

102 FERC ¶ 61,337  
UNITED STATES OF AMERICA  
FEDERAL ENERGY REGULATORY COMMISSION

973851

Before Commissioners: Pat Wood, III, Chairman;  
William L. Massey, and Nora Mead Brownell.

California Independent System Operator

Docket No. IN03-7-000

ORDER APPROVING COMPLIANCE PLAN

(Issued March 28, 2003)

1. The Commission approves the attached compliance plan between the Commission's Office of Market Oversight and Investigations (OMOI) and the California Independent System Operator (CAISO) to resolve a preliminary, non-public investigation into whether CAISO employees attempted to influence the California ancillary services markets.
2. On April 4, 2002, California State Senator Joseph Dunn's Select Committee to Investigate Price Manipulation of the Wholesale Energy Market released a transcript of a July 3, 2001, telephone conversation between an Enron trader and a CAISO employee in which the CAISO employee, Alan Parsons, suggested that Enron submit a bid of \$91.86 into the Hour-Ahead ancillary services market for replacement reserve to set the market clearing price. The CAISO fired Parsons shortly after Senator Dunn's committee released the transcript.
3. OMOI's investigation concluded that Parsons acted alone in deciding to contact Enron to suggest a bid. Parsons told OMOI that he was attempting to stop a market practice entitled "buy-backs," in which market participants could buy back replacement reserve in the Hour-Ahead market that they had sold to the CAISO at higher prices in the Day-Ahead market. Buy-backs in the Hour-Ahead ancillary services markets are allowed under section 2.5.10.2 of the CAISO's tariff.
4. OMOI investigated whether similar incidents occurred involving other CAISO employees. OMOI did not find any other incidents of CAISO employees suggesting bids to market participants. However, OMOI found that during the last six months of 2001, certain CAISO employees altered the CAISO's patterns for procuring ancillary services in order to remove the financial incentive for buy-backs. Specifically, the CAISO deferred

**Compliance Plan to Resolve the Federal Energy Regulatory Commission's  
Investigation of California Independent System Operator's  
Employees' Activities Concerning Ancillary Services Procurement**

In order to resolve the Office of Market Oversight and Investigations of the Federal Energy Regulatory Commission's (OMOI's) preliminary, non-public investigation into the activities of employees of the California Independent System Operator (CAISO) concerning ancillary services procurement activities from January 1, 2001 through June 1, 2002, the CAISO agrees, without admitting or denying that any violation occurred, to implement the items in the following compliance plan through March 31, 2006 as follows:

**1. Objective procedures for the allocation of the procurement of ancillary services that are transparent to market participants and that respond to, but do not influence, market conditions.**

The CAISO agrees to amend Operating Procedure M-402, relating to ancillary services procurement, to include provisions for informing scheduling coordinators of changes in the amount of the CAISO's procurement from the Hour Ahead Market as required by section 2.5.12 of the CAISO's tariff. The CAISO also agrees to amend Operating Procedure M-402 so that it states that procurement decisions may not be made to prevent market practices that are authorized under the CAISO's tariff except for reasons relating to verifiable system reliability concerns or to obtain the lowest procurement cost for the CAISO. The CAISO also agrees to provide OMOI with a copy of all subsequent amendments of Operating Procedure M-402 to ensure that the amendments meet the requirements of the compliance plan.

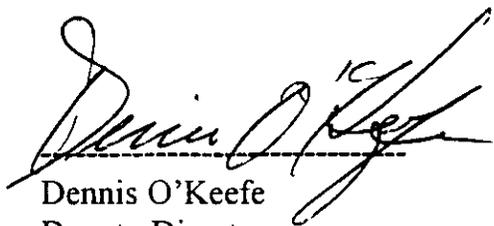
**2. Greater oversight by supervisory personnel of their employees' actions and disciplinary actions against employees that knowingly fail to follow tariff requirements**

The CAISO will make it mandatory for all supervisory personnel of CAISO employees involved in the operation of the ancillary services markets to attend the CAISO's Management Development Program on an annual basis. The CAISO will also give an admonition to all CAISO employees that have been identified by OMOI during its investigation as having altered ancillary services procurement practices without providing notice to the market as required under section 2.5.12 of the CAISO's tariff that such failure to provide notice was wrong and that future omissions of this sort may result in disciplinary action under section (b), paragraph (5) of the CAISO's Code of Conduct. The CAISO will also announce at a meeting of all employees that are involved in the operation of the ancillary services markets that procurement decisions may not be made to prevent market practices that are authorized under the CAISO's tariff except for

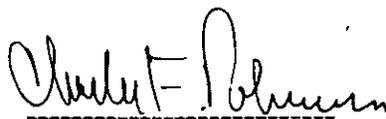
The CAISO agrees that it will prepare an annual compliance report for each of the next three calendar years (2003, 2004 and 2005). The CAISO agrees to submit each compliance report to OMOI the year following the year covered by the annual report on the anniversary of the date that the compliance plan takes effect.

**8. This compliance plan and the obligations hereunder will take effect on the date it is agreed to by the CAISO and will continue through March 31, 2006.**

This compliance plan is agreed to on this 17<sup>th</sup> day of March 2003.



Dennis O'Keefe  
Deputy Director  
Investigations and Enforcement  
Office of Market Oversight and Investigations  
Federal Energy Regulatory Commission



Charles F. Robinson  
Vice President and General Counsel  
California Independent System  
Operator.