.15.

inefficiencies. Under MRTU, moreover, declined pre-dispatches could pose additional concerns due to the direct impact declines will have on market clearing prices in the HASP and the potential this creates for detrimental market impacts and gaming opportunities.

In the spring of 2007, the CAISO experienced an unusually high rate of declines, which led the CAISO's Department of Market Monitoring ("DMM") to perform a detailed review and analysis of this issue. As a result of this process, the CAISO determined that the provisions in its tariff that may be relevant to this behavior do not provide sufficiently clear guidance about the expected conduct and consequences. The key rule that arguably applies to declined pre-dispatches is contained in Section 37.3.1.1, which requires market participants to bid from resources that are "reasonably expected to be available."[3] The CAISO is concerned that this standard may not provide sufficiently clear guidance for a marketer that is trying to arrange import transactions. To compound the problem, this provision can be enforced only by FERC and only after the behavior has already occurred.[4]

Concerned about the lack of clear guidance for expected market behavior, and the possibility that the lack of clarity could either encourage infeasible bids or discourage legitimate bids, the CAISO has decided to amend its tariffs. These amendments have two goals: (a) to provide clear guidance for market participants, and (b) to strike an appropriate balance between discouraging excessive declines and encouraging legitimate bids. Through a stakeholder process that is detailed below, the CAISO determined that a financial charge for declines in excess of a specific threshold would be an effective means for discouraging excessive declines of pre-dispatched real-time bids from imports and exports.

### B. The Pre-Dispatch Process

The pre-dispatch process is, for present purposes, the same under MRTU as it is under the current tariff. The CAISO "pre-dispatches" intertie bids at least forty-five minutes before each operating hour.[5] CAISO software selects bids to pre-dispatch based on an optimization that economically dispatches or "clears" incremental and decremental real-time energy bids with "overlapping" prices (*i.e.*, incremental bids offered at a price lower than the price of decremental energy bids submitted by other participants). This market clearing pre-dispatch

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3 The full text of the subsection reads:

> Market Participants must bid and schedule Energy and Ancillary Services from resources that are reasonably expected to be available and capable of performing at the levels specified in the bid and/or schedule, and to remain available and capable of so performing based on all information that is known to the Market Participant or should have been known to the Market Participant at the time of bidding or scheduling.

4 *See* CAISO Tariff 37.8.2 ("Although Sections 37.2 through 37.6 will generally be enforced by the Market Monitoring Unit, the Market Monitoring Unit shall refer to FERC any matter for which the particular circumstances preclude the objective determination of a Rules of Conduct Violation . . . .")

5 The only exceptions are dynamically-scheduled resources and bids that have been designated as dispatchable, both of which are dispatched on a 5-minute basis throughout the operating hour.

process considers the entire pool of submitted real-time bids – imports and exports that may be pre-dispatched prior to the operating hour, as well as resources within the CAISO Control Area that can be dispatched on five minutes' notice within each operating hour.[6]

To complete a transaction, a Scheduling Coordinator that receives a pre-dispatch from the CAISO must respond by indicating that it intends to "accept." Alternatively, a Scheduling Coordinator may instead indicate that it "declines" – *i.e.*, will not deliver – or simply fail to respond to the pre-dispatch instruction, which is also considered a decline. A Scheduling Coordinator that accepts a pre-dispatched bid must then submit e-tag information for the CAISO Control Area scheduling system before the operating hour. Failure to do so is treated as if the pre-dispatch had been declined.

Currently, a delivered import bid is paid (or charged, for exports) "as bid" (*i.e.* paid or charged its bid price). Under MRTU, accepted import and export bids will be paid or charged at the HASP clearing price. A declined bid, on the other hand, is not otherwise settled – there is no payment or charge under Section 11.

### C. Problems Caused by Excessive Declines

Declined pre-dispatched real-time market bids have the potential to result in operational problems or market inefficiencies, depending on the extent of the declines. More specifically,

• **Sub-optimal Imbalance Energy Dispatch.** The CAISO software optimizes dispatch bids for real-time energy imports, exports and resources within the CAISO Control Area based on the assumption that all bids will perform as dispatched. The CAISO does not learn that pre-dispatched bids have been declined until after it is too late to re-optimize and issue additional pre-dispatch instructions. Thus, declined pre-dispatches result in the sub-optimal use of these sources of real-time incremental and decremental energy. For example, declines of pre-dispatched import bids typically would be expected to cause the CAISO software to dispatch incremental bids from internal energy resources at a higher price than if the pre-dispatched bids were not declined or were not originally submitted.

• **Reliability Impacts.** The CAISO clears the market for real-time energy by dispatching all incremental and decremental bids with "overlapping" bid prices (*i.e.*, incremental energy bids to sell energy at prices less than any decremental energy bids to buy energy or reduce energy schedules). Declines of pre-dispatched import bids can cause the CAISO to be forced to provide energy from within the CAISO system to support export bids that were pre-dispatched as a result of this market clearing process. Similarly, declines of pre-dispatched export bids can cause the CAISO to decrement energy from within the CAISO system to accommodate the additional imports that were pre-dispatched as a result of declined export bids. When the volume of declines is large, the CAISO may not have sufficient 5-minute

6 These consist of "Supplemental Energy Bids" in the current market design and "Real-Time Economic Bids for Supply" or "Real-Time Economic Bids for Demand" in MRTU that designate an intertie.

dispatchable resources to compensate for the declines, which can create reliability problems and impose additional costs on other market participants. While the CAISO has not actually experienced this to date, there were several occasions in the spring of 2007 when excessive declines came close to depleting the available capacity.

• **Gaming Concerns.** The ability to decline pre-dispatched bids also creates the potential for gaming of market rules if participants treat pre-dispatched real-time energy bids at the interties as a cost-free option to sell or buy energy. In other words, a Scheduling Coordinator might deliver on a dispatched bid only if the price is favorable in comparison to other opportunities to buy or sell energy in bilateral markets at the time the CAISO pre-dispatches the bid. Currently, declined pre-dispatches do not affect the price paid or charged for pre-dispatched imports or exports because they are settled "as-bid." Under MRTU, however, declined pre-dispatched inter-tie bids could pose additional market inefficiencies and gaming concerns stemming from the fact that all imports and exports pre-dispatched in the HASP will be settled based on a single market clearing price. Excessive declined pre-dispatches of import bids will tend to decrease the HASP price, while excessive declined export bids will tend to increase the HASP price. Thus, excessive declined pre-dispatch bids could have a greater potential impact in terms of distorting HASP prices, and the relationship between the HASP price and the real-time market clearing price, which could be exacerbated through gaming. For instance, a Scheduling Coordinator could submit relatively high priced export bids at an inter-tie while also submitting lower priced import bids with the objective of increasing the overall demand and price for the participant's import bids. It could then decline the pre-dispatched export bids, and earn the (inflated) market clearing price for the accepted import bids.

## II. STAKEHOLDER PROCESS

In October 2007, the CAISO initiated a stakeholder process to assess options for addressing the problems caused by the excessive decline of pre-dispatched bids. As a starting point, CAISO staff prepared a white paper that summarized potential options based on settlements charges for declines that are already incorporated at the CAISO or at other ISOs. The first main option was to apply the CAISO's Uninstructed Deviation Penalty ("UDP") provisions, which are currently part of the CAISO Tariff but presently inoperative,[7] to declined bids for imports and exports of real-time energy. This would result in a charge for each declined pre-dispatch instruction equal to a percentage of what the CAISO would have paid for the instructed energy. A second main option outlined by staff was to adopt the penalty mechanisms used by the New York ISO and Ontairo IESO. These ISOs charge the replacement cost of undelivered energy from the real-time market, with a charge based on the price difference between the HASP and Real-Time markets.

The CAISO accepted written comments on the white paper and hosted a conference call on October 16, 2007. Stakeholders generally agreed that for CAISO markets to operate

[7] *See* CAISO Tariff § 11.2.4.1.2 ("Effective December 1, 2004, the ISO shall not charge any Uninstructed Deviation Penalty pursuant to this subection . . . until FERC issues an order authorizing the ISO to charge . . . [p]enalties pursuant to this section").

efficiently, economic energy bids from the inter-ties should be fully utilized. There was also widespread agreement that there should be a mechanism that discourages Market Participants from submitting bids that they do not have a reasonable expectation of delivering.

The CAISO published a straw proposal on November 7. It followed the general preference of stakeholders for a settlements charge based on the CAISO's UDP provisions. The CAISO accepted written comments and hosted a conference call on November 15. These comments led the CAISO to further refinements, and a final proposal was published on November 30. A call to discuss this final proposal was held on December 3.

Although there was no clear consensus from stakeholders on the details of the charge, virtually all the participants agreed that some sort of charge was appropriate and accepted the general design concept proposed by the CAISO. Concerns were focused on the details of three areas: 1) calculating the proposed charge, 2) setting a threshold for an acceptable level of declines, below which a Scheduling Coordinator would be exempt from the charge, and 3) ensuring that Scheduling Coordinators who pay the charge are not also subject to separate penalties based solely on those declines. The specific concerns and the CAISO's responses are summarized below.

### A. Calculating the Proposed Charge

Both the initial and final proposals calculate the settlements charge for a particular decline based on the pre-dispatch price multiplied by a penalty factor of 50% or, if the price was less than \$10/MWh, a minimum charge of \$10 per MWh. While some stakeholders questioned this formula in response to the initial proposal, objections were apparently dropped after that point. Some of the comments on the straw proposal suggested that the 50% "penalty factor" was too high and would discourage legitimate import bids, while others suggested increasing it to 100%. The minimum charge of \$10 was also criticized by one stakeholder as too low. Given the range of comments on the proposed formula for calculating the charge, the CAISO concluded that it strikes a reasonable balance between deterring excessive declines and not over-penalizing Market Participants.

In addition, another stakeholder proposed use of the real-time price instead of the pre-dispatch price for declined imports (as opposed to exports). The CAISO rejected this proposal because the real-time price can differ significantly from the pre-dispatch price due to factors that have nothing to do with the declines (in addition to any effect that the declines had). All of these concerns were discussed during the November 15 conference call, but none were repeated in response to the final proposal.

### B. The Threshold for Exemption

Objections to the final proposal were focused on the threshold for exemption. The CAISO's straw proposal was to exempt Scheduling Coordinators from any charge if their declines during the Trading Month were no more than 5% of the MWh quantity of their total accepted pre-dispatched bids. Several stakeholders contended that this threshold was too strict. One reason was that it did not accommodate declines that were beyond the control of the Scheduling Coordinator, such as curtailments by reliability authorities, derates of transmission lines, or generation outages. In response to these comments, the CAISO indicated during a preliminary call that it would consider exempting declines that were determined to be beyond the control of the Scheduling Coordinator. Another reason the straw proposal was criticized as too strict was because it arguably did not allow sufficient leeway for suppliers with smaller volumes, who might be subject to penalties based on just a few declines in a month. To accommodate these participants, it was suggested that the CAISO adopt a second threshold in terms of an absolute number of MWhs, as opposed to a percentage, so that a charge would be assessed only if the Scheduling Coordinator declined pre-dispatches in excess of the MWh threshold.

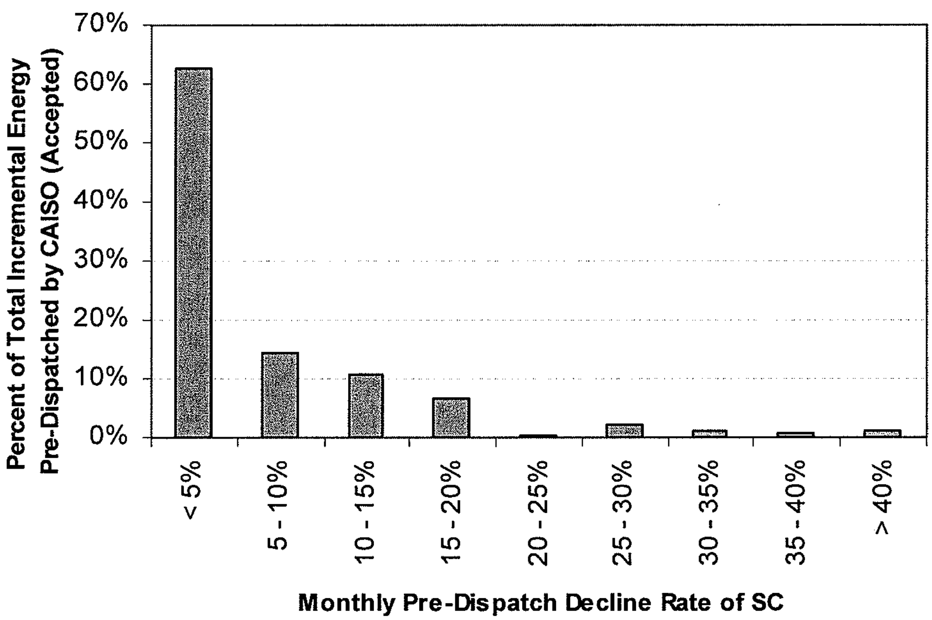
Meanwhile, a smaller group of stakeholders supported the 5% exemption threshold or even considered it too lenient. All supported exemptions for declines due to circumstances beyond the control of the Scheduling Coordinator.

After considering these comments, the CAISO modified the final proposal in two ways. First, to accommodate smaller Scheduling Coordinators, the CAISO added a second threshold of 300 MWh declined in a Trading Month. A Scheduling Coordinator will be assessed charges only if its declines during a month exceed both thresholds – 300 MWh and 10% of the total MWh quantity of its accepted pre-dispatched bids.

Second, the CAISO increased the primary exemption threshold to 10%, but decided against including exceptions for declines that might be beyond the control of the Scheduling Coordinator. One reason for this revision – and the factor that ultimately outweighed the view that the exemption threshold should be tightened – was the belief that declines are not inappropriate in certain circumstances. In the CAISO's view, these declines should not incur charges, because doing so could discourage legitimate import bids and lead marketers to add an otherwise unnecessary "bid premium." However, the CAISO also believed it would be impossible as a practical matter to evaluate the circumstances of numerous individual declines, as would be necessary if the rule contained exceptions for declines based on certain specific causes. Accordingly, the CAISO decided against including such exceptions, and doubled the exemption threshold to 10%. The expectation was that the 10% threshold would allow a Scheduling Coordinator sufficient "headroom" to remain below the threshold despite a number of declines due to conditions outside its control. Thus, it would be the responsibility of the Scheduling Coordinator to stay far enough below this threshold so that circumstances beyond its control do not result in charges.

Another reason for selecting 10% as the threshold was based on a review of data about decline rates. On November 12, the CAISO published data that included a review of the sources of pre-dispatched incremental energy according to the monthly decline rate of the supplying Scheduling Coordinator. This data spanned the months of May through October, 2007, representing all the available data since decline rates had fallen back to historically normal levels. The data showed that Scheduling Coordinators with overall decline rates less than 5% – *i.e.*, a level being considered as a possible exemption threshold – supplied 63% of the incremental energy that was obtained in the pre-dispatch process. The next group of Scheduling Coordinators, with decline rates between 5% and 10%, supplied another 14%. A third group of Scheduling Coordinators, with decline rates between 10% and 15%, supplied another 11%.

**Pre-Dispatched Incremental Energy (Accepted)**
**By Monthly Decline Rate of SC**
**May – October 2007**




Obviously, the level of the threshold exemption will determine which Scheduling Coordinators receive charges. From this data, the CAISO concluded that setting the primary threshold exemption level at 5% would jeopardize too much of the pre-dispatch incremental energy that is available to it -- possibly as much as 38% -- due to the possibility of Scheduling Coordinators refraining from bidding into the CAISO's markets. This was another significant factor behind the CAISO's decision to set the primary threshold at 10%. For additional information on the CAISO's decision, see the "CAISO Proposal on Declined Real-Time Import and Export Bids," Attachment E hereto.

### C. Clarifying the Consequences of Declines

The final area of stakeholder concern was that Scheduling Coordinators who are assessed the new settlements charge should not also be subject to a second sanction under the tariff for the very same conduct, in particular under Section 37.3. *See* p. 2 above. In the final proposal, the CAISO committed to changes that will limit the consequences for violating Section 37.3 by declining pre-dispatched energy bids to the new settlements charge.

## III. DESCRIPTION OF PROPOSED AMENDMENT

The proposed amendment adopts settlements charges for excessive declines of pre-dispatched import or export energy, with separate charges for imports and exports called "Decline Monthly Charge – Imports" and "Decline Monthly Charge – Exports." These charges will be assessed on the final day of each Trading Month. The charges are intended to deter unnecessary declines, but not to be determinations of wrongdoing. To the contrary, the amendment revises the "Enforcement Protocol" in the CAISO tariffs to clarify that there will be no separate Sanction for violations of Section 37.3 due to a Scheduling Coordinator's failure to deliver on pre-dispatched bids for import or export energy.[8]

The ultimate settlements charge will be based on a portion of the sum of the charges that are calculated for every individual decline of a pre-dispatched bid for import or export energy – *i.e.*, the "Decline Potential Charge – Imports" and "Decline Potential Charge – Exports." These charges for individual declines will be based on the pre-dispatch price and the quantity declined, calculated as follows:

Declined quantity x maximum (minimum charge of $10, 50% of pre-dispatch price).

In the CAISO's current market, the pre-dispatch price is the market participant's bid price. In MRTU, it will be the HASP clearing price.

These charges – the "Decline Potential Charge – Imports" and "Decline Potential Charge – Exports" – will apply to all pre-dispatched bids that are not delivered for any reason, including dispatches that are declined due to failure to timely submit a valid e-tag. As described in Section II above, the CAISO has considered and rejected arguments that certain conditions should create exceptions from the charge for particular declined dispatches.

A Scheduling Coordinator may incur a certain minimum level of declines during a Trading Month without incurring a charge. At the end of every Trading Month, the CAISO will

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8 At the same time, the relevant standard of conduct remains in place. Section 37.3.1.1 provides that

> Market Participants must bid and schedule Energy and Ancillary Services from resources that are reasonably expected to be available and capable of performing at the levels specified in the bid and/or schedule, and to remain available and capable of so performing based on all information that is known to the Market Participant or should have been known to the Market Participant at the time of bidding or scheduling.

Consequently, even though the Sanction for violating this rule by declining pre-dispatch bids would be limited to the settlements charge, the violation itself could serve as a predicate for other offenses if it were associated with other prohibited practices (e.g., market manipulation). For example, the violation might serve as a basis for a finding of fraud if a Scheduling Coordinator used all of its declines below the exemption threshold during shortage conditions – e.g., the hottest day of the summer – with intent to manipulate market prices, or submitted import and export bids with "overlapping prices" (i.e. bids to export energy combined with bids to import energy at a lower price) and then declined either the export or import bids with the same intent. *See* Order No. 670, 114 FERC ¶61.047 (2006), ¶ 50 (defining "fraud" as "any action, transaction, or conspiracy for the purpose of impairing, obstructing or defeating a well-functioning market").

calculate each Scheduling Coordinator's declines, both in terms of absolute quantity and rate (as the percentage of MWh dispatched that are not delivered). The decline quantity and rate will be calculated separately for import and export dispatches. Scheduling Coordinators will be assessed a charge only if their total declines during the Trading Month exceed both 300 MWh in absolute quantity (the "Decline Threshold Quantity – Imports/Exports") and 10 percent (the "Decline Threshold Percentage – Imports/Exports") for either imports or exports.

A Scheduling Coordinator that exceeds these thresholds will be assessed a "Decline Monthly Charge – Imports" or "Decline Monthly Charge – Exports," as the case may be. These charges will be calculated from the sum of the individual charges that apply to each decline – the "Decline Potential Charge – Imports" and "Decline Potential Charge – Exports" – reduced to account for the declines that were within the exemption threshold. In other words, the sum of the individual charges would be multiplied by the MWh quantity of the Scheduling Coordinator's declined pre-dispatched bids minus the exemption threshold (the greater of the applicable thresholds) divided by the MWh quantity of th Scheduling Coordinator's declined pre-dispatched bids.

For example, if the total charges calculated for a Scheduling Coordinator's declined pre-dispatched import bids over a calendar month was $50,000, and the Scheduling Coordinator failed to deliver 23% of the total MWhs of its total import bids of 4000 MWh, the Scheduling Coordinator's net "Decline Monthly Charge – Imports" for the Trading Month would be

$$\$50{,}000 \text{ x } \frac{23\% \text{ of } 4000 - \text{applicable threshold}}{23\% \text{ of } 4000} \text{ OR } \$50{,}000 \text{ x } \frac{920-400}{920} = \$28{,}260.87.$$

The charges collected under this charge will be allocated broadly to load and firm exports, which reflect the Scheduling Coordinators that would otherwise pay a large portion of any increased market prices caused by excessive declines.

## IV. EFFECTIVE DATE

The CAISO requests an effective date of May 1, 2008, so that the amendment is in effect before peak summer loads.

## V. CONTENTS OF FILING

In addition to this transmittal letter, the instant compliance filing includes two sets of Tariff sheets, identified as Attachments A through D. As noted above, the first two sets revise the currently effective CAISO Tariff. Attachment A contains clean CAISO Tariff sheets reflecting the modifications described in Section III, above. Attachment B shows these modifications in blackline format.

The second two sets of tariff sheets revise the MRTU Tariff, as modified by the CAISO's December 21, 2007 filing in Docket No. ER06-615. Attachment C contains clean CAISO Tariff sheets reflecting the modifications described in Section III, above. Attachment D shows these modifications in blackline format.

Attachment A – Currently Effective Tariff Clean Sheets
Attachment B – Currently Effective Tariff Blacklines
Attachment C – 4th Replacement CAISO Tariff (MRTU) Clean Sheets
Attachment D – 4th Replacement CAISO Tariff (MRTU) Blacklines
Attachment E – CAISO Proposal on Declined Real-Time Import and Export Bids, November 30, 2007

## VI. COMMUNICATIONS

Correspondence and other communications regarding this filing should be directed to:

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| Daniel J. Shonkwiler*<br>California Independent System<br>Operator Corporation<br>151 Blue Ravine Road<br>Folsom, CA 95630<br>Tel: (916) 351-4400<br>Fax: (916) 351-2350<br>dshonkwiler@caiso.com | Michael Kunselman*<br>Alston & Bird, LLP<br>The Atlantic Building<br>950 F Street, N.W.<br>Washington, D.C., 20004<br>Tel: (202) 756-3300<br>Fax: (202) 756-3333<br>michael.kunselman@alston.com |

* Parties designated for service.

## VII. REQUEST FOR WAIVER OF ORDER NO. 614 REQUIREMENTS

As the Commission is aware, the CAISO will not be implementing MRTU on March 31, 2008, the proposed effective date included in the CAISO's Fourth Replacement Electric Tariff filed on December 21, 2007 in Docket No. ER08-367. As discussed in the monthly MRTU status reports filed in ER06-615, the CAISO will not be able to announce a new proposed effective date until the CAISO resumes its market simulation activities and is confident that the MRTU software is operating successfully. Accordingly, the CAISO is filing clean MRTU tariff sheets as Attachment C without indicating a proposed effective date and, therefore, requests waiver of Order No. 614 and applicable provision of Section 35.9 of the Commission's regulations. The CAISO understands that in the absence of a proposed effective date the Commission is not compelled to take any action within the 60-day time frame prescribed by the Federal Power Act. Nevertheless, the CAISO requests the Commission issue an order in this docket within the 60-day time period or as soon thereafter as possible. A timely order will allow for a more orderly transition to MRTU for the CAISO and its Market Participants.

## VIII. SERVICE

The CAISO has served copies of this filing on the Public Utilities Commission of the State of California, the California Energy Commission, the California Electricity Oversight Board, and all parties with Scheduling Coordinator Agreements under the CAISO Tariff. In addition, the CAISO has posted a copy of the filing on the CAISO Website and will provide courtesy copies of this filing to all parties in the MRTU proceeding, FERC Docket Nos. ER06-615 and ER07-1254.

## IX. CONCLUSION

For the reasons set forth above, the CAISO respectfully requests that the Commission accept its proposed modifications to the currently effective CAISO Tariff as well as the MRTU Tariff.

Daniel J. Shonkwiler
California Independent System
Operator Corporation
151 Blue Ravine Road
Folsom, CA 95630
Tel: (916) 351-4400

Michael Kunselman
Alston & Bird LLP
The Atlantic Building
950 F Street NW
Washington, DC 20004
Tel: (202) 756-3300

**Attachment A – Clean Sheets**

**Declined Predispatched Intertie Bids Amendment Filing**

**February 29, 2008**

**Currently Effective ISO Tariff**

**11.24.4 Calendar Content and Format**

The ISO may change the content or format of the ISO Payments Calendar. The ISO may also produce a summary outline of the Settlement and billing cycles.

**11.24.5 Update the Final Payments Calendar.**

If as a result of a tariff amendment approved by FERC, the final ISO Payments Calendar developed in accordance with Section 11.24 is rendered inconsistent with the timing set forth in the tariff, the ISO shall update the final ISO Payments Calendar to make it consistent with the tariff as approved by FERC on the date on which the tariff amendment goes into effect. The ISO shall simultaneously send out a notice to Market Participants that the final ISO Payments Calendar has been revised.

**11.25 [NOT USED]**

**11.26 [NOT USED]**

**11.27 [NOT USED]**

**11.28 [NOT USED]**

**11.29 [NOT USED]**

**11.30 [NOT USED]**

**11.31 Decline Charge for Hourly Pre-Dispatch Supplemental Energy.**

The Decline Potential Charge – Imports shall apply to any portion of an Hourly Pre-Dispatch Supplemental Energy bid for an import that is not delivered for any reason. The Decline Potential Charge – Exports shall apply to any portion of an Hourly Pre-Dispatch bid for an export that is not delivered for any reason. For any Settlement Interval, the Decline Potential Charge – Imports or Decline Potential Charge – Exports, as the case may be, shall equal the MWh quantity of the import or export not delivered multiplied by the greater of $10/MWh or fifty percent (50%) of the bid price. The Decline Potential Charge – Imports and Decline Potential Charge – Exports will be calculated for each Hourly Pre-Dispatch bid that is not delivered, provided that only the Decline Monthly Charge – Imports and Decline Monthly Charge – Exports shall be payable by the Scheduling Coordinator as described in Section 11.31.1.

**11.31.1 Decline Monthly Charge – Imports.**

The Decline Monthly Charge – Imports shall be applied to each Scheduling Coordinator on the Settlement Statements issued for the last Trading Day of each trading month, and shall be the sum of the Scheduling Coordinator's Decline Potential Charges – Imports for each Settlement Interval during that trading month multiplied by a ratio. The ratio will represent the portion of the Scheduling Coordinator's declined Hourly Pre-Dispatch Supplemental Energy bids for imports that exceed the applicable exemption threshold during the trading month.

(a) The ratio will be calculated as follows:

(i) the Scheduling Coordinator's total MWh quantity of Hourly Pre-Dispatch Supplemental Energy bids for imports that were not delivered during that Trading Month minus the applicable exemption threshold, divided by

(ii) the Scheduling Coordinator's total MWh quantity of Hourly Pre-Dispatch Supplemental Energy bids for imports that were not delivered during the trading month.

(b) The applicable exemption threshold is the greater of the following:

(i) the Decline Threshold Quantity – Imports/Exports; or

(ii) the total MWh quantity of Hourly Pre-Dispatch Supplemental Energy bids for imports during the trading month multiplied by the Scheduling Coordinator's Decline Threshold Percentage – Imports/Exports.

Notwithstanding the foregoing, the Decline Monthly Charge – Imports shall equal zero if either:

(a) The percentage of the MWh quantity of Hourly Pre-Dispatch Supplemental Energy bids for imports that the Scheduling Coordinator did not deliver during the trading month is less than the Decline Threshold Percentage – Imports/Exports; or

(b) The total MWh quantity of Hourly Pre-Dispatch Supplemental Energy bids for imports that the Scheduling Coordinator did not deliver in the applicable trading month is less than the Decline Threshold Quantity – Imports/Exports.

**11.31.2 Decline Monthly Charge – Exports.**

The Decline Monthly Charge – Exports shall be applied to each Scheduling Coordinator on the Settlement Statements issued for the last Trading Day of each trading month, and shall be the sum of the Scheduling Coordinator's Decline Potential Charges – Exports for each Settlement Interval during that trading month multiplied by a ratio. The ratio will represent the portion of the Scheduling Coordinator's declined Hourly Pre-Dispatch Supplemental Energy bids for exports that exceed the applicable exemption threshold during the trading month.

(a) The ratio will be calculated as follows:

(i) the Scheduling Coordinator's total MWh quantity of Hourly Pre-Dispatch Supplemental Energy bids for exports that were not delivered during that trading month minus the applicable exemption threshold, divided by

(ii) the Scheduling Coordinator's total MWh quantity of Hourly Pre-Dispatch Supplemental Energy bids for exports that were not delivered during the trading month.

(b) The applicable exemption threshold is the greater of the following:

(i) the Decline Threshold Quantity – Imports/Exports; or

(ii) the total MWh quantity of Hourly Pre-Dispatch Supplemental Energy bids for exports during the trading month multiplied by the Scheduling Coordinator's Decline Threshold Percentage – Imports/Exports.

Notwithstanding the foregoing, the Decline Monthly Charge – Exports shall equal zero if either:

(a) The percentage of the MWh quantity of Hourly Pre-Dispatch Supplemental Energy bids for exports that the Scheduling Coordinator did not deliver during the trading month is less than the Decline Threshold Percentage – Imports/Exports; or

(b) The total MWh quantity of Hourly Pre-Dispatch Supplemental Energy bids for exports that the Scheduling Coordinator did not deliver in the applicable trading month is less than the Decline Threshold Quantity – Imports/Exports.

**11.31.3 Allocation of Import/Export Decline Monthly Charges Collected.**

On the Settlement Statements issued for the last Trading Day of the applicable trading month, each Scheduling Coordinator shall receive a credit for its share of the total of all Decline Monthly Charges – Imports and Decline Monthly Charges – Exports assessed to Scheduling Coordinators for the applicable trading month. The credits shall be allocated according to the proportion of each Scheduling Coordinator's Demand (including exports) to total Demand (including exports) in (or from) the ISO Control Area during the trading month.

**37.3 Submit Feasible Energy and Ancillary Service Bids and Schedules.**

**37.3.1 Bidding Generally.**

**37.3.1.1 Expected Conduct.**

Market Participants must bid and schedule Energy and Ancillary Services from resources that are reasonably expected to be available and capable of performing at the levels specified in the bid and/or schedule, and to remain available and capable of so performing based on all information that is known to the Market Participant or should have been known to the Market Participant at the time of bidding or scheduling.

**37.3.1.2 Consequence for Non-Performance.**

A Market Participant that fails to perform in accordance with the expected conduct described in Section 37.3.1.1 above shall be subject to having the payment rescinded for any portion of an Ancillary Service that is unavailable, or if the Market Participant fails to deliver on an Hourly Pre-Dispatch bid for import or export of Supplemental Energy, it shall be subject to any charge that may apply in Section 11.31.

**37.3.2 Exceptions.**

Violations of Section 37.3.1 that result in circumstances in which an Uninstructed Deviation Penalty under Section 11.2.4.1.2 of the ISO Tariff may be assessed or for which payments have been eliminated under Section 8.10.2 of the ISO Tariff are not subject to Sanction under this section. The submission of a Schedule that causes, or that the ISO expects to cause Intra-Zonal Congestion shall not, by itself, constitute a violation of Section 37.3.1 unless the Market Participant fails to comply with an obligation under the ISO Tariff to modify Schedules as determined by the ISO to mitigate such congestion or such Schedules violate another element of this Rule.

**37.4 Comply with Availability Reporting Requirements.**

**37.4.1 Reporting Availability.**

calculation refers. For example "Day 41" shall mean the 41st day after that Trading Day and similar expressions shall be construed accordingly.

| | |
|---|---|
| **Day-Ahead** | Relating to a Day-Ahead Market or Day-Ahead Schedule. |
| **Day-Ahead Market** | The forward market for Energy and Ancillary Services to be supplied during the Settlement Periods of a particular Trading Day that is conducted by the ISO and other Scheduling Coordinators and which closes with the ISO's acceptance of the Final Day-Ahead Schedule. |
| **Day-Ahead Schedule** | A Schedule prepared by a Scheduling Coordinator or the ISO before the beginning of a Trading Day indicating the levels of Generation and Demand scheduled for each Settlement Period of that Trading Day. |
| **Decline Monthly Charge – Exports** | A charge that applies to the aggregate of a Scheduling Coordinator's Hourly Pre-Dispatch Supplemental Energy bids to export Energy that are not delivered in a trading month, as determined pursuant to Section 11.31.1. |
| **Decline Monthly Charge – Imports** | A charge that applies to the aggregate of a Scheduling Coordinator's Hourly Pre-Dispatch Supplemental Energy bids to import Energy that are not delivered in a trading month, as determined pursuant to Section 11.31.1. |
| **Decline Potential Charge – Exports** | A potential charge that is calculated for any portion of an Hourly Pre-Dispatch Supplemental Energy bid to export Energy that is not delivered for any reason, which potential charge and its applicability are determined pursuant to Section 11.31. |
| **Decline Potential Charge – Imports** | A potential charge that is calculated for any portion of an Hourly Pre-Dispatch Supplemental Energy bid to import Energy that is not delivered for any reason, which potential charge and its applicability are determined pursuant to Section 11.31. |
| **Decline Threshold Percentage – Imports/Exports** | The rate at which Scheduling Coordinators may fail to deliver imports or exports in accordance with Hourly Pre-Dispatch bids for Supplemental Energy without incurring Decline Monthly Charges – Imports or Decline Monthly Charges – Exports, as measured by the respective percentages of Hourly Pre-Dispatch Supplemental Energy bids for import or export MWh quantities that the Scheduling Coordinator does not deliver during a trading month. The Decline Threshold Percentage – Imports/Exports is ten percent (10%). |

| | |
|---|---|
| **Decline Threshold Quantity – Imports/Exports** | The MWh quantity of Hourly Pre-Dispatch Supplemental Energy bids for imports or exports of Energy that a Scheduling Coordinator may fail to deliver during a trading month without incurring Decline Monthly Charges – Imports or Decline Monthly Charges – Exports. The Decline Threshold Quantity – Imports/Exports is 300 MWh. |
| **Default GMM** | Pre calculated GMM based on historical Load and interchange levels. |
| **Deliverability Assessment** | An evaluation by the Participating TO, ISO or a third party consultant for the Interconnection Customer to determine a list of facilities, the cost of those facilities, and the time required to construct these facilities, that would ensure a Generating Facility could provide Energy to the ISO Controlled Grid at peak load, under a variety of severely stressed conditions, such that the aggregate of Generation in the local area can be delivered to the aggregate of Load on the ISO Controlled Grid, consistent with the ISO's reliability criteria and procedures. |
| **Delivery Network Upgrades** | Transmission facilities at or beyond the Point of Interconnection, other than Reliability Network Upgrades, identified in the Interconnection Studies to relieve constraints on the ISO Controlled Grid. |
| **Delivery Point** | The point where a transaction between Scheduling Coordinators is deemed to take place. It can be either the Generation input point, a Demand Take-Out Point, or a transmission bus at some intermediate location. |
| **Demand** | The rate at which Energy is delivered to Loads and Scheduling Points by Generation, transmission or distribution facilities. It is the product of voltage and the in-phase component of alternating current measured in units of watts or standard multiples thereof, e.g., 1,000W=1kW, 1,000kW=1MW, etc. |
| **Demand Forecast** | An estimate of Demand over a designated period of time. |

**Attachment B – Blacklines**

**Declined Predispatched Intertie Bids Amendment Filing**

**February 29, 2008**

**Currently Effective ISO Tariff**

* * *

**11.25 [NOT USED]**

**11.26 [NOT USED]**

**11.27 [NOT USED]**

**11.28 [NOT USED]**

**11.29 [NOT USED]**

**11.30 [NOT USED]**

**11.31 Decline Charge for Hourly Pre-Dispatch Supplemental Energy.**

The Decline Potential Charge – Imports shall apply to any portion of an Hourly Pre-Dispatch Supplemental Energy bid for an import that is not delivered for any reason. The Decline Potential Charge – Exports shall apply to any portion of an Hourly Pre-Dispatch bid for an export that is not delivered for any reason. For any Settlement Interval, the Decline Potential Charge – Imports or Decline Potential Charge – Exports, as the case may be, shall equal the MWh quantity of the import or export not delivered multiplied by the greater of $10/MWh or fifty percent (50%) of the bid price. The Decline Potential Charge – Imports and Decline Potential Charge – Exports will be calculated for each Hourly Pre-Dispatch bid that is not delivered, provided that only the Decline Monthly Charge – Imports and Decline Monthly Charge – Exports shall be payable by the Scheduling Coordinator as described in Section 11.31.1.

**11.31.1 Decline Monthly Charge – Imports.**

The Decline Monthly Charge – Imports shall be applied to each Scheduling Coordinator on the Settlement Statements issued for the last Trading Day of each trading month, and shall be the sum of the Scheduling Coordinator's Decline Potential Charges – Imports for each Settlement Interval during that trading month multiplied by a ratio. The ratio will represent the portion of the Scheduling Coordinator's declined Hourly Pre-Dispatch Supplemental Energy bids for imports that exceed the applicable exemption threshold during the trading month.

(a) The ratio will be calculated as follows:

(i) the Scheduling Coordinator's total MWh quantity of Hourly Pre-Dispatch Supplemental Energy bids for imports that were not delivered during that Trading Month minus the applicable exemption threshold, divided by

(ii) the Scheduling Coordinator's total MWh quantity of Hourly Pre-Dispatch Supplemental Energy bids for imports that were not delivered during the trading month.

(b) The applicable exemption threshold is the greater of the following:

(i) the Decline Threshold Quantity – Imports/Exports; or

(ii) the total MWh quantity of Hourly Pre-Dispatch Supplemental Energy bids for imports during the trading month multiplied by the Scheduling Coordinator's Decline Threshold Percentage – Imports/Exports.

Notwithstanding the foregoing, the Decline Monthly Charge – Imports shall equal zero if either:

(a) The percentage of the MWh quantity of Hourly Pre-Dispatch Supplemental Energy bids for imports that the Scheduling Coordinator did not deliver during the trading month is less than the Decline Threshold Percentage – Imports/Exports; or

(b) The total MWh quantity of Hourly Pre-Dispatch Supplemental Energy bids for imports that the Scheduling Coordinator did not deliver in the applicable trading month is less than the Decline Threshold Quantity – Imports/Exports.

**11.31.2 Decline Monthly Charge – Exports.**

The Decline Monthly Charge – Exports shall be applied to each Scheduling Coordinator on the Settlement Statements issued for the last Trading Day of each trading month, and shall be the sum of the Scheduling Coordinator's Decline Potential Charges – Exports for each Settlement Interval during that trading month multiplied by a ratio. The ratio will represent the portion of the

Scheduling Coordinator's declined Hourly Pre-Dispatch Supplemental Energy bids for exports that exceed the applicable exemption threshold during the trading month.

(a) The ratio will be calculated as follows:

(i) the Scheduling Coordinator's total MWh quantity of Hourly Pre-Dispatch Supplemental Energy bids for exports that were not delivered during that trading month minus the applicable exemption threshold, divided by

(ii) the Scheduling Coordinator's total MWh quantity of Hourly Pre-Dispatch Supplemental Energy bids for exports that were not delivered during the trading month.

(b) The applicable exemption threshold is the greater of the following:

(i) the Decline Threshold Quantity – Imports/Exports; or

(ii) the total MWh quantity of Hourly Pre-Dispatch Supplemental Energy bids for exports during the trading month multiplied by the Scheduling Coordinator's Decline Threshold Percentage – Imports/Exports.

Notwithstanding the foregoing, the Decline Monthly Charge – Exports shall equal zero if either:

(a) The percentage of the MWh quantity of Hourly Pre-Dispatch Supplemental Energy bids for exports that the Scheduling Coordinator did not deliver during the trading month is less than the Decline Threshold Percentage – Imports/Exports; or

(b) The total MWh quantity of Hourly Pre-Dispatch Supplemental Energy bids for exports that the Scheduling Coordinator did not deliver in the applicable trading month is less than the Decline Threshold Quantity – Imports/Exports.

**11.31.3 Allocation of Import/Export Decline Monthly Charges Collected.**

On the Settlement Statements issued for the last Trading Day of the applicable trading month, each Scheduling Coordinator shall receive a credit for its share of the total of all Decline Monthly Charges – Imports and Decline Monthly Charges – Exports assessed to Scheduling Coordinators for the applicable trading month. The credits shall be allocated according to the proportion of each Scheduling Coordinator's Demand (including exports) to total Demand (including exports) in (or from) the ISO Control Area during the trading month.

* * *

**37.3.1.2 Consequence for Non-Performance.**

A Market Participant that fails to perform in accordance with the expected conduct described in Section 37.3.1.1 above shall be subject to having the payment rescinded for any portion of an Ancillary Service that is unavailable, or if the Market Participant fails to deliver on an Hourly Pre-Dispatch bid for import or export of Supplemental Energy, it shall be subject to any charge that may apply in Section 11.31.

* * *

**ISO Tariff Appendix A**

**Master Definitions Supplement**

* * *

| | |
|---|---|
| **Decline Monthly Charge – Exports** | A charge that applies to the aggregate of a Scheduling Coordinator's Hourly Pre-Dispatch Supplemental Energy bids to export Energy that are not delivered in a trading month, as determined pursuant to Section 11.31.1. |
| **Decline Monthly Charge – Imports** | A charge that applies to the aggregate of a Scheduling Coordinator's Hourly Pre-Dispatch Supplemental Energy bids to import Energy that are not delivered in a trading month, as determined pursuant to Section 11.31.1. |
| **Decline Potential Charge – Exports** | A potential charge that is calculated for any portion of an Hourly Pre-Dispatch Supplemental Energy bid to export Energy that is not delivered for any reason, which potential charge and its applicability are determined pursuant to Section 11.31. |

| | |
|---|---|
| **Decline Potential Charge – Imports** | A potential charge that is calculated for any portion of an Hourly Pre-Dispatch Supplemental Energy bid to import Energy that is not delivered for any reason, which potential charge and its applicability are determined pursuant to Section 11.31. |
| **Decline Threshold Percentage – Imports/Exports** | The rate at which Scheduling Coordinators may fail to deliver imports or exports in accordance with Hourly Pre-Dispatch bids for Supplemental Energy without incurring Decline Monthly Charges – Imports or Decline Monthly Charges – Exports, as measured by the respective percentages of Hourly Pre-Dispatch Supplemental Energy bids for import or export MWh quantities that the Scheduling Coordinator does not deliver during a trading month. The Decline Threshold Percentage – Imports/Exports is ten percent (10%). |
| **Decline Threshold Quantity – Imports/Exports** | The MWh quantity of Hourly Pre-Dispatch Supplemental Energy bids for imports or exports of Energy that a Scheduling Coordinator may fail to deliver during a trading month without incurring Decline Monthly Charges – Imports or Decline Monthly Charges – Exports. The Decline Threshold Quantity – Imports/Exports is 300 MWh. |

* * *

**Attachment C – Clean Sheets**

**Declined Predispatched Intertie Bids Amendment Filing**

**February 29, 2008**

**4th Replacement CAISO Tariff (MRTU)**

**11.31 HASP Intertie Schedules Decline Charges.**

The Decline Potential Charge – Imports shall apply to any HASP Intertie Schedule for an Energy import when the HASP Intertie Schedule is not delivered for any reason. The Decline Potential Charge – Exports shall apply to any HASP Intertie Schedule for an Energy export when the HASP Intertie Schedule is not delivered for any reason. For any Settlement Interval, the Decline Potential Charge – Imports or Decline Potential Charge – Exports, as the case may be, shall equal the MWh quantity of the import or export not delivered multiplied by the greater of $10/MWh or fifty percent (50%) of the HASP Intertie LMP. The Decline Potential Charge – Imports and Decline Potential Charge - Exports will be calculated for each HASP Intertie Schedule that is not delivered, provided that only the Decline Monthly Charge – Imports and Decline Monthly Charge – Exports shall be payable by the Scheduling Coordinator as described in Section 11.31.1.

**11.31.1 Decline Monthly Charge – Imports.**

The Decline Monthly Charge – Imports shall be applied to each Scheduling Coordinator on the Settlement Statements issued for the last Trading Day of each Trading Month, and shall be the sum of the Scheduling Coordinator's Decline Potential Charges – Imports for each Settlement Interval during that Trading Month multiplied by a ratio. The ratio will represent the portion of the Scheduling Coordinator's declined HASP Intertie Schedules for Energy imports that exceed the applicable exemption threshold during the Trading Month.

(a) The ratio will be calculated as follows:

(i) the Scheduling Coordinator's total MWh quantity of HASP Intertie Schedules for Energy imports that were not delivered during that Trading Month minus the applicable exemption threshold, divided by

(ii) the Scheduling Coordinator's total MWh quantity of HASP Intertie Schedules for Energy imports that were not delivered during the Trading Month.

(b) The applicable exemption threshold is the greater of the following:

i) the Decline Threshold Quantity – Imports/Exports; or

ii) the total MWh quantity of HASP Intertie Schedules for Energy imports during the Trading Month multiplied by the Scheduling Coordinator's Decline Threshold Percentage – Imports/Exports.

Notwithstanding the foregoing, the Decline Monthly Charge – Imports shall equal zero if either:

a) The percentage of the MWh quantity of HASP Intertie Schedules for Energy imports that the Scheduling Coordinator did not deliver during the Trading Month is less than the Decline Threshold Percentage – Imports/Exports; or

b) The total MWh quantity of HASP Intertie Schedules for Energy imports that the Scheduling Coordinator did not deliver in the applicable Trading Month is less than the Decline Threshold Quantity – Imports/Exports.

**11.31.2 Decline Monthly Charge – Exports.**

The Decline Monthly Charge – Exports shall be applied to each Scheduling Coordinator on the Settlement Statements issued for the last Trading Day of each Trading Month, and shall be the sum of the Scheduling Coordinator's Decline Potential Charges – Exports for each Settlement Interval during that Trading Month multiplied by a ratio. The ratio will represent the portion of the Scheduling Coordinator's declined HASP Intertie Schedules for Energy exports that exceed the applicable exemption threshold during the Trading Month.

(a) The ratio will be calculated as follows:

(i) the Scheduling Coordinator's total MWh quantity of HASP Intertie Schedules for Energy exports that were not delivered during that Trading Month minus the applicable exemption threshold, divided by

(ii) the Scheduling Coordinator's total MWh quantity of HASP Intertie Schedules for Energy exports that were not delivered during the Trading Month.

(b) The applicable exemption threshold is the greater of the following:

(i) the Decline Threshold Quantity – Imports/Exports; or

(ii) the total MWh quantity of HASP Intertie Schedules for Energy exports during the Trading Month multiplied by the Scheduling Coordinator's Decline Threshold Percentage – Imports/Exports.

Notwithstanding the foregoing, the Decline Monthly Charge – Exports shall equal zero if either:

a) The percentage of the MWh quantity of HASP Intertie Schedules for Energy exports that the Scheduling Coordinator did not deliver during the Trading Month is less than the Decline Threshold Percentage – Imports/Exports; or

b) The total MWh quantity of HASP Intertie Schedules for Energy exports that the Scheduling Coordinator did not deliver in the applicable Trading Month is less than the Decline Threshold Quantity – Imports/Exports.

**11.31.3 Allocation of Import/Export Decline Monthly Charges Collected.**

On the Settlement Statements issued for the last Trading Day of the applicable Trading Month, each Scheduling Coordinator shall receive a credit for its share of the total of all Decline Monthly Charges – Imports and Decline Monthly Charges – Exports assessed to Scheduling Coordinators for the applicable Trading Month. The credits shall be allocated according to the proportion of each Scheduling Coordinator's Measured CAISO Demand to total Measured CAISO Demand for the CAISO Balancing Authority Area during the Trading Month.

**37.2.6 Per-Day Limitation on Amount of Sanctions.**

The amount of Sanctions that any Market Participant will incur for committing two or more violations of Section 37.2.1 through Section 37.2.4 on the same day will be no greater than $10,000 per day.

**37.3 Submit Feasible Energy Bids, RUC Capacity Bids, Ancillary Service Bids, and Submissions to Self-Provide an Ancillary Service.**

**37.3.1 Bidding Generally.**

**37.3.1.1 Expected Conduct.**

Market Participants must submit Bids for Energy, RUC Capacity and Ancillary Services and Submissions to Self-Provide an Ancillary Service from resources that are reasonably expected to be available and capable of performing at the levels specified in the Bid, and to remain available and capable of so performing based on all information that is known to the Market Participant or should have been known to the Market Participant at the time of submission.

**37.3.1.2 Consequence for Non-Performance.**

A Market Participant that fails to perform in accordance with the expected conduct described in Section 37.3.1.1 above shall be subject to having the payment rescinded for any portion of an Ancillary Service or RUC Capacity that is unavailable, or if the Market Participant fails to deliver on a HASP Intertie Schedule for import or export Energy, it shall be subject to any charge that may apply in Section 11.31.

**37.3.2 Exceptions.**

Violations of Section 37.3.1 that result in circumstances in which an Uninstructed Deviation Penalty under Section 11.23 may be assessed or for which payments have been eliminated under Section 8.10.8 are not subject to Sanction under this section. The submission of a Bid or of a Submission to Self-Provide Ancillary Services that causes, or that the CAISO expects to cause Congestion shall not, by itself, constitute a violation of Section 37.3.1 unless the Market Participant fails to comply with an obligation under the CAISO Tariff to modify Bids as determined by the CAISO to mitigate such Congestion or such Bids violate another element of this rule.

**37.4 Comply with Availability Reporting Requirements.**

| | |
|---|---|
| **Day-Ahead Schedule** | A Schedule issued by the CAISO one day prior to the target Trading Day indicating the levels of Supply and Demand for Energy cleared through the IFM and scheduled for each Settlement Period, for each PNode or Aggregated Pricing Node, including Scheduling Points of that Trading Day. |
| **Day-Ahead Scheduled Energy** | Hourly Energy that corresponds to the flat portions of the hourly Day-Ahead Schedule. It is composed of Day-Ahead Minimum Load Energy, Day-Ahead Self-Scheduled Energy, and Day-Ahead Bid Awarded Energy. It does not include the Day-Ahead Energy that corresponds to the flat schedule when a resource is committed in the Day-Ahead in pumping mode. Expected Energy committed in Day-Ahead pumping mode is accounted for as Day-Ahead Pumping Energy. Day-Ahead Scheduled Energy is settled as specified in Section 11.2.1.1. |
| **Day-Ahead Self-Scheduled Energy** | Day-Ahead Scheduled Energy above the registered Minimum Load and below the lower of the Day-Ahead Total Self-Schedule or the Day-Ahead Schedule. Day-Ahead Self-Scheduled Energy is settled as described in Section 11.2.1.1, and, as indicated in Section 11.8.2.1.5, it is not included in BCR. |
| **Day-Ahead Total Self-Schedule** | The sum of all Day-Ahead Self-Schedules (except Pumping Load Self-Schedules) in the relevant Clean Bid. |
| **Decline Monthly Charge – Exports** | A charge that applies to the aggregate of a Scheduling Coordinator's HASP Intertie Schedules for Energy exports that are not delivered in a Trading Month, as determined pursuant to Section 11.31.1. |
| **Decline Monthly Charge – Imports** | A charge that applies to the aggregate of a Scheduling Coordinator's HASP Intertie Schedules for Energy imports that are not delivered in a Trading Month, as determined pursuant to Section 11.31.1. |
| **Decline Potential Charge – Exports** | A potential charge that is calculated for any HASP Intertie Schedule for an Energy export when the HASP Intertie Schedule is not delivered for any reason, which potential charge and its applicability are determined pursuant to Section 11.31. |

| | |
|---|---|
| **Decline Potential Charge – Imports** | A potential charge that is calculated for any HASP Intertie Schedule for an Energy import when the HASP Intertie Schedule is not delivered for any reason, which potential charge and its applicability are determined pursuant to Section 11.31. |
| **Decline Threshold Percentage – Imports/Exports** | The rate at which Scheduling Coordinators may fail to deliver imports or exports in accordance with HASP Intertie Schedules without incurring Decline Monthly Charges – Imports or Decline Monthly Charges – Exports, as measured by the respective percentages of HASP Intertie Schedules for import or export MWh quantities that the Scheduling Coordinator does not deliver during a Trading Month. The Decline Threshold Percentage – Imports/Exports is ten percent (10%). |
| **Decline Threshold Quantity – Imports/Exports** | The MWh quantity of HASP Intertie Schedules for imports or exports of Energy that a Scheduling Coordinator may fail to deliver during a Trading Month without incurring Decline Monthly Charges – Imports or Decline Monthly Charges – Exports. The Decline Threshold Quantity – Imports/Exports is 300 MWh. |
| **Default Energy Bid** | The Energy Bid Curve used in Local Market Power Mitigation pursuant to Section 39. |
| **Default LAP** | The LAP defined for the TAC Area at which all Bids for Demand shall be submitted and settled, except as provided in Sections 27.2.1 and 30.5.3.2. |
| **Default Modified Bid** | A Bid that is submitted by a Scheduling Coordinator and is deemed valid and qualifies for modification under the provisions of Section 40. |

**Attachment D – Blacklines**

**Declined Predispatched Intertie Bids Amendment Filing**

**February 29, 2008**

**4th Replacement CAISO Tariff (MRTU)**

* * *

**11.31 HASP Intertie Schedules Decline Charges.**

The Decline Potential Charge – Imports shall apply to any HASP Intertie Schedule for an Energy import when the HASP Intertie Schedule is not delivered for any reason. The Decline Potential Charge – Exports shall apply to any HASP Intertie Schedule for an Energy export when the HASP Intertie Schedule is not delivered for any reason. For any Settlement Interval, the Decline Potential Charge – Imports or Decline Potential Charge – Exports, as the case may be, shall equal the MWh quantity of the import or export not delivered multiplied by the greater of $10/MWh or fifty percent (50%) of the HASP Intertie LMP. The Decline Potential Charge – Imports and Decline Potential Charge – Exports will be calculated for each HASP Intertie Schedule that is not delivered, provided that only the Decline Monthly Charge – Imports and Decline Monthly Charge – Exports shall be payable by the Scheduling Coordinator as described in Section 11.31.1.

**11.31.1 Decline Monthly Charge – Imports.**

The Decline Monthly Charge – Imports shall be applied to each Scheduling Coordinator on the Settlement Statements issued for the last Trading Day of each Trading Month, and shall be the sum of the Scheduling Coordinator's Decline Potential Charges – Imports for each Settlement Interval during that Trading Month multiplied by a ratio. The ratio will represent the portion of the Scheduling Coordinator's declined HASP Intertie Schedules for Energy imports that exceed the applicable exemption threshold during the Trading Month.

(a) The ratio will be calculated as follows:

(i) the Scheduling Coordinator's total MWh quantity of HASP Intertie Schedules for Energy imports that were not delivered during that Trading Month minus the applicable exemption threshold, divided by

(ii) the Scheduling Coordinator's total MWh quantity of HASP Intertie Schedules for Energy imports that were not delivered during the Trading Month.

(b) The applicable exemption threshold is the greater of the following:

i) the Decline Threshold Quantity – Imports/Exports; or

ii) the total MWh quantity of HASP Intertie Schedules for Energy imports during the Trading Month multiplied by the Scheduling Coordinator's Decline Threshold Percentage – Imports/Exports.

Notwithstanding the foregoing, the Decline Monthly Charge – Imports shall equal zero if either:

a) The percentage of the MWh quantity of HASP Intertie Schedules for Energy imports that the Scheduling Coordinator did not deliver during the Trading Month is less than the Decline Threshold Percentage – Imports/Exports; or

b) The total MWh quantity of HASP Intertie Schedules for Energy imports that the Scheduling Coordinator did not deliver in the applicable Trading Month is less than the Decline Threshold Quantity – Imports/Exports.

**11.31.2 Decline Monthly Charge – Exports.**

The Decline Monthly Charge – Exports shall be applied to each Scheduling Coordinator on the Settlement Statements issued for the last Trading Day of each Trading Month, and shall be the sum of the Scheduling Coordinator's Decline Potential Charges – Exports for each Settlement Interval during that Trading Month multiplied by a ratio. The ratio will represent the portion of the Scheduling Coordinator's declined HASP Intertie Schedules for Energy exports that exceed the applicable exemption threshold during the Trading Month.

(a) The ratio will be calculated as follows:

(i) the Scheduling Coordinator's total MWh quantity of HASP Intertie Schedules for Energy exports that were not delivered during that Trading Month minus the applicable exemption threshold, divided by

(ii) the Scheduling Coordinator's total MWh quantity of HASP Intertie Schedules for Energy exports that were not delivered during the Trading Month.

(b) The applicable exemption threshold is the greater of the following:

(i) the Decline Threshold Quantity – Imports/Exports; or

(ii) the total MWh quantity of HASP Intertie Schedules for Energy exports during the Trading Month multiplied by the Scheduling Coordinator's Decline Threshold Percentage – Imports/Exports.

Notwithstanding the foregoing, the Decline Monthly Charge – Exports shall equal zero if either:

a) The percentage of the MWh quantity of HASP Intertie Schedules for Energy exports that the Scheduling Coordinator did not deliver during the Trading Month is less than the Decline Threshold Percentage – Imports/Exports; or

b) The total MWh quantity of HASP Intertie Schedules for Energy exports that the Scheduling Coordinator did not deliver in the applicable Trading Month is less than the Decline Threshold Quantity – Imports/Exports.

**11.31.3 Allocation of Import/Export Decline Monthly Charges Collected.**

On the Settlement Statements issued for the last Trading Day of the applicable Trading Month, each Scheduling Coordinator shall receive a credit for its share of the total of all Decline Monthly Charges – Imports and Decline Monthly Charges – Exports assessed to Scheduling Coordinators for the applicable Trading Month. The credits shall be allocated according to the proportion of each Scheduling Coordinator's Measured CAISO Demand to total Measured CAISO Demand for the CAISO Balancing Authority Area during the Trading Month.

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**37.3.1.2 Consequence for Non-Performance.**

A Market Participant that fails to perform in accordance with the expected conduct described in Section 37.3.1.1 above shall be subject to having the payment rescinded for any portion of an Ancillary Service or RUC Capacity that is unavailable, or if the Market Participant fails to deliver on a HASP Intertie Schedule for import or export Energy, it shall be subject to any charge that may apply in Section 11.31.

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**CAISO Tariff Appendix A**

**Master Definitions Supplement**

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|---|---|
| **Decline Monthly Charge – Exports** | A charge that applies to the aggregate of a Scheduling Coordinator's HASP Intertie Schedules for Energy exports that are not delivered in a Trading Month, as determined pursuant to Section 11.31.1. |
| **Decline Monthly Charge – Imports** | A charge that applies to the aggregate of a Scheduling Coordinator's HASP Intertie Schedules for Energy imports that are not delivered in a Trading Month, as determined pursuant to Section 11.31.1. |
| **Decline Potential Charge – Exports** | A potential charge that is calculated for any HASP Intertie Schedule for an Energy export when the HASP Intertie Schedule is not delivered for any reason, which potential charge and its applicability are determined pursuant to Section 11.31. |
| **Decline Potential Charge – Imports** | A potential charge that is calculated for any HASP Intertie Schedule for an Energy import when the HASP Intertie Schedule is not delivered for any reason, which potential charge and its applicability are determined pursuant to Section 11.31. |
| **Decline Threshold Percentage – Imports/Exports** | The rate at which Scheduling Coordinators may fail to deliver imports or exports in accordance with HASP Intertie Schedules without incurring Decline Monthly Charges – Imports or Decline Monthly Charges – Exports, as measured by the respective percentages of HASP Intertie Schedules for import or export MWh quantities that the Scheduling Coordinator does not deliver during a Trading Month. The Decline Threshold Percentage – Imports/Exports is ten percent (10%). |
| **Decline Threshold Quantity – Imports/Exports** | The MWh quantity of HASP Intertie Schedules for imports or exports of Energy that a Scheduling Coordinator may fail to deliver during a Trading Month without incurring Decline Monthly Charges – Imports or Decline Monthly Charges – Exports. The Decline Threshold Quantity – Imports/Exports is 300 MWh. |

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# Attachment E

California ISO
Your Link to Power

# CAISO Proposal on Declined Real-Time Import And Export Bids

November 30, 2007

# CAISO Proposal on Declined Real-Time Import and Export Bids

## Introduction

This document provides CAISO's proposal on the issue of declined real-time import and export bids that was described in the October 10, 2007 white paper[1].This CAISO proposal reflects CAISO's current thinking on this issue and will be discussed with stakeholders in a conference call to be held on December 3, 2007. Any points raised in the comments provided by stakeholders to the straw proposal and not addressed by this proposal may also be discussed at the December 3, 2007 conference call.

Following the December 3, 2007 conference call, the next important dates related to this issue are:

- December 12, 2007 - CAISO Board will meet and consider CAISO Proposal.
- If the Board approves the proposal, the CAISO will file Tariff amendment at FERC shortly thereafter.

## Proposed design concept

On November 7, the CAISO had provided its straw proposal on the issue of decline of Real-Time import/export bids. Stakeholders' comments to the straw proposal were reviewed and CAISO has tried to incorporate those comments in this proposal to the extent possible.

*Penalty Charge and Threshold*

As per this proposal, the charge for both declined pre-dispatched import or export bids would be unchanged, with the exception of correcting typographical errors as follows[2]:

Charge = Declined quantity * 50% * max (floor price, pre-dispatch price[3])

However, based on stakeholder input and operational experience at the current level of declines, the CAISO is modifying the threshold value such that the charge will be assessed to the portion of an SC's declined pre-dispatched import or export bids that exceed 10% or 300 MWh, whichever is greater[4], of the total MWh quantity of the SC's pre-dispatched bids over each calendar month. This is a monthly charge entirely separate

[1] Available from the CAISO website at http://www.caiso.com/1c72/1c72db9160800.html

[2] This charge would be applicable to any pre-dispatched bid quantity that was not accepted through ADS or for which the participant did not submit a valid e-tag.

[3] The pre-dispatch price would be the market participant's bid price in the CAISO's current market. In MRTU, the pre-dispatch price would be the applicable HASP price.

[4] Previously the threshold was 5% with no minimum value.

from UDP. However, if UDP is activated, UDP would therefore not apply to declined pre-dispatches.[5]

Some participants have suggested that the charge be based on the real-time price rather than the pre-dispatch price. The CAISO has considered these arguments but has not changed the price basis. Again, the rationale for basing the charge on the pre-dispatch price is that the real-time price can be significantly higher than the pre-dispatch price for reasons unrelated to declines, while the real-time price can also be lower than the pre-dispatch price even though declines have an adverse impact.

A minimum price i.e. floor price would also be established to reflect that a deterrent to declining pre-dispatched bids is needed during over-generation conditions when prices are low or negative. For example, declined export bids can be a significant problem during over-generation conditions. The CAISO's proposal remains that the floor price be $10/MWh. Thus, regardless of the pre-dispatch price, participants would be charged based on minimum of $10/MWh for declined pre-dispatched bids.

Regarding thresholds, some SC's have suggested that there be no threshold, however the dispatch quantity should be adjusted to reflect schedule cuts in real-time. Similarly, other SC's have requested that if a 5% threshold is used, exemptions be included for system conditions which are out of their control. In lieu of this, the threshold should be raised to 10%. Many SC's suggested a minimum threshold value to cover smaller participants who may be hit with a penalty for declining only one dispatch in a given month.

In considering these suggestions, the CAISO reviewed in more detail ADS data, its own logs as well as data supplied by stakeholders. In review of the exemption issue, the data provided by some stakeholders has confirmed that, on some occasions, Market Participants are unable to provide correct information on the reasons for declined dispatches, because root cause information is not available within the 5-minute window in which pre-dispatch instructions may be responded to. Furthermore, the CAISO does not have sufficient visibility to tally the entire universe of circumstances which are beyond a Market Participants control, such as real-time transmission issues in other control areas, even on a post process basis. Therefore, basing exemptions on ADS reason codes or on CAISO logs may not be an appropriate way to determine exemptions. Short of development of a more robust logging process for declines, the CAISO proposal remains that exemptions are not to be included. Instead, the CAISO has addressed concerns by increasing the threshold size as discussed below.

In review of the threshold size issue, the CAISO is aware of the possibility that some issues which are beyond the Market Participant control may exceed a threshold value of 5%, and therefore has revised its proposal upwards to 10%. In addition, the CAISO is sympathetic to the desire for penalties to be assessed on a single decline within a month period. Therefore, the CAISO has added a minimum threshold value of 300 MWh.

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[5] The CAISO plans to also propose modifications to the UDP provisions of the tariff to remove any existing UDP charges that would duplicate the new declines charge.

Based on ADS and log data reviewed by the CAISO and summarized in Appendix A, the CAISO is confident that the threat of penalties resulting from a single decline or from circumstances beyond the Market Participant's control will be drastically reduced by the final proposed threshold values. At the same time, the CAISO does not currently believe that the higher thresholds will result in significant operational issues or a significant increase in price volatility.

In the event that a Market Participant is assessed a charge due to curtailments by reliability authorities and the curtailments exceed 10% or 300 MWh, the Market Participants may dispute their charge and CAISO will reduce the charge by the amount in which the curtailments exceed 10% or 300 MWh provided the Market Participant provides sufficient proof.

The decline rate and the penalty amount would continue to be calculated separately for decline of import and export bids. An SC's decline of import and export bids would be tracked separately. The decline rate of an SC for import and export bids would be applied separately to the 10% threshold level or 300 MWh, whichever is greater and the penalty amount calculated accordingly.

Decline rate of an entity over a period of a calendar month would be calculated as:

> Decline rate of an SC for import or export = Energy represented by all declined pre-dispatch import or export bids / Energy represented by all pre-dispatched import or export bids.

For example, if an SC had three pre-dispatch import bids of 50 MWh, 100 MWh and 100 MWh over a calendar month and it declined 50 MWh and 100 MWh bids. The SC's decline rate would be equal to (50+100)/ (50+100+100) = 150/250 = 60%.

As a result of the new threshold values, the formula for the decline charge changes slightly. As proposed before, the decline charge would be calculated for each pre-dispatched import or export bid declined over the month. Now, in order to account for the threshold level, the total of these charges over each calendar month would be multiplied by the proportion of the SC's pre-dispatched import or export bid MWs declined in excess of 10 percent (or 300 MWh if greater) of the SC's total pre-dispatched respective import or export MWhs.

Example: If the charges calculated for all of an SC's declined pre-dispatched import bids over a calendar month total $50,000, and the SC declined 23 % of its import bids, the SC's net charge from the decline of import bids for the calendar month would be $50,000*((23%-10%)/23%) = $28,260.

*Settlements*

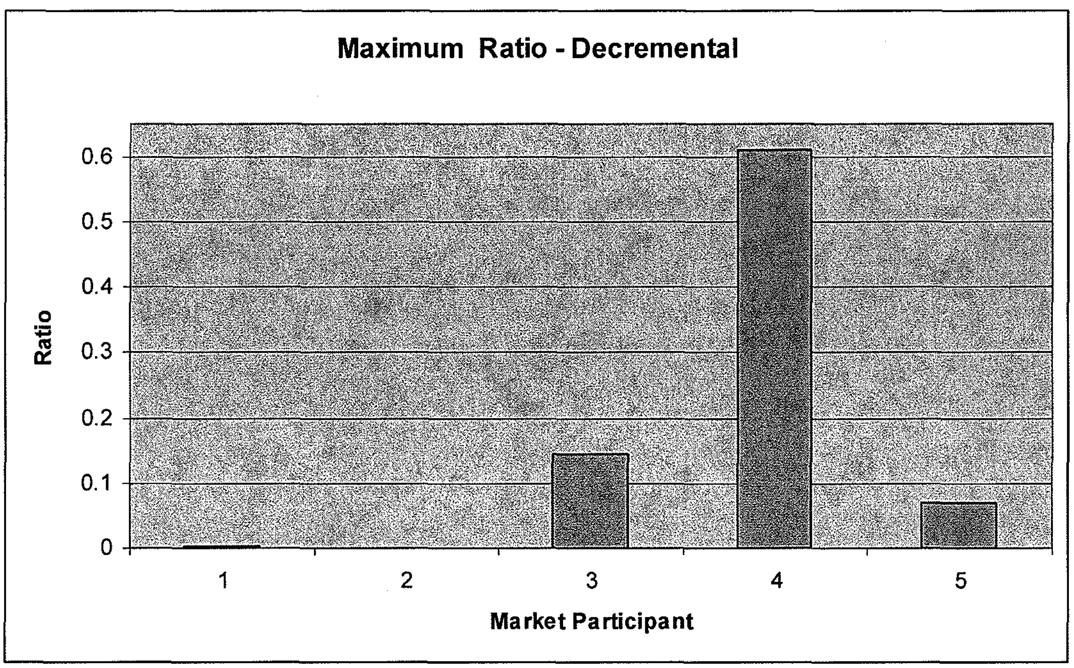
From settlements perspective, each entity will be informed of its decline rate and the penalty amount due after the end of each month. The exact allocation charge code has not been determined; however the CAISO intends to allocate the money collected under this charge broadly to load and firm exports.

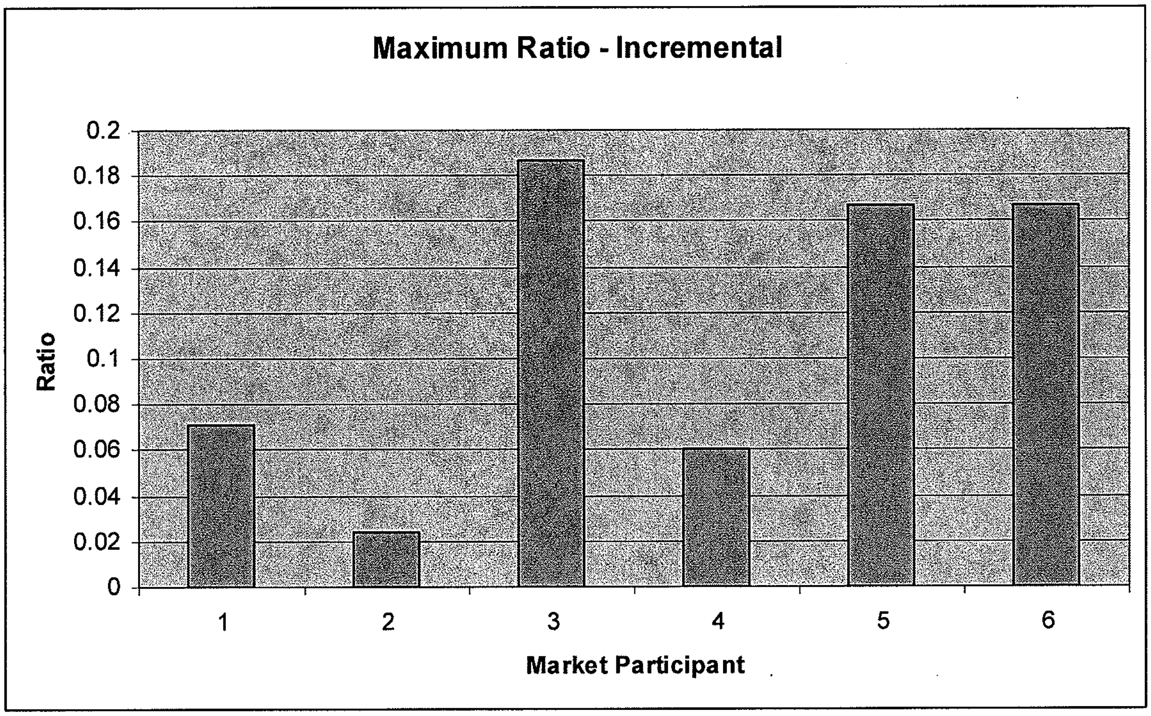
APPENDIX A

*Determination of Percentage Threshold*

Based on the available data related to real-time schedule cuts by CAISO, the CAISO found out that the number of declines of pre-dispatch instructions due to schedule cuts by CAISO will be minimal and would be substantially below the new threshold value of 10% or 300 MWh, whichever is greater, of the total MWh quantity of the SC's pre-dispatched bids over each calendar month.

Based on the available data, CAISO found out only twelve instances of real-time schedule cuts due to reasons like unscheduled flow during the period of October 2006 and November 2007. For analysis, the CAISO used this data as a proxy for the actual instances of cuts between the bidding deadline and the pre-dispatch approval process. It assumed that during these twelve instances the entire pre-dispatch amounts will be declined and then divided those dispatch amounts by the threshold value i.e. maximum of 10% of total monthly dispatch volume or 300MWh which ever is greater. CAISO found out that, except in one instance, this ratio was far less than 1 which means that based on the proxy data, schedule cuts have a minimal contribution to the threshold limit. This is illustrated in the two graphs below.






*Determination of Minimum Threshold*

As mentioned in the main body of the proposal, the CAISO is sensitive to smaller participants who may be unduly harmed by this proposal if they were to incur a penalty for declining only one dispatch due to circumstances out of their control. For example, an SC who was dispatched for 500 MWh in a month would have a threshold value of 50 MWh, and may pass that threshold if they decline an hourly dispatch for 100 MW. An appropriate mechanism to cover this would be to institute a minimum threshold value of a few hundred MWh. To determine an appropriate value, the CAISO came up with a value which minimized the chances of any SC being penalized for a single decline, based on a SC's historical dispatch pattern, while at the same time ensuring that the minimum value does not "cost" a significant amount in terms of increasing the risk of declined dispatches due to elimination of the threat of penalty for smaller participants. To get this number, the CAISO first calculated a worst-case maximum single decline value for all SC's for each month in which they received pre-dispatch instructions between November 2006 and October 2007. The maximum decline value is defined as the maximum of the sum of declined dispatches in a single hour, regardless of reason. For example, in December 2006, SC 'A' declined 600 MW over two hours:

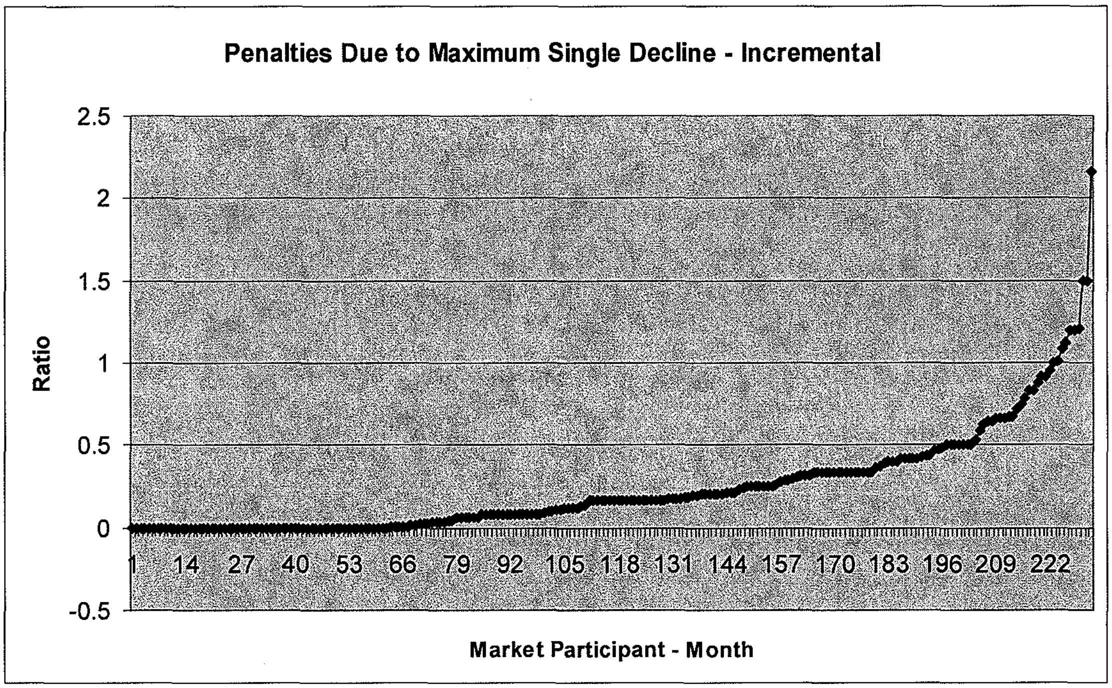
<u>12/5/06 HE 6</u>
100 MWh at Palo Verde
100 MWh at Malin
Declined for HE 6: 200 MWh

<u>12/17/06 HE 12</u>
100 MWh at Malin
150 MWh at El Dorado
150 MWh at NOB
Declined for HE 12: 400 MWh

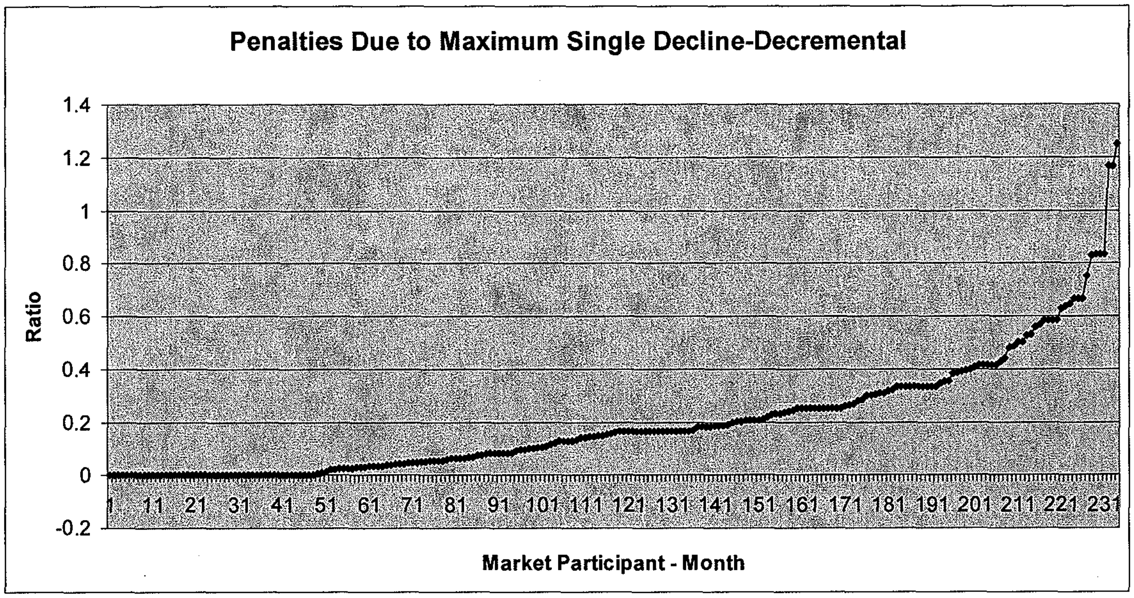
Maximum single decline = max (200, 400) = 400 MW.

A maximum single decline was calculated individually for inc and dec dispatches. The CAISO then divided this number by the threshold value, equal to the greater of 10% of the inc or dec pre-dispatches, or a variable minimum threshold. The CAISO plotted this resulting number for all SC's and all months at different threshold values. A number of 1.0 or greater indicates that a SC would incur a penalty if they declined dispatches equal to their maximum single decline number for the month.

The results for a minimum threshold value of 300 MWh are displayed below.




With a minimum threshold value of 300 MWh, there were 9 out of 232 cases on the incremental side exceeding a value of 1.0. This means that if this proposal was effective in the last year, there would have been penalty charges in 9 cases resulting from declines equal to a maximum single decline. This compares with seventy-five cases if the proposal did not consider a 300 MWh minimum in the threshold calculation.




Similarly, with a minimum threshold value of 300 MWh, there were 3 out of 234 cases on the decremental side exceeding a value of 1.0. This means that if this proposal was effective in the last year, there would have been penalty charges in 3 cases resulting from declines equal to a maximum single decline. This compares with thirty-six cases if the proposal did not consider a 300 MWh minimum in the threshold calculation.

With a 300 MWh minimum threshold value, the chances of market participants passing the penalty threshold for a single decline due to circumstance beyond their control is small. The likelihood of this happening should be even smaller than portrayed by the above data, because a single decline may be lower than the max decline value, and the methodology included all declines, whether or not they were beyond the control of the Market Participant.