

Memorandum

To: CAISO Board of Governors

From: Karen Edson, Vice President, External Affairs
Sidney Davies, Assistant General Counsel

Date: May 21, 2007

Re: Status Report of Business Practice Manual Development

This is an update to the status of Business Practice Manual Development.

At the last Board meeting, stakeholders have raised concerns about the Business Practice Manuals (BPMs) that are under development to support the CAISO's new market design as set forth in the Market Redesign and Technology Upgrade (MRTU) tariff. BPMs are designed to contain implementation detail and other information that is not required to be in the tariff. Stakeholder concerns about BPMs fall into three areas: (1) the BPM change management process (2) the status of BPM development; and (3) the assessment as to whether any details in the BPMs should, more appropriately, be included in the tariff.

1. BPM Change Management Process

The Board of Governors approved the BPM for BPM Change Management at its April Board meeting. In brief summary, the CAISO will be instituting an open, transparent process that will apply to the CAISO as well as interested parties for proposing and considering changes to the BPMs. Management delayed its expected May 2nd tariff filing on this BPM in order to hold an additional stakeholder meeting on May 21, 2007, and consider stakeholders concerns about the proposed tariff language.

2. Status of BPM Development

The attached table itemizes each BPM and provides the most current information concerning each BPM's status as of the date of this memorandum. The CAISO will also be discussing this information with stakeholders on May 21, 2007 with a view of gaining clarity as to stakeholders' highest priorities.

3. Whether Any BPM Details Should Be Added To The Tariff

Pursuant to Paragraph 1370 of the September 21 MRTU Order, the CAISO is obligated to make a compliance filing of any tariff language reflecting provisions of BPMs that should be moved from the BPM into the tariff. The compliance filing is due 30 days after the end of the BPM stakeholder process, but no later than 180 days prior to MRTU implementation, *i.e.*

by August 3, 2007. The CAISO assessment as to whether a BPM detail must be moved into the tariff based on the Federal Power Act –whether or not the BPM detail “substantially” affect rates, terms and conditions. If so, the BPM detail must be moved into the tariff

CAISO management has drafted tariff language and developed BPMs with these requirements in mind. Since the September 21 MRTU Order, the CAISO has requested and received comments from stakeholders on the tariff versus BPM debate. As a result, the CAISO has proposed, in many instances, to include additional details in tariff language, which has been drafted and posted on the CAISO website. Some stakeholders, however, remain concerned that several BPMS lack the detail needed to make this assessment. Stakeholders have also asked the CAISO to make a single compliance filing making the separation between BPM provisions and tariff language. As a result, management has agreed to make a single compliance filing on about August 3, 2007. The CAISO will continue to post draft tariff language on its website and take written comments on his issue from interested stakeholders. Once the CAISO makes it filing, FERC will establish a comment period and schedule a Technical Conference in an effort to resolve any remaining disagreement over whether any BPM provisions should be moved into the tariff.