

**UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION**

**California Independent System Operator) Docket No. ER11-4176-000
Corporation) ER11-4176-001**

**ANSWER OF THE
CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION**

On August 1, 2011, the California Independent System Operator Corporation (“ISO”) submitted a proposed tariff amendment that will accelerate and improve the efficiency of the existing settlement process. The proposed tariff modifications will implement five enhancements to the settlement process timeline that are designed to accomplish the following: shorten the time periods between issuance of settlement statements; introduce an unscheduled reissue recalculation settlement statement; extend the timeline for market participants to submit settlement quality meter data; revise the penalty for submitting untimely and inaccurate meter data; and align the billing periods of the weekly invoices for the settlement statements issued three business days after the trading day (“T+3B”) and twelve business days after the trading day (“T+12B”) to include the same trading days.¹ On August 2, 2011, the ISO submitted an errata to its filing to include a tariff record that was inadvertently omitted from the .xml package when it was electronically uploaded and submitted to FERC the prior day.

Pursuant to the Commission’s Combined Notices of Filing published on August 2 and 3, 2011, seven entities submitted motions to intervene, three of which included

¹ Capitalized terms not otherwise defined herein have the meanings set forth in Appendix A to the ISO tariff.

comments, with respect to the ISO's filing.² The ISO does not object to any of the interventions filed in this proceeding.

I. SUMMARY

In this Answer, the ISO responds to the comments submitted in this matter with respect to the ISO's proposed changes to its settlements process timeline, as follows:

- The ISO agrees to modify the Business Practice Manual for Settlements and Billing to provide examples of the adjustments that will lead to issuance of the as-needed recalculation settlement statements at T+9M, T+18M, T+35M, and T+36M.
- The ISO agrees that in a compliance filing, if directed by the Commission, the ISO will add a statement to proposed ISO Tariff Section 11.29.7.3.1 to clarify how the ISO will determine whether the \$1 million threshold for issuing an unscheduled reissue recalculation settlement statement as been met.
- The ISO does not support NCPA's suggestion to add an additional electronic notice to the multiple forms of notice the ISO already provides to market participants in advance of issuing an unscheduled recalculation settlement statement.
- The ISO explains how a market adjustment for late or inaccurate meter data pursuant to Sections 37.11.1 and 37.11.2 will be applied for trading days prior to the implementation of payment acceleration on November 1, 2009 and for

² Motions to intervene have been filed by the City of Santa Clara and the M S R Public Power Agency, California Department of Water Resources State Water Project, Modesto Irrigation District, Northern California Power Agency ("NCPA"), Pacific Gas & Electric Company, Powerex Corporation, Southern California Edison Company ("SCE") and the Cities of Anaheim, Azuza, Banning, Colton, Pasadena, and Riverside, California.

the trading days on and after November 1, 2009 when the sunset provision contained in Section 11.29.7.3 became effective.

- The ISO disagrees with SCE's comments that suggest that determining whether a meter data error is to the detriment of the responsible scheduling coordinator under Section 37.11.2 should be made on a dollar basis, not based on under-reported generation or over-reported demand as proposed by the ISO.
- The ISO explains that SCE's suggested tariff modification to prevent a double payment of a market adjustment under Section 37.11.12 and a resettled settlement amount is unnecessary because existing Section 11.29.7.3.3 is already in effect to prevent such double counting.
- The ISO declines to adopt SCE's suggestion that the term "penalty" in Sections 37.11.1 and 37.11.2 be modified.

II. ANSWER

A. Clarification of Basis for Issuing Scheduled and Unscheduled Recalculation Settlement Statements

The ISO's proposal in this proceeding, in combination with the ISO's compliance filing for Order No. 741,³ will establish a settlement process timeline that includes three mandatory settlement statements to be published three business days after the trading

³ *Credit Reforms in Organized Wholesale Electric Markets*, Order No. 741, FERC Stats. & Regs ¶ 31,317 (2010), *order on reh'g*, Order No. 741-A, FERC Stats. & Regs ¶ 31,320, *order denying reh'g*, Order No. 741-B, 135 FERC ¶ 61,242 (2011) ("Order No. 741"). In Order No. 741, the Commission directed each independent system operator and regional transmission organization to submit a compliance filing by June 30 2011 that proposed tariff revisions to establish a settlement cycle with a billing period of no more than seven days and a settlement period of no more than seven days after the issuance of bills. In accordance with the Commission's directive, the ISO submitted a compliance filing that provides for a settlement statement to be issued three business days after each trading day.

day, 12 business days after the trading day, and 55 business days after the trading day. Following these mandatory settlement statements, the proposed settlements process timeline includes a new scheduled recalculation settlement statement that may be issued as needed nine months after the trading day (“T+9M”). Thereafter, the timeline retains the existing scheduled recalculation settlement statements that may be issued as needed eighteen months after the trading day (“T+18M”), thirty-five months after the trading day (“T+35M”) or thirty-six months after the trading day (T+36M”).

The following table shows the scheduled settlement statements for the proposed settlement timeline:

Scheduled Statements Proposed
T+3B (Compliance Filing)
T+12B
T+55B
T+9M (As Needed)
T+18M (As Needed)
T+35M (As Needed)
T+36M (As Needed)

In addition to these scheduled statements, the ISO’s proposal introduces a new type of unscheduled reissue recalculation settlement statement that will be published when specified criteria are met. Those criteria are: a financial impact occurred on a T+9M or T+18M settlement statement; the financial impact resulted from an ISO data transfer error or other similar data processing error; the error was timely identified within

the applicable settlement dispute window by either the ISO or a scheduling coordinator via submission of a settlement dispute to the ISO; and the financial impact was greater than \$1 million for the market as a whole for the trading day.

In its comments, SCE requests clarification of two aspects of the ISO's process for determining when the non-mandatory recalculation settlement statements will be issued. Specifically, SCE asks the ISO to clarify: 1) what specific conditions or thresholds the ISO will use to determine whether a T+9M, T+18M, T+35M and T+36M recalculation settlement statement should be issued; and 2) how the ISO will calculate the \$1 million threshold for issuing an unscheduled reissue recalculation settlement statement.⁴

With regard to the first clarification, it is the ISO's practice to issue a T+18M, T+35M or T+36M recalculation settlement statement as needed in order to process the resolution of a settlement dispute or good faith negotiation, reflect an updated settlement configuration, correct an ISO data processing issue, make other settlements corrections, or effectuate an adjustment directed by Commission order. The ISO has utilized these reasons for publishing a T+18M, T+35M, or T+36M recalculation settlement statement since November 1, 2009, when the statements were implemented as part of the ISO's payment acceleration tariff amendment.⁵ There is nothing in the instant filing that changes this practice. The ISO's proposal does not apply a monetary threshold to publication of these statements. The ISO's proposal does add a new scheduled T+9M, but the ISO will apply the same reasons for issuing that statement as

⁴ SCE Comments, p. 3.

⁵ *Cal. Indep. Sys. Operator Corp.*, 128 FERC ¶ 61,265 (September 1, 2009).

it does for the statements that follow. The ISO will modify the Business Practice Manual for Settlements and Billing to provide examples of the circumstances that will lead to issuance of the as needed recalculation settlement statements at T+9M, T+18M, T+35M, and T+36M.

With regard to applying the \$1 million threshold for issuing an unscheduled reissue recalculation settlement statement, the ISO will calculate the financial impact resulting from an ISO data transfer error or other similar data processing error based on the sum of the charges, or payments, that were mistakenly assessed due to the error. In other words, the ISO will determine whether the \$1 million trigger has been met based on the absolute dollar value of the error. For example, if the error caused ten scheduling coordinators to be overpaid a total of \$750,000, that will be the amount the ISO uses to compare to the threshold. The ISO will not include the adjustments necessary to correct the error as part of the calculation of whether the \$1 million trigger was achieved.

SCE's comments seem to suggest that there could be alternative calculations, which would take into account both the amount of the error and the amount of the corrective adjustments necessary to correct the error. The comments refer to calculating a "net" amount, where the incorrect charges/payments are offset against the correction, and a "gross" amount, where the incorrect charges/payments and the correction are added together.

The ISO does not believe that either SCE approach presents a viable option. The ISO's settlement process is based on neutrality. If ten scheduling coordinators were overpaid \$750,000, then the ISO will reverse those payments and pay that amount

to the scheduling coordinators who should have been received the \$750,000 if the error had not occurred. If the ISO were to net the incorrect charges against the corrective adjustment, the result should always be \$0 because the value of the error will equal the value of the adjustment. If the ISO were to add the incorrect charges and the corrective adjustment, the result should always be a dollar amount that is twice the value of the error, again because the value of the error will equal the value of the adjustment.

The ISO accordingly believes that its proposed calculation is the most accurate and reasonable approach for quantifying the dollar value of the error in order to determine whether the threshold has been met for issuing an unscheduled reissue recalculation settlement statement.⁶ The ISO will in a compliance filing, if directed by the Commission, add a statement to Section 11.29.7.3.1 to clarify that, for purposes of determining whether the \$1 million threshold for issuing a unscheduled reissue recalculation settlement statement as been met, the ISO will calculate the financial impact resulting from an ISO data transfer error or other similar data processing error based on the dollar value of the charges that were mistakenly assessed due to the error, which does not include the dollar value of corrective adjustment.

B. Form of Notice for Unscheduled Settlement Statements

The ISO tariff, as modified by the ISO's proposal, will require that advance notice be provided to market participants if an unscheduled settlement statement is to be published. Revised Section 11.29.7.1 requires the ISO to issue a notice to the market if a T+9M, T+18M, T+35M, or T+36M recalculation settlement statement, or any

⁶ The ISO notes that if the dollar value of the error does not exceed the threshold, the an unscheduled reissue recalculation settlement statement will not be issued but the corrective adjustment will be included on the next scheduled recalculation settlement statement

unscheduled recalculation settlement, will be published for a trading day. Revised Section 11.29.7.3.1 requires the ISO to issue at least 30-days advance notice to the market if an unscheduled reissue recalculation settlement statement will be published to correct a miscalculation that meets the criteria of that section.

NCPA requests that the ISO be required to provide notice of all of the unscheduled settlement statements using an existing electronic notification system that allows scheduling coordinators' computer systems to automatically identify and download data. NCPA claims that using this system would be a best practice and superior to e-mail notification that is burdensome and depends on manual monitoring and processing which has a potential for error.

The ISO does not support adding the form of notice preferred by NCPA to the several other notices that the ISO already provides. Pursuant to existing Section 11.29.7.1, the ISO provides a market notice via email to market participants and other interested parties to advise them if a T+18M, T+35M, or T+36M recalculation settlement statement will be issued. In addition to that formal notice, the ISO sends an email about upcoming recalculation settlement statements to the distribution list for the Settlements and Market Clearing System ("SaMC") users group, which is composed of most of the settlement representatives and vendors of ISO scheduling coordinators. The ISO also hosts a weekly conference call with the SaMC users group to provide information and updates regarding ISO initiatives and activities affecting the settlement and invoicing processes, and afford market participants the opportunity to provide input and ask questions. The agenda for the SaMC conference calls includes discussion of any upcoming recalculation settlement statements. The ISO then posts a detailed summary

of each SaMC conference call on its website.

Given the multiple notices of pending recalculation settlement statements that market participants already receive, the ISO is not convinced that adding an additional form of notice would benefit the market. The ISO has had the authority to issue unscheduled recalculation settlement statements T+18M, T+35M, and T+36M since the statements were implemented on November 1, 2009, and has issued such optional statements as needed during the intervening period. To date, there have been no missed payments on such statements because a market participant was unaware the statement had been issued; nor have any other market participants requested this form of notice. Further, providing notice about an pending recalculation settlement statement to the SaMC users group through conference calls and email messages is a much more targeted and direct communication with market participants' settlements staff than the electronic notice system that NCPA suggests, which is primarily used for operations communications.

For these reasons, the ISO does not support NCPA's suggestion. The ISO believes that its existing notification practices are appropriate and will continue to be successful when applied to the new recalculation settlement statement at T+9M and unscheduled reissue recalculation settlement statement.

C. Meter Data Penalties

The ISO's proposal will modify Section 37.11.1 to indicate that there is no sanction for the submission of inaccurate or late actual settlement quality meter data used for recalculation settlement statement T+12B. The revised provision, however, will establish the circumstances in which the failure to submit timely meter data to the ISO

will be a violation of the Rules of Conduct, subject to a sanction of \$1,000 per trading day. The ISO's proposal will also amend Section 37.11.2 to provide that in instances where the ISO does not produce a recalculation settlement statement or perform a re-run, for cases of inaccurate actual settlement quality meter data, the penalty will be a market adjustment and a sanction. The sanction will be \$1,000 per trading day. If the error is to the detriment of the responsible scheduling coordinator, because they under-reported generation or over-reported demand, and the ISO does not issue a recalculation settlement statement or perform a market re-run, the ISO will not make a market adjustment but will levy a sanction of \$1,000 per trading day.

SCE's comments on these tariff sections focus on the calculation of the sanction and assessment of the market adjustment. SCE requests that the ISO clarify how the market adjustment would be distributed to the market if there are no subsequent recalculation settlement statements for the affected meter date. The ISO assumes that SCE is asking about how a meter data error would be treated that is discovered after the time has passed for the ISO to issue a recalculation settlement statement T+36M, which is thirty-six months after the trading day. In this situation, whether the market adjustment would be performed will depend on the date of the trading day. For trading days that occurred prior to the implementation of payment acceleration on November 1, 2009, the market adjustment would be performed in accordance the tariff provisions that were in effect at that time, pursuant to Appendix H to the tariff.⁷ For trading days that occurred on and after November 1, 2009, the sunset provision contained in Section

⁷ The ISO added Appendix H to the tariff as part of its filing in the payment acceleration proceeding in order to allow the trading days that occurred prior to the November 1, 2009 effective date of payment acceleration but that had not yet completed the settlement process to do so under the tariff provisions that had been in effect, rather than under the payment acceleration provisions that significantly changed the settlement process and timeline.

11.29.7.3, which became effective with payment acceleration, would apply and would not permit a recalculation settlement statement to be issued beyond T+36M unless directed by the ISO Governing Board or directed by FERC order. Given that this clarification is based on existing tariff provisions, the ISO does not believe that it is necessary to add the clarification to the tariff.

SCE's comments suggest that determining whether a meter data error is to the detriment of the responsible scheduling coordinator under Section 37.11.2 should be made on a dollar basis, not based on under-reported generation or over-reported demand as proposed by the ISO. The ISO disagrees with this suggestion. The ISO has used under-reported generation or over-reported demand as the metric for determining the impact of a meter data error on the responsible scheduling coordinator since 2005, when Section 37.11.1 was added to the tariff. The ISO is not proposing to change that metric in its filing in this matter. The sentence that contains the metric is shown as a revision in the ISO's redlined tariff language because the sentence is being moved within the tariff section, not because the metric is being changed. Further, the ISO believes that this metric is a reasonable and appropriate basis to determine the how the scheduling coordinator was impacted by its meter error. For instance, if a scheduling coordinator over-submitted generation data, then the scheduling coordinator would normally get additional payment. The additional payment would be collected from an increase in positive unaccounted for energy and paid by the load serving entities. This is an example of the over-reported generation harming the market. The same would be true for a scheduling coordinator who under-reports load. However, if the scheduling coordinator under-reports generation, or over-reports load, the result is

negative unaccounted for energy and the scheduling coordinator is harmed and the market benefitted. In addition, the tariff requires the applicable price to be calculated using the greater of the simple average of the relevant twelve five-minute LMPs or \$10/MWh. No negative prices will be used and therefore the opportunity to benefit from a negative price is not valid in the market adjustment.

SCE additionally suggests that there should be a way to unwind the market adjustment in the event that a market rerun or resettlement does take place in the future, in order to avoid a double payment of the market adjustment and resettled settlement amount. The ISO notes that a tariff provision is already in effect to prevent double counting an adjustment. Section 11.29.7.3.3 provides that:

Where an additional Recalculation Settlement Statement indicates that the accounts of Scheduling Coordinators, CRR Holders, Black Start Generators, or Participating TOs should be debited or credited to reflect alterations to Settlements previously made under this CAISO Tariff, for those Scheduling Coordinators, CRR Holders, Black Start Generators, or Participating TOs affected by the additional Recalculation Settlement Statement, the CAISO shall reflect the amounts to be debited or credited in the next scheduled semi-monthly Invoice or Payment Advice for the end of the month.

As a final item, SCE suggests that the term “penalty” not be used when referring to the market adjustment. The ISO believes that the term is used appropriately and that the suggested change is unnecessary.

III. CONCLUSION

For the reasons discussed above, the ISO request that the Commission accept the ISO's proposed settlement process timeline tariff amendment without change, consistent with this answer.

Respectfully submitted,

/s/Beth Ann Burns

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CERTIFICATE OF SERVICE

I hereby certify that I have served the foregoing document upon all of the parties listed on the official service list for the above referenced proceeding, in accordance with the requirements of Rule 2010 of the Commission's Rules of Practice and Procedure (18 C.F.R. § 385.2011).

Dated at Folsom, California this 6th day of September, 2011.

Is/ Anna Pascuzzo
Anna Pascuzzo