

Memorandum

To: ISO Board of Governors
From: Jim Detmers, Vice President of Operations
Mike Dozier, Counsel
Date: December 4, 2007
Re: **Decision on Authorization for Miscellaneous MRTU Tariff Changes**

This item requires Board approval.

EXECUTIVE SUMMARY

Management seeks Board approval to amend several provisions of the MRTU version of the CAISO Tariff. The need for amendments to the MRTU Tariff has been identified during the course of the development of an integrated version of the MRTU Tariff incorporating provisions of the current version of the ISO Tariff. These changes, although relatively minor, are not sufficiently related to prior Board approved MRTU Tariff changes to fall within any prior Board authorization. The proposed revisions consist of the following:

1. Addition of authority for reversion to the previously-effective version of the ISO Tariff within 30 days after MRTU implementation, in the event this is needed.
2. Modification of specifications for the annual operations compliance review.
3. Establishment of Settlements priority for amounts less than \$5,000 and for FERC Annual Charges.
4. Reduction of Outage reporting requirements for Generating Units less than 40 MW.
5. Limitation of the availability of CAISO Operating Procedures on the CAISO Website to exclude confidential information.
6. Substitution of the term "Balancing Authority Area" for "Control Area."
7. Increase in bank account information processing time and addition of a "survival" clause in the *pro forma* Scheduling Coordinator Agreement ("SCA").
8. Establishment of consistency of "boilerplate" terms in *pro forma* agreements.

Management requests that the Board approve each of these revisions, which are described in more detail below.

MOTION

Moved, that the ISO Board of Governors approve the proposed revisions to the MRTU Tariff described in this memorandum dated December 4, 2007; and

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

ISSUE STATEMENT

The CAISO has been working for the past several months to improve and finalize the MRTU Tariff. During the course of these efforts, a number of improvements have been identified that are sufficiently substantive to merit Board review and approval. Each of these proposed improvements is described briefly below. The CAISO's original proposals are also described in the White Paper that was issued for stakeholder review, which is posted on the CAISO website at the following location: <http://www.caiso.com/1c94/1c9486d83c1b0.doc>. Certain of the proposed revisions described below have been modified from the proposals in the White Paper in response to stakeholder comments.

1. Reversion to Previously Effective ISO Tariff

In order to plan for contingencies and in response to stakeholder concerns, the CAISO posted on October 19 a proposed "MRTU Cutover and Reversion Overview." A portion of that overview contains a reversion section that would cover the unlikely event that operational issues require a switch from MRTU systems and operations back to the pre-existing systems and operations. In order to ensure it has the authority to implement that portion of the proposal, Management proposes to add a new Section 44 to the MRTU Tariff expressly providing the authority to revert to previously-effective portions of the ISO Tariff. This proposed provision would limit the CAISO's opportunity to undertake such a reversion only to the 30 days following MRTU implementation. This authority would be available for CAISO use only to the extent the CAISO concludes that a hardware or software failure or other event has compromised the ability of the CAISO to reliably and accurately dispatch and settle the market and to the extent the CAISO has determined that there are no viable automated or manual work-arounds or other options available. This authority would only be in effect for the duration of the impairment of the CAISO's ability to reliably and accurately dispatch and settle the market. The provision would specify that all Settlements for the month in which this provision might be in effect will be made under the same version of the CAISO Tariff for the entire month.

2. Operations Compliance Review

Management proposes to revise Section 22.1.2.2 of the MRTU Tariff setting forth the requirements for an annual review or audit of the CAISO's compliance with its operations policies and procedures to clarify the manner in which these requirements may be fulfilled. The proposed revisions would (1) substitute the term "review" for "audit" and (2) delete references suggesting that this review must be done by an "accounting" firm. The term "audit" when used with an accounting firm is very limiting. There are a whole series of rules and liabilities around the use of the term "audit" by an accounting firm. To make the process useful and still be able to use an accounting firm, the term "audit" needs to be changed to "review" in Section 22.1.2.2. The current language of Section 22.1.2.2 specifies as its primary requirement that there be an annual "review [of] the CAISO management's compliance with its operations policies and procedures." Thus the entire process should be clarified to refer consistently to such a "review," and the term "audit report" changed to refer just to a "report." The associated deletion of the reference to an "accounting" firm would now just require that an "independent party" conduct the review, which would allow competent firms, organizations, or other persons to conduct the review that are not certified public accountants.

3. Settlements Priority for Amounts Less Than \$5,000 and for FERC Annual Charges

Management proposes to revise the provisions of Section 11.29 of the MRTU Tariff to address two areas in which additional priority needs to be given for Settlements purposes.

a. Priority for Settlement of FERC Annual Charges

Management proposes to extend the same payment priority currently enjoyed by the Grid Management Charge to amounts invoiced for the CAISO's obligation for FERC Annual Charges. The reason for the priority is that the CAISO is liable for the payment of FERC Annual Charges regardless of any payment default by a Scheduling Coordinator. The proposed tariff amendment is intended to maintain cash neutrality with respect to FERC Annual Charges and avoid any need to make the payment from the CAISO's corporate reserve in the event of a default.

b. Priority for CAISO Creditors under \$5,000

In the event of a payment default that causes a shortfall in Settlements, the CAISO prorates payments to CAISO Creditors. If the defaults require the CAISO to make small payments to certain CAISO Creditors, either at the time of the initial default or if small payments are later received from the defaulting debtor, the cost of wiring the funds and other processing costs can exceed the value of the payments to small creditors. In these cases, it can cost the creditor to receive money. This condition will be mitigated, however, if small balances are paid off first. The priority for payment of aggregate balances of small CAISO Creditors will not materially dilute the distribution to the larger CAISO Creditors.

4. Outage Reporting for Generating Units Less than 40 MW

Section 9.3.10.5 of the current version of the ISO Tariff requires Operators of Generating Units to provide explanations of Forced Outages under two circumstances. The report is required, first, if the Outages results in a reduction in maximum output capability of more than 40 MW, or, second, *if the unit is separated from the ISO Controlled Grid*. In its effort to incorporate recently-effective provisions of the current version of the ISO Tariff into the MRTU Tariff, Management is proposing to eliminate the latter requirement. The CAISO's experience has demonstrated that, given ongoing availability reporting combined with reports of Forced Outages greater than 40 MW, this second circumstance of Forced Outage reporting is not necessary to ensure reliable operation of the grid. Management therefore proposes to eliminate this portion of the requirement in order to reduce the reporting burden associated with units less than 40 MW.

5. Availability of CAISO Operating Procedures on the CAISO Website

Section 22.11 of the MRTU Tariff currently provides, among other things, that all Operating Procedures shall be available on the CAISO Website. While all Operating Procedures are identified on the CAISO Website and most Operating Procedures are, in fact, posted on the CAISO Website, some Operating Procedures or portions thereof are not posted and are subject restricted distribution due to system security, market sensitivity, or proprietary concerns. Management proposes to amend Section 22.11 to provide the CAISO with appropriate authority to maintain restricted distribution for sensitive Operating Procedures or portions thereof. In this regard, the CAISO endeavors to segregate sensitive information in separate attachments so that as much of the Operating Procedure as possible can be made publicly available.

6. Change of "Control Area" to "Balancing Authority Area"

The MRTU Tariff incorporates references to the CAISO "Control Area" from the current version of the ISO Tariff. However, the NERC functional model, as implemented through the NERC Reliability Standards, the NERC "Glossary of Terms Used in Reliability Standards," and the WECC "Glossary of WECC Terms and Acronyms," has discontinued the use of the term "Control Area" on a general industry basis and replaced it with a set of terms applicable to different functions performed in the electric industry.

Management proposes to update the outdated use of the term "Control Area" in the MRTU Tariff with the more applicable term "Balancing Authority Area" from the NERC and WECC glossaries of terms. The new term "Balancing Authority Area" will be defined consistent with the definition used on a national basis and addresses the same concept as the current definition of "Control Area" in the MRTU Tariff. Its use will not change the intent or meaning of the provisions of the MRTU Tariff in which the replacements will be made. In conjunction with this change, Management also proposes to revise the MRTU Tariff to replace the relatively rare uses of the term "Control Area Operator" or "control area operator" with the term "Balancing Authority" from the NERC and WECC glossaries of terms, to be defined consistent with the definition in those glossaries.

7. Increase in Bank Account Information Processing Time and Addition of a "Survival" Clause in *Pro Forma SCA*

The CAISO's *pro forma* Scheduling Coordinator Agreement (SCA) currently provides only seven days for CAISO processing of changes in Scheduling Coordinator bank account information. However, in reviewing its processes in preparation for MRTU implementation, the CAISO has determined that it may need up to 30 days to process a change in this information. Management proposes to make this change in the *pro forma* SCA in order to avoid any potential confusion or dispute over the necessary timing. In addition, it is the CAISO's practice to require a Scheduling Coordinator whose SCA is terminating to remain obligated to satisfy outstanding Settlements obligations after the termination of its SCA. Management proposes to add an express "survival" clause to the *pro forma* SCA, to provide that "any outstanding financial right or obligation or any other right or obligation under the CAISO Tariff of the Scheduling Coordinator that may have arisen under this Agreement, and any provision of this Agreement necessary to give effect to such right or obligation, shall survive such termination until satisfied."

8. Consistency of "Boilerplate" Terms in *Pro Forma* Agreements

The MRTU Tariff versions of the CAISO's *pro forma* agreements include various differences in their "boilerplate" provisions regarding (i) effective date, (ii) termination, (iii) compliance with the CAISO Tariff, (iv) penalties and corrective measures, (v) notices, (vi) the CAISO's right to amend the agreement, and (vii) UDC obligations regarding records retention -- and the *pro forma* SCA includes virtually none of the CAISO's "boilerplate" agreement provisions. Management proposes to make these provisions consistent in all of the CAISO's *pro forma* agreements, using the most appropriate language from each of the agreements already accepted by FERC.

For the *pro forma* SCA, Management proposes to incorporate essentially all of the "boilerplate" provisions set forth in all of its other *pro forma* agreements already accepted by FERC. The absence of these standard CAISO agreement provisions from the *pro forma* SCA poses the possibility that disputes could arise whether the SCA is intended to provide the same rights and obligations for Scheduling Coordinators as the CAISO's other agreements provide for other types of Market Participants. It is the CAISO's view that Scheduling Coordinators should not be subject to different treatment than other Market Participants executing other *pro forma* CAISO agreements -- and that, consequently, the *pro forma* SCA should incorporate "boilerplate" provisions similar to those other agreements.

As for the proposed improvements to the consistency of the "boilerplate" provisions of the CAISO's other *pro forma* agreements, the details of these improvements are set forth in the White Paper.

STAKEHOLDER REVIEW

The proposed MRTU Tariff revisions described above were reviewed in the following stakeholder process:

- November 12, 2007 - White Paper posted
- November 21, 2007 - Stakeholder written comments received
- November 29, 2007 - Stakeholder review conference call

The CAISO received two sets of written comments on the White Paper, and received additional comments in the stakeholder conference call. The comments were directed primarily to the first two items discussed above, the proposed authority for reversion to the prior version of the ISO Tariff, if necessary, and the requirements for the annual operations compliance review. Comments were also received on items 5 and 7 above, raising issues with the availability of confidential portions of the CAISO Operating Procedures and with the proposed revisions to the SCA. In response to these comments, Management modified the proposed revisions regarding the authority for reversion to the previously-effective version of the ISO Tariff to add further clarifications regarding the scope of this authority and modified the proposed revisions regarding the operations compliance review to add further clarifications of the requirements for this process. Management is not proposing to modify its proposal regarding the availability of CAISO Operating Procedures but is proposing to make a partial accommodation regarding the revision to the processing time for changes in bank account information in the SCA. The positions of the stakeholders and Management's responses are set forth in more detail in Attachment A, Summary of Submitted Comments.