

Memorandum

To: CAISO Board of Governors

From: Karen Edson, Vice President of External Affairs
Don Fuller, Director, Customer Services & Industry Affairs
Ali Miremadi, Manager Customer Services

Date: May 21, 2007

Re: **Authorization for Tariff Changes to Scheduling Coordinator Certification & Termination Provisions**

This item requires board approval.

Executive Summary

Management seeks Board approval to amend the provisions of ISO Tariff Section 4.5 – Responsibility of a Scheduling Coordinator (SC). The proposed changes would raise the application fee for SCs, address application processing issues, and provide for early implementation of amended MRTU tariff provisions related to SC certification. The proposed changes are based on lessons learned from the current certification process and will facilitate the transition to MRTU. If approved, they will be reflected in the proposed Business Practice Manual (BPM) for SC Certification and Termination and will go into effect in mid- to late-August, 2007.

Background

The ISO Tariff (Section 4.5) describes the requirements and process for certifying an entity as a Scheduling Coordinator. It includes requirements for acquisition of necessary software, a demonstration of system connectivity, a demonstration of financial security, and the execution of necessary agreements. In addition, it allows a minimum of 60 days for processing an SC application. Certain issues have arisen over the past several years that become especially important to address as MRTU implementation nears. Management proposes to address the issues with the following tariff changes:

- 1) Issue:** **Sixty days for certification is inadequate.**
Proposed Solution: **Change time period to 120 Days**

The ISO Tariff specifies a 60-day minimum timeframe for certifying entities that apply to become an SC in the CAISO's markets. This timeframe creates an unrealistic expectation and adds an unnecessary degree of urgency

to the process for accomplishing the normal processing, establishing connectivity, addressing financial security, and scheduling necessary training classes before going operational. Thus, Management proposes to extend the time period from 60 to 120 days.

The shift to 120 days also will ease the transition to MRTU. Without the change, an entity could apply late in 2007 to be certified for participation in the existing markets for the few weeks they will remain in effect and at the same time be training for the MRTU markets and certification. Management does not believe that certifying new SC Applicants for participation in the current markets after the end of September is an efficient use of either SC Applicants' or the CAISO's resources. Putting the 120 time period in place will allow the CAISO to end all training and certification related to the existing markets by the end of September and focus entirely on readiness and certification related to MRTU. A new entity could still enter the current market by contracting with any of the already-certified SCs while it pursued SC certification for MRTU.

2) Issue: The SC application fee does not cover ISO costs.

Proposed Solution: Increase the fee to \$5,000.

The application fee for SC certification was set at \$500 in 1997. The ISO evaluated the actual cost of processing applications, establishing connectivity, evaluating financial security, and providing training and has concluded that the cost today is much closer to \$5000. This charge is also consistent with fees charged by other ISOs and may also discourage entities from submitting "placeholder" applications before they have committed to become certified. Such "placeholder" applications have contributed to the issue discussed in Issue 3 below.

3) Issue: SC applications remain active regardless of the applicant's diligence.

Proposed Solution: Close applications when an applicant fails to complete requirements within 12 months.

Historically, some SC Applicants have filed an application, initiated work at the CAISO, and then failed to complete the SC certification requirements. The tariff is structured, however, so that such applications remain "alive" indefinitely. A sunset provision on such SC Applicants would eliminate issues arising from two situations: 1) instances where applications are submitted but the SC Applicant does not timely complete the requirements for certification, and 2) instances where applications submitted at a much earlier date are revived after a lengthy period of inactivity. Instances such as these cause confusion and lead to an inefficient process, especially since both the CAISO and SC Applicant contacts may have changed, digital certificates may have expired, and the CAISO processes and systems may be different, making previous training, setup and testing in CAISO systems obsolete. The CAISO proposes closing applications of SC Applicants that have not completed the SC certification requirements within twelve months after receipt of the application. In the event an application is closed for not fulfilling the SC certification requirements, the SC Applicant would have to submit a new SC application and non-refundable fee if it decided to reactivate its application.

4) Issue: Inactive SCs can return to the market without updating training and other requirements.

Proposed Solution: Suspend or terminate SC status after 12 consecutive months of market inactivity.

In the past, some SCs have discontinued participation in the CAISO markets for long periods of time without seeking to terminate their Scheduling Coordinator Agreements (SCAs). In such cases, the CAISO has been concerned that any attempt by the SC to resume market participation would result in significant problems for both the SC and the CAISO as a result of changes in SC contacts, expiration of digital certificates, and changed training requirements for processes and procedures. While this concern has been somewhat theoretical in the past, there has been a recent example where this occurred, reinforcing the need for this provision. The CAISO proposes to add tariff language allowing the CAISO to suspend SC certifications or terminate SCAs (and deactivate the SCID) for SCs that remain inactive in the markets for 12 consecutive months. An SC whose certification is suspended would have to demonstrate completion of necessary training and testing prior to having its SCID reactivated. In the event an SC whose SCA was terminated for inactivity would like to reinstate its SC status, a new application and non-refundable application fee would be required for recertification, and a new SCA would have to be executed with the CAISO.

5) Issue: Changes to SC certification requirements that are included in the MRTU Tariff do not take effect until MRTU implementation February 1, 2008.

Proposed Solution: Consolidate the proposals in Items 1-4 above with language already approved by FERC in the MRTU Tariff, and establish "early effectiveness" of the SC Certification Requirements.

In order to certify new SC applicants for MRTU, it is optimal to use the tariff and BPM provisions designed for the MRTU market. The CAISO proposes that provisions of the MRTU Tariff regarding SC certification, in addition to those described in Items 1-4 above, take effect in advance of MRTU implementation to facilitate a smoother transition to the new market design.

Stakeholder Review

As noted above, these changes were reviewed as part of two separate stakeholder processes. Proposed changes to the SC certification process in the MRTU Tariff were discussed with stakeholders during the BPM stakeholder process that started in 2006. Also during that stakeholder review, other discussions led to improvements in the BPM that will be clarified in these tariff changes. They include items such as system security, training, testing, and emergency planning. The tariff changes proposed in Items 1-4 above were considered more substantive and were the subject of an additional and separate stakeholder process during 2007. Originally proposed to the stakeholders with these items was a "freeze on new certifications for several months before MRTU implementation. Stakeholder concerns raised about the "freeze" have been resolved with the current proposal that establishes early effectiveness of the SC Certification provisions, including the 120-day certification timeframe.

Review Process for BPM for SC Certification and Termination

- July 31, 2006 – BPM draft posted
- January 19, 2007 – Revised BPM draft posted
- April 2, 2007 – Revised BPM draft posted with proposed tariff language
- April 17, 2007 – Stakeholder call and written comments

Review Process for Proposed Tariff Changes

- March 21, 2007 - White Paper posted
- March 30, 2007 - Stakeholder comments received
- April 2, 2007 - Stakeholder review conference call
- May 18, 2007 - Tariff language posted
- May 24, 2007 - Stakeholder review conference call

The CAISO received few comments in either of these stakeholder processes. As the tariff language associated with the BPM for SC Certification and Termination was primarily to implement the provisions of the BPM that had already been subject to stakeholder review, there were very few new concepts included in those tariff provisions – other than the provisions addressed in Issues 1-4 above. With regard to Issues 1-4 above, it is not surprising that the CAISO received very few stakeholder comments in this more recent stakeholder process given that these changes would primarily affect only new SC Applicants and would have little impact on currently certified and active Scheduling Coordinators. Thus, stakeholders primarily commented on provisions affecting existing SCs -- fees and the processing of requests for additional SCIDs. In response to these comments, Management has provided assurances that the fee for additional SCIDs will not change.

Motion

Moved, that the ISO Board of Governors approve the “Authorization for Tariff Changes to Scheduling Coordinator Certification & Termination Provisions,” as outlined in the memorandum dated May 21, 2007; and

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