

Memorandum

To: CAISO Board of Governors

From: Karen Edson, Vice President of External Affairs
Don Fuller, Director, Customer Services & Industry Affairs
Tom Delaney, Account Manager

Date: April 12, 2007

Re: **Authorization to File Tariff Amendment to Enable Business Practice Manuals (BPMs)
Change Management Process**

This item requires board approval.

Executive Summary

Over the past year, the CAISO and stakeholders have been working to develop a set of manuals that provide detailed instructions to stakeholders on how to operate consistent with the CAISO's new Market Redesign and Technology Upgrade (MRTU). While the MRTU Tariff defines all the necessary FERC jurisdictional rates, terms and conditions, the Business Practice Manuals or BPMs will contain the implementation detail and other helpful information that need not be in the tariff.

The BPMs are intended to be changed and improved over time to provide additional clarity or information, such as examples and timelines, consistent with existing tariff authority. Keeping in mind that BPMs are not tariffs, they contain procedures and other information that are important to stakeholders and the orderly operation of our CAISO markets. Thus, stakeholders have requested and FERC has directed that BPM changes be managed in an orderly and transparent manner.

In response, the CAISO has worked with stakeholders to develop a separate BPM for BPM change management that details the process for all changes to the BPMs. Both stakeholders and CAISO staff can propose changes with a Proposed Revision Request (PRR). A special web page will host all PRR postings, facilitate the stakeholder comment periods, track monthly stakeholder meeting discussions, and ultimate disposition of the request. In cases where the CAISO must implement emergency changes, those changes will be communicated through market notices and postings on the web, followed by the normal PRR review process which will occur after the changes go into effect.

This memo seeks Board authorization to make an appropriate tariff amendment filing to authorize the BPM change management process.

Background

In 2005, as part of the stakeholder process for developing the MRTU Tariff, the CAISO expressed its vision for a comprehensive Tariff for MRTU with supporting implementation detail to be included in Business Practice Manuals (BPMs) that would not be on file at FERC. The CAISO intended that the BPMs would also include examples, and templates and other information to assist market participants in operating within the MRTU markets. A total of 14 BPMs have been developed, supported by an extensive review effort by Stakeholders. They address the following functional areas:

1. Market Operations
2. Market Instruments
3. Settlements & Billing
4. Scheduling Coordinator Certification & Termination
5. Congestion Revenue Rights
6. Managing Full Network Model
7. Rule of Conduct Administration
8. Outage Management
9. Metering
10. Reliability Requirements
11. Credit Management
12. Compliance Monitoring
13. Definitions & Acronyms
14. BPM Change Management

Stakeholder concerns regarding BPMs fell into two general areas: (1) BPMs contain rates, terms and conditions and, therefore, some or all of the material must be filed with FERC; and (2) if BPMs are not filed with FERC, the CAISO must have a BPM change management process that affords interested parties with due process, including notice and an opportunity to comment prior to the effective date of proposed changes.

In the September 21, 2006 MRTU Order,¹ FERC agreed that BPMs would not need to be filed with FERC but required the CAISO to engage in a review process with stakeholders to consider whether any additional tariff language is necessary to support the BPMs.² The CAISO is engaged in that process now and will be making its compliance filing on May 2, 2007 to be followed by a Technical Conference to be scheduled by FERC, likely this summer. FERC also required the CAISO to file proposed draft tariff language for a BPM change management process at the same time.³

¹ *Order Conditionally Accepting the California Independent System Operator's Electric Tariff Filing to Reflect Market Redesign and Technology Upgrade*, 116 FERC ¶ 61,274 (2006) (September 21 MRTU Order).

² September 21 MRTU Order at P 1370.

³ September 21 MRTU Order at P 1371.

The BPM Change Management Process

The CAISO has developed proposed tariff language and a draft Business Practice Manual devoted to the BPM change management process. These materials are posted at: <http://www.caiso.com/1ba3/1ba39e1613f80.pdf>. Consistent with the CAISO's tariff vision, the tariff language includes general enabling language while the BPM provides the implementation detail.

The CAISO's change management process is a hybrid of other ISOs' stakeholder processes, and the process used during the stakeholder review of the CAISO BPMs in 2006. The process will facilitate the exchange of ideas and information regarding maintenance and modifications to CAISO's BPMs in as transparent a way as possible so that decisions can be made in light of all relevant information and in consideration of the impact of proposed changes on Market Participants. Furthermore, a record will be built recording participant positions and CAISO positions offering a history of how decisions were developed. The CAISO's change management proposal borrows from ERCOT's web-based approach, which can be found at: <http://www.ercot.com/mktrules/protocols/index.html>. The proposal requires use of a simple request template, which will trigger a systematic review process that the submitter and interested stakeholders alike can follow on a devoted page on the CAISO's website to provide transparency.

The process starts with a Proposed Revision Request (PRR). The PRR is a template on which a submitter outlines the proposed change, the reason for the change, impacts and benefits of the change on CAISO Market Operations and on stakeholders, and offers suggested language to implement the proposed change. The same form will be used by everyone requesting a change whether it is requested by a market participant or CAISO staff. Complete forms will be posted on the Web page for a 10-day comment period.

A designated CAISO BPM Change Management Coordinator will manage the overall process with the help of the CAISO BPM Owners. The BPM Change Management Coordinator will make a preliminary categorization of incoming PRRs:

1. Clarifications of existing tariff language, grammatical errors and or revisions with minor significance
 - If no comments are received in the 10-day period, these can be implemented at any time and will be included in next regular scheduled version release.
2. Revisions of substantial significance or changes to CAISO or Market Participant systems
 - These revisions will not be implemented until after a discussion at the next scheduled BPM Change Management meeting unless emergency or urgent circumstances exist.
3. Revisions implementing significant new CAISO policies and/or requiring revisions to the CAISO tariff.
 - These type of changes will likely fall outside the BPM process and require alternative treatment.

The CAISO Change Management Coordinator will host the monthly meetings that may be held in Folsom or may be held by conference call depending on the volume and complexity of changes in a particular month. The monthly meeting discussion could lead to a recommendation, or additional analysis and review. In cases requiring additional consideration, the change will be taken up again at a subsequent monthly meeting. Following that meeting, the CAISO Change Management Coordinator will publish a decision on the website, which will become final in the absence of an appeal. Actual implementation could occur immediately thereafter or may be deferred until a scheduled BPM update.

Emergency Changes by the CAISO and Stakeholder Appeal

The CAISO is committed to the public, transparent process described above. In some circumstances, however, immediate changes are essential to protect the system or comply with lawful directives. In the event such changes are necessary, the CAISO will continue a public process by:

- Soliciting stakeholder comments prior to an emergency change, if practicable,
- Issuing a Market Notice concerning emergency revisions,
- Posting a notice on the web, and
- Subjecting the emergency change to the standard review process while the change remains in effect

The BPM addresses emergencies by allowing unilateral changes by the CAISO when a change is necessary to avoid substantial adverse impact on system reliability, security or CAISO Markets. Emergency changes also include those that are required to comply with the CAISO Tariff; any applicable law or regulation; NERC or WECC policies, guidelines or standards; or a FERC Order. Most importantly, the CAISO will in every case attempt to avoid emergency changes. When an emergency change cannot be avoided, the CAISO will, as described above, conduct a robust public process for considering the change while it remains in effect.

To address the stakeholder concern for an appeal process, the draft BPM proposes to permit appeals to a CAISO Officer Committee within 10 Business Days from the date the decision is posted on the website. The CAISO Officer Committee will issue a decision on appeal within 30 days. While the BPM does not expressly provide for an appeal to the governing board, stakeholders always have the ability to address the Governing Board in public session and/or to file a complaint with FERC.

Stakeholder Process to develop the Change Management BPM

The initial straw proposal for the BPM Change Management process was discussed with stakeholders in mid-2006. Subsequent revisions to the straw proposal were made in December 2006 and March 2007, and most recently, in April 2007 in response to stakeholder comments. The proposal was presented at three MRTU forums and stakeholders were encouraged to comment. Written comments submitted by stakeholders are attached to this memo, and have been helpful in shaping this recommendation. Stakeholder support has grown, with a majority of stakeholders expressing some level of support for the proposed BPM change management process. Nevertheless, concerns remain. Some stakeholders oppose CAISO having unilateral authority to make final decisions; some seek a formal stakeholder voting structure; some want formal board approval of all changes; and some still seek to have all the BPMs filed at FERC.

Management believes that the proposed process represents an appropriate starting place that reasonably balances competing interests. It provides for both a public, transparent process and direct stakeholder participation. At the same time, it retains direct management accountability for business practices and the successful operation of CAISO markets and systems.

Next Steps

With Governing Board approval, the CAISO will file the necessary enabling tariff language to support the BPM for BPM Change Management so that it may be included in the May 2 compliance filing. Pursuant to P 1370 of the September 21 MRTU Order, FERC will establish a formal comment period and schedule a Technical Conference to

assess whether the MRTU Tariff has adequate enabling language for all of the BPMs and to clarify what should be in the BPMs and what should be in the tariff. That conference is not scheduled, but likely will occur this summer. We expect this Change Management Process to be a topic at that conference. Finally, the CAISO will work between now and February 2008 to finalize the web-site design and development and to ensure that internal processes are ready to implement the BPM change management process by January 31, 2008.

Motion

Moved,

That the ISO Board of Governors approve the proposal for the CAISO to implement the Business Practice Manual change management process as described in this memorandum dated April 12, 2007; and

That the ISO Board of Governors authorize Management to make all necessary and appropriate filings with the Federal Energy Regulatory Commission to implement this proposal.