

Memorandum

To: ISO Board of Governors

From: Steve Berberich, Vice President of Technology and Corporate Services and
Chief Financial Officer

Date: September 2, 2009

Re: Decision on Payment Acceleration

This memorandum requires Board action

EXECUTIVE SUMMARY

As previously authorized by the ISO Board of Governors (Board), the California Independent System Operator Corporation (ISO) is executing its payment acceleration dry run in preparation for implementation on November 1, 2009. A key component of payment acceleration is a change from monthly to semi-monthly invoicing. With semi-monthly invoicing, charge codes for congestion revenue rights (CRR) and the PIRP (participating intermittent resource program) will not settle on a neutral basis. This is because the charge codes for these items have a monthly settlement netting element. In order to assure neutrality, Management proposes that the charges for these items be calculated on a daily basis and reconciled on a monthly basis.

Moved, that the ISO Board of Governors approves the policy regarding the daily settlement of charge types relating to the participating intermittent resource program and congestion revenue rights, as described in the memorandum dated September 2, 2009; and

Moved, that the ISO Board of Governors authorizes Management to make all necessary and appropriate filings with the Federal Energy Regulatory Commission to implement this policy.

BACKGROUND, DISCUSSION AND ANALYSIS

The Board approved this initiative in December 2008 and the ISO filed the associated tariff changes with the Federal Energy Regulatory Commission (FERC) on June 1, 2009. The changes requested under this request will facilitate settlements under the payment

acceleration program. Under payment acceleration, one of the critical elements accelerating payments is a bi-monthly settlement process. During the dry run period, an imbalance issue was uncovered on the semi-monthly calculations that would have resulted in charges to participants for CRR charge types and those participating in the PIRP program. This is not allowed because imbalances under both of these programs are required to be adjusted on a monthly basis to reduce ultimate imbalance charges.

Participating Intermittent Resource Program Analysis

PIRP resources are exempt from daily uninstructed deviation and excess cost allocation charges. Under the PIRP program, uninstructed deviations are netted and settled at month-end, causing a difference between the cost of daily deviation and the net deviation for the month. These differences are allocated to scheduling coordinators that have net negative deviation during the entire month. As a result, the imbalance energy charge group will not settle on a neutral basis resulting in unnecessary allocations to market participants in the mid-month statement.

Proposed Approach

On a daily basis, the ISO will charge PIRP resources for uninstructed energy and allocate any excess costs on the initial semi-monthly invoice allowing the charge codes to settle neutrally. The ISO will then reverse daily charges and credits on the month-end invoice and assess the net of the deviation charges to the PIRP participants as required under the PIRP program.

Congestion Revenue Rights Analysis

CRR settlement neutrality is based on daily and monthly components. CRR hourly settlement provides entitlement to CRR holders, funded by day-ahead congestion revenues. Congestion revenues might be higher or lower than these CRR entitlements. At month-end, the CRR balancing account achieves neutrality by distributing any imbalance to measured demand. CRR auction revenues obtained earlier are also included in the CRR balancing account. Under payment acceleration's semi-monthly invoicing, the semi-monthly clearing of the CRR balancing account would not occur. This will leave an imbalance resulting in either under-collection or over-collection on the mid-month invoice.

CRR proposed solution

The ISO will convert the CRR balancing account to a daily charge code. These charges will now be settled daily and invoiced semi-monthly. This will ensure neutrality on a daily basis and minimize any financial impact on market participants.

The ISO will distribute a portion of CRR auction net revenue that accrues interest to measured demand. With a daily charge, it would be burdensome to keep track of this accrued interest on a daily basis and the interest would be relatively small. Management will create a new charge code just for this interest allocation, which will be settled on a monthly basis.

STAKEHOLDER PROCESS

Management views these changes as a necessary implementation decision relating to the transition to payment acceleration. The proposed recommendations were vetted with stakeholders, allowing for verbal responses. No written feedback was provided by stakeholders. Participants' verbal feedback received during the process was incorporated into subsequent versions of the document, ultimately contributing to this recommendation. A whitepaper describing the issues, recommendations and impacts was published and reviewed with market participants. Management provided market participants a review period and held a stakeholder discussion to review comments and address questions. Management did not receive any opposition to its recommendation from stakeholders.

MANAGEMENT RECOMMENDATION

Management recommends making proposed tariff changes to support the conversion of congestion revenue rights balancing accounts and PIRP imbalance energy and excess cost payments charges from a monthly to daily settlement. Implementing the necessary design changes does not extend the project's implementation window, or add additional costs to the project.