REVISED - DRAFT FINAL PROPOSAL

Settlements Process Timeline Change

June 13, 2011
Draft Final Proposal
Settlements Process Timeline Change

1. Introduction

The California Independent System Operator ("ISO") initiated 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 initiated 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 considers 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 paper provides a proposed timeline for the stakeholder process, background information, a discussion of the issues that need to be addressed, the proposal and next steps.

2. Stakeholder Process

The ISO is conducting its usual stakeholder process with a series of papers and stakeholder discussions to develop a revised settlement statement process timeline. An issue paper was discussed during a stakeholder conference on May 3, 2011. A straw proposal was discussed during a stakeholder conference on May 19, 2011. This draft final proposal will be discussed with the stakeholders on June 16, 2011. 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 approval by the ISO Board of Governors and a filing at FERC to obtain Commission approval.

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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.
approval of the proposed tariff revisions. The ISO will then incorporate the new settlement statement process timeline into the appropriate Business Practices Manuals ("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>Table 1: Schedule</th>
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</thead>
<tbody>
<tr>
<td><strong>Stakeholder Process</strong></td>
</tr>
<tr>
<td>Apr-26</td>
</tr>
<tr>
<td>May-3</td>
</tr>
<tr>
<td>May-9</td>
</tr>
<tr>
<td>May-12</td>
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<td>May-19</td>
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<tr>
<td>May-26</td>
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<tr>
<td>Jun-10</td>
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<tr>
<td>Jun-16</td>
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<tr>
<td>Jun-23</td>
</tr>
</tbody>
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| **BPM Change Management Process** |
| Aug-8 | Submit BPM Proposed Revision Request ("PRR") |
| Aug-10 - Aug-23 | Open Comment Period on PRR, 10-business days |
| Aug-23 | Hold BPM Monthly Management Meeting |
| Aug-30 | Post PRR Recommendation |
| Aug 30 – Sept -13 | Open Comment Period on PRR, 10-business days |
| Sept-27 | Hold BPM Monthly Management Meeting |
| Sept-28 | Post Final PRR Decision, effective immediately or on a date specified |

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 on 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 it is 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, changes to the settlement cycle beyond those necessary to implement the requirements of the Credit Reform Order will be included in a companion filing rather than in the compliance filing. In the issue paper issued in this initiative, the ISO indicated that we would 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.

Upon further reflection, the more appropriate characterization of these changes to the settlement cycle is that the initial settlement statement will be issued on T+3B instead of T+7B, consistent with the Credit Policy Draft Final Proposal. The ISO will consider changing the issuance of the second settlement statement to T+12B instead of T+38B, and the third settlement statement from T+76B to T+55B.

The ISO will also consider adding an optional settlement statement around the T+9M timeframe. 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+76B 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.

No issue has been raised regarding the timing of issuing the T+18M, T+35M, and T+36M settlement statements. However, 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. Comments on the Straw Proposal

The ISO received eleven written comments on the Straw Proposal: Calpine, Pilot Power, Brookfield, Powerex, SDG&E, SCE, WAPA-SNR, NCPA, PG&E, Six Cities, and WAPA-SNR. Below is a summary of those comments and our response as addressed in this Draft Final Proposal. The ISO has posted all of the market participant’s comments and will post a matrix with our responses to all the questions.

5.1. Settlement Statement Publishing Timeline

The majority of the comments were in full support of the proposed timeline change, eight out of 11 (Pilot Power, Brookfield, Powerex, SDG&E, SCE, WAPA-SNR, NCPA, and PG&E). The other comments (Calpine, Six Cities, and WAPA-DSR) were in agreement with a change; but offered some slight timing alternatives. The ISO considered adjusting the timeline to possibly gain some additional benefit due to adjusting the due date for the submittal of accurate SQMD, proposed at T+48B. In this draft final proposal, the ISO considers adding up to five business days to the T+48B due date. As discussed below, however, adding additional time, maybe five additional business days, was not significant enough to stretch into completing three retail meter billing cycles prior to submitting the Actual Settlement Quality Meter Data. The ISO does not find sufficient additional benefit from changing the straw proposal timeline and achieving a reasonable schedule for the settlement of the market with the Actual Settlement Quality Meter Data. Therefore, the Draft Final Proposal will maintain the same settlement statement publishing timeline as presented in the straw proposal.

Based on the initial response to the issue paper and the straw proposal, the ISO is presenting in the Draft Final Proposal a settlement publication timeline that includes these publishing dates:

- T+12B
- T+55B
- T+9M (optional)

5.2. Criteria for the Additional Correction Settlement Statement

Nine responses fully support the additional correction settlement statement (Pilot, Powerex, SDG&E, SCE, Six Cities, WAPA-SNR, NCPA, PG&E and WAPA-DSR); however, market participants suggested adjusting the $1,000,000 criteria for overall market impact and adding an additional criterion for impact on an individual scheduling coordinator. The comments for the specific market impact ranged from $100,000 to $5,000,000 (Pilot, Powerex, SDG&E, SCE, Six Cities, WAPA-SNR, NCPA, PG&E, and WAPA-DSR). The ISO believes that the $1,000,000 overall market impact criteria is a sufficient trigger to initiate an additional corrective settlement. This additional correction settlement statement is intended to be used only when there is a significant ISO system error; one that impacts the overall market, and has been disputed in the appropriate timeframe. Other market participants asked the ISO to consider providing aggregated impact criteria, over multiple days of the similar issue, or individual SC criteria at a lower threshold than $1,000,000. As described in the proposal, the ISO can correct these issues in the normal settlement process. This additional correction statement is intended to provide an opportunity when there is a significant market impact, to make the correction sooner.
than the subsequent 18M or 35M settlement timeframe. Individual SC criteria do not meet the overall market impact criteria. Therefore, the ISO is not intending to propose criteria for individual scheduling coordinator’s impact or aggregated financial impact. Note, events identified that do not meet the overall market impact criteria will still be settled on the next optional settlement statement as identified on the payment calendar.

5.3. Inaccurate Meter Data Penalty

Although the majority of the comments supported the proposed changes to the Inaccurate Meter Data penalty (SDG&E, SCE, Six Cities, WAPA-SNR, and PG&E), a few market participants suggested that a de minimis standard or threshold also be identified to allow small changes to the Settlement Quality Meter Data to be submitted (after T+48B as proposed) as well as allowing meter data changes beyond T+48B without a sanction. (Calpine, WAPA-DSR, and PG&E). One Market Participant did not support the proposal (Pilot). The ISO understands this request as stated, that meter data sometimes is revised after the present ISO required due date (T+43C). However, the intent of our settlement process is to have financial certainty as soon as practical. The proposed T+48B timeframe for submittal of Actual Settlement Quality Meter Data provides at least the completion of two retail billing cycles to gather the most accurate load data needed for settlement purposes. As discussed above, increasing the meter data submittal time by a few more business days would not result in any measurable additional benefits. Imposing de minimis criteria is still counter to the effort to obtain Actual Settlement Quality Meter Data by the T+48B timeline for the T+55B settlement statement. The Inaccurate Meter Data Penalty is designed to provide the incentive for all market participants who submit Settlement Quality Meter Data to work with their participants to gain actual meter data as soon as possible for the market settlement. With the proposed change to the payment calendar, the timeframe for the Actual Settlement Quality Meter Data to be submitted changes from T+43C (calendar days) to T+48B (business days) which provides approximately one more month as compared to the existing due date to gather Settlement Quality Meter Data. Therefore, the ISO will maintain the inaccurate meter data penalty that was proposed in the straw proposal.

5.4. Method for Calculating Interest

The comments in this area were supportive of the calculating interest on the daily basis (Calpine, Powerex, SCE, Six Cities, WAPA-SNR, and WAPA-DSR) as well as asked for additional clarification; therefore no changes to the straw proposal are needed.

5.5. Non-Assessment of UFE at T+3B Settlement

Based on the comments received, there is general agreement for not assessing an estimated UFE settlement on the T+3B statement (Powerex, SDG&E, SCE, Six Cities, WAPA-SNR, NCPA, and WAPA-DSR). Market Participants suggested we calculate the UFE using the ISO polled meters and estimated data. It is presently, not possible to poll the ISO meters, perform validation, editing and estimation on the entire meter reads and provide it to settlements within the timeframe needed to calculate a market settlement by T+3B. However, there appeared to be agreement that estimating UFE using all estimated meter data, provides little or no value to the market. Therefore, the ISO believes there is no need to make a change in this area from the straw proposal.
5.6. Additional Comments - Invoicing

During the stakeholder call and in the comments filed by the market participants (Powerex, WAPA-SNR, and Brookfield) there were some suggestions by market participants that the validation of invoicing would be much easier if the billing period used for the T+12B settlement statements in the succeeding invoice covered the same date range as the billing period used for the T+3B settlement statements in the prior invoice. This is different from the ISO’s current methodology of invoicing all available settlement statements. Based on the comments, the ISO believes that there is a consensus among stakeholders to align the billing periods for the T+3B and T+12B settlement statements so that the same trading days are reflected on both invoices, rather than invoicing all available settlement statements which could cause the trading days on the invoices to differ. While this is a change from the ISO’s current methodology, and it will in some cases delay the invoicing of some available market results, the ISO understands that stakeholders prefer this approach because the benefit that will result for validation and accounting purposes will outweigh the impact of delaying the invoicing of some incremental settlement statements results.

6. Draft Final Proposal

6.1. Settlement Statement Publishing Timeline

The ISO draft final proposal shortens the length of the settlements timeline during which the largest amount of the financial settlements occur, by moving sooner the settlements that occur at T+38B and the T+76B. In addition, the change 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 statements.

The proposal for the settlement timeline after the T+3B settlement statement is T+12B and T+55B settlement statements, which would be required statements, followed by a T+9M statement would be considered optional just like the current T+18M, T+35M and T+36M statements. The addition of a settlement statement at T+9M will allow for expedited results of settlement calculation configuration changes that currently occur on a quarterly basis along with other settlement corrections that presently must wait to be settled until the calculation and publication of a settlement statement at T+18M.

The following table shows the recommended changes:

<table>
<thead>
<tr>
<th>Present Statements</th>
<th>Proposed Statements</th>
</tr>
</thead>
<tbody>
<tr>
<td>T+7B</td>
<td>T+3B</td>
</tr>
<tr>
<td>T+38B</td>
<td>T+12B</td>
</tr>
<tr>
<td>T+76B</td>
<td>T+55B</td>
</tr>
</tbody>
</table>
6.2. Meter Data Submittal Deadlines

The ISO proposes to establish a meter data submittal deadline for the T+12B settlement statement of midnight on T+8B. Scheduling Coordinators will be able to submit Actual SQMD or SC Estimated SQMD at that time. In the absence of a submittal by a SC by the T+8B midnight deadline, ISO estimated Settlement Quality Meter Data will be used. A T+8B deadline provides market participants and the ISO with 3½ additional business days to gather supply and demand data as compared to today’s T+5B noon deadline.

The ISO proposes to establish a meter data submittal deadline for the T+55B settlement statement of T+48B midnight. Scheduling Coordinators must submit Actual SQMD by this deadline. Failure to submit Actual SQMD will result in a Rules of Conduct violation for Late Actual SQMD. A T+48B deadline provides market participants the ability to gather meter data through two full monthly retail cycles and is roughly an additional 17 business days as compared to today’s T+43C deadline. It is hoped that this additional time will allow the meter data collection, verification and submittal process to be completed more thoroughly without forcing meter data adjustments to a later statement as they are today with today’s meter data submittal deadline timing of T+43C. For the most part, it is only minor meter data adjustments that are submitted for use on today’s T+76B statement.

Because some cases of meter data adjustment are unavoidable, the ISO would allow for a window of meter data submittal at T+172B, approximately T+8M, for use in the calculation of the proposed T+9M optional settlement statement. A window of five business days (168B to 172B) will be provided in the settlement quality meter data system (OMAR on-line) for submittal of this changed meter data. Any meter data submitted for that trade day outside this window will be rejected and not used in settlements. It should be noted that the ISO proposes to make these meter data submittals at T+8M subject to the Rules of Conduct; although the ISO expects to only receive corrected meter data on an infrequent basis. In addition to the Rules of Conduct provisions, meter data submittals at T+8M would also trigger interest based on the recalculated settlement amounts. The timing of T+8M allows the ISO to properly process the meter data and alert downstream systems of the need to calculate and publish the optional T+9M settlement statement. This timing would also allow the ISO time to calculate and process the accompanying Inaccurate Meter Data sanction under the Rules of Conduct for the T+9M settlement statement as well. Below is the meter data due date proposal:

<table>
<thead>
<tr>
<th>Meter Data Due Date</th>
<th>Settlement Statement</th>
</tr>
</thead>
<tbody>
<tr>
<td>T+8B</td>
<td>T+12B</td>
</tr>
<tr>
<td>T+48B</td>
<td>T+55B</td>
</tr>
<tr>
<td>T+172B (window T+168 to T+172B)</td>
<td>T+9M</td>
</tr>
</tbody>
</table>

Additional information about the Rules of Conduct as it relates to meter data submittals is discussed in section 6.5 of this draft Final Proposal.
6.3. Settlement Dispute Submittal Deadlines

The ISO proposes to establish a settlement dispute submittal deadline of T+26B for issues identified on the T+12B settlement statement. The fourteen-business day timeframe is the same timeframe as allowed for today’s T+7B settlement statement. However, with the publication of a T+3B settlement statement, Scheduling Coordinators would also have the time from the publication of that settlement statement to identify potential issues. As with today’s T+7B settlement statement, Scheduling Coordinators would not be allowed to dispute either SC submitted or ISO generated Estimated SQMC on the T+12B statement, as Scheduling Coordinators are required to submit Actual SQMD for the next statement. The submittal of Actual SQMD for the T+55B settlement statement would automatically resolve any issue identified with SC submitted or ISO generated Estimated SQMD.

The ISO proposes to establish a settlement dispute submittal deadline of T+77B for issues identified on the T+55B settlement statement. The twenty-two-business day timeframe is an increase of four-business day over the eighteen-business day dispute window for today’s T+38B settlement statement. The ISO also proposes that, like today’s T+38B settlement statement, any charges or payments may be disputed on the T+55B settlement statement. As a result of changing both the settlement publication timeline and the settlement dispute submittal deadline, the last day that Scheduling Coordinators will be able to submit settlement disputes on any issues found for a given trading day will change from fifty-six business days after the trading day to seventy-seven business days after the trading day.

As with the existing optional settlement statements, the ISO proposes to only allow settlement disputes for the T+9M settlement statement for incremental changes found on that statement. To achieve more consistency in settlement dispute deadlines for ISO settlement statements, the ISO proposes to provide the same twenty-two-business day submittal deadline as is being proposed for the proposed T+55B settlement statement and as is currently allowed for today’s T+18M settlement statement.

The resulting settlement statement publications and settlement dispute submittal deadlines are shown in the table below.

<table>
<thead>
<tr>
<th>Statement Publication</th>
<th>Settlement Dispute Deadline</th>
<th>Settlement Dispute Scope</th>
</tr>
</thead>
<tbody>
<tr>
<td>T+12B</td>
<td>T+26B</td>
<td>All, but Estimated SQMD</td>
</tr>
<tr>
<td>T+55B</td>
<td>T+77B</td>
<td>All</td>
</tr>
<tr>
<td>T+9M (T+194B)</td>
<td>T+10M (T+216B)</td>
<td>Incremental Changes Only</td>
</tr>
</tbody>
</table>

As part of this draft final proposal, the ISO is publishing a mock ISO Payment Calendar for the October 2011 through January 2012 timeframe for market participants to review and evaluate.

6.4. Unscheduled Correction Statement Resettlements

The ISO proposes to create a new type of settlement statement. The ISO will generate and publish an unscheduled settlement statement if needed to resolve fiscal impacts on a T+9M or T+18M settlement statement that occurred as the result of an ISO processing error and that
were identified within the respective settlement dispute window by either the ISO or a scheduling coordinator. As a threshold for issuing an unscheduled correction statement, the fiscal impact must be greater than $1,000,000 to the market as a whole for the given trading day. Upon verification of the ISO processing error, the ISO will notify the market and publish the unscheduled correction statement 60-30 days after the date of the notification to the market. This notice will advise the market of the ISO processing error and allow scheduling coordinators time to prepare for processing the additional statement. The net amounts that result from the generation of an unscheduled correction statement will be included in the next available regularly scheduled weekly invoice. Any ISO processing errors that do not meet the $1,000,000 threshold for adjustment on an unscheduled correction statement will be corrected on the next scheduled settlement run for the given trading day at T+18M or T+35M as applicable.

6.5. Rules of Conduct Implications

In conjunction with making the changes to the settlement statement publications and their associated meter data submittal deadlines as outlined in sections 6.1 and 6.3 above, the ISO proposes to revise the associated Rules of Conduct tariff language. The revised settlement statement and meter data submittal deadlines are meant to allow for sufficient time for all meter data related activities to occur without incurring a Rules of Conduct violation. Today, if a Scheduling Coordinator is not able to fully collect, validate and submit 100% accurate meter data by T+43C, submittal of the correct data at T+61B for use in the T+76B settlement statement results in a violation of the Rules of Conduct. By extending the timeline for submitting meter data and allowing two full monthly retail cycles to complete, it is the ISO’s expectation that Scheduling Coordinators will be able to submit 100% accurate meter data at the T+48B meter data submittal deadline except in rare instances. While the subsequent meter data submittal at T+8M would be a violation of the Rules of Conduct, for those instances where accurate meter data submittal is not possible by T+48B, a later submittal opportunity is still provided.

In addition, the ISO proposes to change the calculation methodology of the sanctions for Rules of Conduct violations related to meter data submittals. First, the specific sanction for failure to submit Actual SQMD by T+48B would be calculated as a $1,000 penalty per trade date and the Scheduling Coordinator must submit Actual SQMD for use in the T+9M settlement statement. The specific sanction for failing to submit Actual SQMD for the subsequent T+9M settlement statement would be $3,000 per trade date.

Second, for submittal of revised Actual SQMD after T+48B, the sanction would be $1,000 per trade date regardless of the size of the mega-watt value change. All applicable settlement charge codes for the T+9M statement would be calculated based on the revised meter data and interest would be calculated and applied to the invoiced difference.

6.6. T+3B Initial Settlement Statement Clarification Details

The implementation of FERC Order 741-Credit Reforms in Organized Wholesale Electric Markets results in a T+3B initial settlement statement calculation and publication. As discussed in the Credit Reform stakeholder process, the T+3B initial settlement statement will be based on estimated meter data. The following sections (6.7-6.9) provide additional clarification on certain items that were discussed in either market participant’s comments or on the stakeholder conference calls. Although these items were discussed during this stakeholder process, it is
important to note that these changes are needed for the implementation of the FERC Order 741-Credit Reform.

6.7. Calculation of Interest

Following publication of the issue paper and straw proposal, the ISO has continued to analyze the changes necessary to comply with the Credit Reform Order and the modifications to the settlements process that will be included in the companion filing that results from this initiative. As a result of the analysis, the ISO suggests that the methodology for calculating interest be changed to a daily basis throughout the settlements cycle.

The ISO's current interest methodology calculates interest based on the deviation amounts calculated at the T+38B, T+76B, T+18M, T+35M and T+36M recalculation settlements. The interest is charged on the invoice deviation amounts from the date that the initial invoice was due to the date that the recalculation settlement invoice was due. FERC interest rates are used in the calculation. An allocation algorithm is utilized to calculate the interest since initial invoices cover a portion of a trade month (either trade days 1 – 15 or 16 – end of month) while recalculation invoices cover a whole trade month.

As part of the Credit Reform and Settlements Process Timeline Change initiatives, the ISO is switching to weekly invoicing. The change to the timing of the billing and settlement cycle will not change the underlying methodology of the invoice deviation interest calculation. However, the ISO proposes that interest now be determined on a daily basis. Interest will be calculated on a daily basis based upon the settlement amounts provided on the daily settlement statements and the due dates of the invoices upon which these amounts appear. This will allow a straight-forward calculation of the deviation interest (which will be calculated at the proposed settlement timeline of T+12B, T+55B, T+9M, T+18M, T+35M and T+36M recalculation invoice publication dates) and facilitate an easier aggregation of interest charges by trade month. The allocation algorithm that is used in the current calculation will no longer be necessary as the deviation interest will be calculated on a trade day by trade day basis (initial against recalculation settlement).

6.8. Invoicing

Although invoicing has been discussed in the Credit Policy stakeholder process, the ISO has received many questions during the stakeholder activities in this settlement process timeline change initiative regarding the method of invoicing. Based on the comments received, some market participants are in favor of maintaining the same invoicing period for the T+3B and T+12B settlement statements. In support of this approach, the stakeholders claim that having the same period for both invoices would be clearer and less complicated to validate and reconcile for the market participants.

The ISO initial design was to continue invoicing the settlement transactions as soon as available, as is done today. The alternate method suggested by stakeholders of having the same invoicing periods for the T+3B and T+12B statements will delay settlement of some T+12B statement net amounts during some time periods. The input from stakeholders acknowledges the delay but nonetheless prefers to align the billing periods. In response to this
stakeholder preference, the ISO is proposing to adopt their alternate suggested method of using the same invoicing periods for the T+3B and T+12B statements.

6.9. Regulation No Pay and MSS Deviation Penalty for T+3B Initial Settlement Statement

The ISO received questions on the calculation of a few of the charge codes for the T+3B settlement statement. As discussed throughout the stakeholder process, the T+3B settlement statement will be calculated using all estimated meter values. An exception, discussed in Section 5.5 of this paper, is the non-assessment of unaccounted for energy on the T+3B settlement statement. The other charge codes that will not be calculated on the T+3B statement due to the lack of processing time and availability of data are the charge codes that represent Regulation No Pay and MSS Deviation Penalty. These charge codes have minor impact on the overall market and will be calculated on the T+12B settlement statement with actual meter data.

Next Steps

The ISO will host a stakeholder conference call on June 16, 2011 from 2:00 p.m. to 4:00 p.m. to discuss this draft final proposal and answer any questions that stakeholders may have. Stakeholders are encouraged to submit written comments on this draft final proposal to SPTC@caiso.com by close of business June 23, 2011. Prior to the stakeholder conference call on June 16 2011, the ISO will post a template that stakeholders should use when submitting written comments. The ISO will post the written comments that it receives to the following web address: http://www.caiso.com/2b6b/2b6b81c056f40.html.