Settlements Process Timeline Change

April 26, 2011
Issue Paper
Settlements Process Timeline Change

1. Introduction

The California Independent System Operator (“ISO”) is initiating this stakeholder initiative to explore changes to the market settlement process timeline that was introduced with the implementation of the Payment Acceleration for Trade Date November 1, 2009 and is currently being modified in compliance with the rules adopted by the Federal Energy Regulatory Commission (“Commission” or “FERC”) in its rulemaking proceeding on Credit Reforms in Organized Wholesale Electric Markets. Since the implementation of Payment Acceleration, the ISO, as well as some Market Participants, have identified both positive and negative aspects of the market settlement process timeline. While the timeline implemented provided the accelerated settlement of our markets that was desired at the time, some concerns with the time periods between statement publications, meter data submittal timelines and the timing of reflecting settlement dispute resolutions on statements have surfaced. In the Credit Reform Order, the Commission adopted rules that, among other things, require RTOs and ISOs to implement on October 1, 2011 shortened settlement timelines to establish billing periods of no more than seven days and settlement periods of no more than seven days after issuance of the bills. As the ISO developed its proposal to implement the rules, the ISO again reviewed its overall settlements process and identified additional opportunities for improvement.

As a result of these efforts, the ISO is initiating this stakeholder process to explore the development of a revised settlement process timeline that would adjust the timing of settlement statement publications without compromising the fundamental concepts behind Payment Acceleration. It is important to note that this initiative will consider changes to the settlement process timeline beyond those required by the Credit Reform Order, which include the proposed T+3B initial settlement statement that is currently part of the Credit Reform Stakeholder Initiative.

In the following sections, this issue paper provides a proposed timeline for the stakeholder process, background information, a discussion of the issues that need to be addressed, and next steps.

2. Stakeholder Process

This issue paper will be discussed during a stakeholder conference call on May 3, 2011. The ISO will conduct its usual stakeholder process with a series of papers and stakeholder discussions to develop a revised settlement statement process timeline. Any change to the settlement statement process timeline that results from this initiative and that requires revisions to the ISO tariff to implement, will require Board of Governors approval and a filing at FERC to obtain Commission approval of the proposed tariff revisions. The ISO will then incorporate the new settlement statement process timeline into the appropriate Business Practices Manuals.

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1 Credit Reforms in Organized Wholesale Electric Markets, 133 FERC ¶ 61,060 (October 21, 2010) (“Credit Reform Order”).
2 Credit Reform Order, P. 32.
(“BPM”) through the established BPM change management process. The schedule for the stakeholder process and the BPM change management process is shown in Table 1.

<table>
<thead>
<tr>
<th>Stakeholder Process</th>
<th>BPM Change Management Process</th>
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<tbody>
<tr>
<td>Apr-26 Post Issue Paper</td>
<td>Aug-8 Submit BPM Proposed Revision Request (“PRR”)</td>
</tr>
<tr>
<td>May-3 Hold Stakeholder Conference Call, 1:00 PM to 3:00 PM</td>
<td>Aug-10 - Aug-23 Open Comment Period on PRR, 10-business days</td>
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<tr>
<td>May-9 Receive Comments on Issue Paper</td>
<td>Aug-23 Hold BPM Monthly Management Meeting</td>
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<tr>
<td>May-12 Post Straw Proposal</td>
<td>Aug-30 Post PRR Recommendation</td>
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<tr>
<td>May-19 Hold Stakeholder Conference Call, 1:00 PM to 3:00 PM</td>
<td>Aug 30 – Sept -13 Open Comment Period on PRR, 10-business days</td>
</tr>
<tr>
<td>May-26 Receive Comments on Straw Proposal</td>
<td>Sept-27 Hold BPM Monthly Management Meeting</td>
</tr>
<tr>
<td>May-31 Post Draft Final Proposal (“DFP”)</td>
<td>Sept-28 Post Final PRR Decision, effective immediately or on a date specified</td>
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A web page has been established for this initiative that provides access to meeting materials, proposals, and stakeholder written comments. This information can be found at http://www.caiso.com/2b6b/2b6b81c056f40.html.

3. Background

Prior to the implementation of the settlement statement timeline for Payment Acceleration, the ISO issued a Preliminary Settlement Statement at T+38B and a Final Settlement Statement at T+51B with final meter data due by T+47B. Any meter data or dispute issues not resolved by T+51B were resolved on a subsequent settlement statement or a future settlement rerun of the impacted Trade Date. With the implementation of Payment Acceleration for Trade Date November 1, 2009, the statement publication timeline included statements at T+7B, T+38B and
T+76B with optional statements at T+18M, T+35M and T+36M as necessary. The sunset provision in the ISO tariff precludes settlements adjustments after the T+36M recalculation settlement statement, except in limited circumstances as directed by the ISO Board or Commission order.

While an improvement over the market settlement process prior to Payment Acceleration, the current settlement statement timeline adopted beginning with Trade Date November 1, 2009, and as modified by the Credit Reform Order, does not appear to continue to optimally balance the settlement data processing needs of the ISO and Market Participants. This initiative will consider what changes may be appropriate.

4. Issue to be Addressed

During the course of the Credit Policy Stakeholder Process, it was suggested that the current T+7B statement timeline be changed to T+10B. Market Participants expressed support for this change because of the close proximity of the T+3B statement being proposed as the solution to comply with the Credit Reform Order. However, as noted in the Credit Policy Draft Final Proposal, the change of the T+7B statement to publish at T+10B is outside the scope of compliance with that order. Because it seems clear that keeping a statement at T+7B would not be optimal, in this initiative, the ISO will consider replacing the current statement published at T+7B with one published at T+12B, which would allow additional time for Market Participants to gather, validate and submit meter data, and for the ISO to pursue additional settlement data validations prior to publication of a T+12B statement resulting in an increase of accuracy of the market settlement.

In addition, a concern has been raised recently regarding settlement disputes and ISO discovered issues that if not resolved by the T+76B statement are then not being financially settled until the T+18M statement. While the Payment Acceleration timeline has resulted in the desired faster fiscal clearing of our markets, and is an overall improvement over the pre-Payment Acceleration timeline with its uncertainty in the timing of future settlement reruns, the existing gap between the T+7B and T+18M settlement statements has resulted in a significant delay in the financial settlement for some issues. The ISO will consider adding an optional settlement statement around the T+9M timeframe to close this gap and potentially move forward the opportunity for final settlement of a given Trade Date.

The adoption of a T+9M settlement statement along with the new T+3B settlement statement would lead both the ISO and Market Participants to process two additional statements on top of the current T+7B, T+38B and T+76B statements. This would increase the demand upon existing systems applications and databases used to process settlement data, as well as on ISO and Market Participant staff. Consequently, the ISO would like to explore replacing the current T+38B and T+76B settlement statements with a single settlement statement around the T+55B timeframe.

Such an action would reduce the demand upon resources and could better accommodate a later meter data submittal timeline to the benefit of Market Participants and the accuracy of the overall market settlement at T+55B. Such a change in settlement timeframe along with the associated meter data timelines could also allow the ISO to address some concerns regarding the enforcement of the Rules of Conduct in regards to inaccurate meter data penalties. In addition, having more time between a T+12B statement and a T+55B statement would possibly allow additional time for Market Participants to review their T+12B statement for the submittal of
settlement disputes. The additional time could also improve the ISO’s ability to research and resolve valid settlement disputes, and could allow for additional settlement data validations to occur to improve the accuracy of the statement.

Another concern expressed recently is with the long timeframe between the T+18M and T+35M statements. The ISO tariff does not at present allow the ISO to recalculate and invoice a T+18M statement that is later found to contain a settlement calculation error. The correction must wait until the T+35M statement, unless otherwise directed by the ISO Governing Board or Commission order. The ISO will consider in this initiative whether to add tariff language allowing the ISO to recalculate and invoice a statement that was published with verifiable ISO processing errors that resulted in a significant market impact.

5. Next Steps

The ISO will host a stakeholder conference call on May 3, 2011 from 1:00 to 3:00 p.m. to discuss this issue paper and answer any questions that stakeholders may have. Stakeholders are encouraged to submit written comments on this issue paper to SPTC@caiso.com by close of business May 9, 2011. Prior to the stakeholder conference call on May 3, 2011, the ISO will post a template that stakeholders should use when submitting written comments. By May 11, 2011, the ISO will post the written comments that it receives to the following web address: http://www.caiso.com/2b6b/2b6b81c056f40.html. The ISO will consider stakeholder comments as it prepares a straw proposal, which is scheduled to be posted on May 12, 2011.