Revised Issue Paper & Straw Proposal

Settlement Timeline Bridge

March 26, 2010
Settlement Timeline Bridge

1 Introduction

The CAISO has settlement reruns queued for issues impacting pre-MRTU trading days. The CAISO also has defined true-up statements scheduled for trading days beginning with the implementation of payment acceleration on 11/1/09 and going-forward.

However, a gap exists from MRTU start-up on trading day 4/1/2009 through the 11/1/2009 implementation of payment acceleration where no defined settlement statement publishing timeline exists in the applicable CAISO Tariff provisions beyond the T+76 Recalculation Settlement Statement; all of which statements for the intervening trading days were published and invoiced as of February 24, 2010.

To the benefit of both internal and external stakeholders, the CAISO is spearheading an initiative to “bridge” the gap between trading days 4/1/2009 and 11/1/2009 with a defined settlement publication routine, ample validation and dispute opportunities, and a sunset provision that are consistent with the principles of payment acceleration already in place. This timetable will allow issues related to the early months of new market operation to be resolved and reduce the need for significant data storage and expenditure resources by coordinating analysis and rerunning settlements.

2 Description of the Issue

Participants have requested a predictable plan and timeline for recalculating and publishing revised settlement statements for this “bridge period” (trading days between 4/1/2009 MRTU start-up and the 11/1/2009 implementation of Payment Acceleration) as no defined publishing timeline exists beyond the Recalculation Settlement Statement T+76.

This issue has the following high-level implications to both internal and external stakeholders:

- No recalculation publishing predictability.
- No data or issue close-out plan.
- No sunset provision to close the review window.

All of these factors increase uncertainty for market participants and their overall credit exposure.

2.1 Current CAISO Practices

The CAISO currently has a formal calculation and data presentation timeline that enables predictable review of data, and associated changes, through 35 months, with formal data presentation windows at T+7B, T+38B and T+76B. Optional data presentation windows also exist at T+18 months (M) and T+35M. Finally, one optional correction-only window exists at T+36M, which coincides with an approved sunset provision.
2.2 Current Practices at Other ISOs
The practices at other ISOs vary, but each ISO has a specific data presentation timeline, including multiple review and data presentation windows. Other ISOs also have some type of closure on data review periods, similar to CAISO’s sunset provision. All of these were referenced to establish the CAISO’s existing payment acceleration model.

3 Key Criteria for Evaluating Initial Proposal
The CAISO believes criteria for evaluating the initial proposal includes:

- Vendor design and testing costs
- System data and storage costs for information retrieval
- Time and resource implications of solution implementation
- Timing of when a solution can be implemented
- Predictability of when data will be presented

Participants are invited to consider the implications for both the existing issue and the proposed changes beyond the criteria suggested above.

4 Initial Straw Proposal
The CAISO proposes to apply settlement principles similar to the existing payment acceleration provisions to the April 1, 2009 to October 31, 2009 trading days (“bridge period”).

This proposal has no impact on any statement generation, validation or dispute allowance protocols or business practices for the bridge period up to and including the Recalculation Settlement Statements T+76 and associated invoicing as this trading period completed the statement and invoice process as of February 24, 2010.

4.1 Applicable Payment Acceleration Principles
As the statement dispute and publication cycle for these trading days has already completed the Recalculation Settlement Statements T+76 and associated invoicing, the remaining payment acceleration process that would apply to the bridge period include the following:

- Generating and publishing T+18M statements, T+35M statements (if needed), and T+36M statements (if needed)
- Validation and dispute timelines:
  - Disputes against incremental changes between the Recalculation Settlement Statement T+76B and Recalculation Settlement Statement T+18M submitted no later than nineteen months from the relevant trading day, or, in other words, no later than 1 month from the publication date of the Recalculation Settlement Statement T+18M
  - Disputes against incremental changes between the Recalculation Settlement Statement T+18M and Recalculation Settlement Statement T+35M (if necessary)
submitted no later than seven calendar days from the publication date of the Recalculation Settlement Statement T+35M

- No disputes permitted for Recalculation Settlement Statement T+36M under a sunset provision that requires completion of the settlements process at 36 months from the trading day.

- Assessment of submitted disputes:
  - Recalculation Settlement Statement T+18M – CAISO determination to approve or deny the dispute will be made no later than twenty business days after the end of the dispute period with the exception of complex disputes or unless otherwise agreed to by the disputing scheduling coordinator.
  - Recalculation Settlement Statement T+35M – CAISO determination to approve or deny the dispute will be made no later than fourteen business days after the end of the dispute period.
  - CAISO declaration of a complex dispute will be made within twenty business days after the end of the dispute period.

- Invoicing of a billing period corresponding to any T+18M, T+35M or T+36M Recalculation Settlement Statement will be reflected on the next scheduled semi-monthly invoice or payment advice for the end of the month.

- Charges for and allocation of invoice deviation interest via Charge Codes 7989 and 7999 based on any incremental changes between the Recalculation Settlement Statement T+76 through the Recalculation Settlement Statement T+36M (if applicable)

Written comments submitted by NCPA indicate support for all aspects of the proposal with the exception of the interest provision. NCPA states that the assessment of charges or allocation of payments to market participants for interest based on historical market activities, without prior knowledge that such interest would be charged, is retroactive ratemaking. NCPA asserts that “the main objective of this initiative is to provide market participants certainty regarding settlement timing, and the application of interest is not necessary or beneficial; therefore should be removed from the proposal”.

The intent of the full proposal is to not only provide participants with certainty regarding settlement of issues identified during the early stages of the market re-design implementation, but also to implement a seamless design for the settlement system such that business process rules are consistent with Payment Acceleration principles, thus minimizing changes. The CAISO is indifferent as to whether or not invoice deviation interest is applied to the 4/1/2009 to 10/31/2009 time period, however, the CAISO will retain the interest provision in this proposal based on prior precedence as detailed below.

In the original filing for Payment Acceleration1, CAISO proposed to calculate invoice deviation interest up through the Recalculation Settlement Statement T+76B. As detailed in the FERC Order dated September 17, 20092 participant comments objecting to this proposal were

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1 June 1, 2009 Proposed Amendments to Tariff to Implement Acceleration of CAISO’s Payment Timeline in Docket No. ER09-1247-000
2 September 17, 2009 Order Conditionally Accepting Tariff Provisions, Subject to Modification, in Docket No. ER09-1247-000 & ER09-1247-001 (Amendment to Tariff re: Payment Acceleration)
submitted in response stating that interest should be applied consistently through the entire payment cycle. The commission agreed stating that:

“compensating scheduling coordinators for the time value of money is an important objective throughout the proposed settlement process. Under the payment acceleration program, that process is 36 months long. Thus, the interest that could accrue on incremental changes that occur well after 76 days could be substantial.”

FERC directed the CAISO to include in its compliance filing revisions to applicable tariff sections to allow interest to accrue on incremental changes throughout the full 36 months of the settlement process.

4.2 Proposal Benefits

The CAISO believes the main benefits of the proposal as outlined above are:

- Utilization of the existing payment acceleration timelines and business processes will minimize new design requirements both internal and external participants.
- Application of consistent settlement principles and predictable issue close-out plan to all MRTU trading days
- Increase certainty and lower overall credit exposure for market participants via sunset provision

4.3 Tariff Implications

As part of established tariff stakeholder process, the CAISO along with stakeholder input and review will provide revised draft tariff language impacted by this proposal.

A preliminary assessment of current language indicates that the following tariff sections may be subject to review and possible edits to accommodate the proposed settlement of trading days in the bridge period:

11.29.7.1 Timing of the Settlement Process
11.29.7.3 Additional Recalculation Settlement Statements
11.29.8.3 Validation of Additional Recalculation Settlement Statements
11.29.8.4.4 Dispute of Recalculation Settlement Statement T+18M
11.29.8.4.5 Dispute of Recalculation Settlement Statement T+35M
11.29.8.4.6 Dispute of Recalculation Settlement Statement T+36M
11.29.8.5 CAISO Timeline for Determining Settlement Statement Disputes
11.29.10.2 Interest
11.29.24.1 Preparation (payment calendar)

Appendix H
5 Proposed Stakeholder Process & Project Timetable

The schedules below outline the expected timelines for both the stakeholder process as well as overall project activities. These schedules are preliminary and may be revised and communicated to stakeholders as the need arises.

As a result of a definitive T+18M Recalculation Settlement Statement publication for 4/1/2009, the required go-live date for the proposal will be 10/1/2010.

5.1 Stakeholder Processes

<table>
<thead>
<tr>
<th>Due Date</th>
<th>Event</th>
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<tbody>
<tr>
<td>March 12</td>
<td>Post issue paper &amp; initial draft straw proposal</td>
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<tr>
<td>March 18 1:00 – 3:00</td>
<td>Stakeholder web conference and call</td>
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<tr>
<td>March 23</td>
<td>Stakeholder comments due on issue paper &amp; initial draft straw proposal</td>
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<tr>
<td>March 26</td>
<td>Post revised straw proposal</td>
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<tr>
<td>April 1 1:00 – 3:00</td>
<td>2nd Stakeholder web conference and call</td>
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<tr>
<td>April 7</td>
<td>Stakeholder comments due on revised straw proposal</td>
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<tr>
<td>April 13</td>
<td>Post draft final proposal</td>
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<tr>
<td>April 21 1:00 – 3:00</td>
<td>Stakeholder web conference and call</td>
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<tr>
<td>April 22</td>
<td>Stakeholder comments due on draft final proposal</td>
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5.2 Project Activities

<table>
<thead>
<tr>
<th>Activity</th>
<th>Expected Time Frame</th>
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<tbody>
<tr>
<td>Stakeholder Processes</td>
<td>March – April 2010</td>
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<tr>
<td>Board Presentation</td>
<td>May 2010</td>
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<tr>
<td>Tariff Amendment Process</td>
<td>Late May – June 2010</td>
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<td>FERC Filing</td>
<td>Early July 2010</td>
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<td>Testing</td>
<td>July - August 2010</td>
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<td>BPM PRRs</td>
<td>August 2010</td>
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<tr>
<td>FERC Order</td>
<td>Early September 2010</td>
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<td>Revised Draft Payment Calendar Posted</td>
<td>After FERC Order received – September 2010</td>
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<tr>
<td>Production Implementation - publish 4/1/2009 Recalculation Settlement Statement T+18M</td>
<td>October 1, 2010</td>
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6 Conclusion
The CAISO will conduct the second conference call to review this *Revised Issue Paper & Straw Proposal* on **April 1, 2010** from 1-3PM, PST.

The CAISO appreciates stakeholder comments and discussion on the issues raised within this paper as well as other issues that should be examined. Please send your comments by close of business on **April 7, 2010** to Recalc@caiso.com.