

# Memorandum

**To:** ISO Board of Governors

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

**Date:** May 10, 2010

**Re:** **Decision on Market Recalculation Window**

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*This memorandum requires Board action.*

## EXECUTIVE SUMMARY

Following the new market launch last April, the California Independent System Operator Corporation implemented the payment acceleration program, which substantially shortened the time period in which the ISO invoices and settles market transactions. Doing so also reduced credit risk. The effective date of the payment acceleration program was November 1, 2009. For the period between the new market implementation in April and payment acceleration implementation in November, no defined settlement statement publishing timeline exists for the ISO to make necessary settlement true-up adjustments.

The ISO initiated a stakeholder initiative to bridge this processing gap with a proposal that applies principles similar to those adopted for payment acceleration. The final proposal allows for true-up adjustments to be made for the April 1, through October 31, 2009 period, as follows:

- A defined settlement publication routine beyond the trade date plus 76 business days (“T+76B”) schedule rather than an ad hoc timeline;
- Ample validation and dispute opportunities for the additional statements; and
- A sunset provision to cap the timeline for adjustments at 36 months beyond the trade date.

This process for settling the true-up adjustments will reduce the need for significant data storage and resource expenditures associated with coordinating analysis and re-running settlements both internally for the ISO and externally for market participants. As an additional benefit, settling the true-up adjustments, rather than having them stay in a queue for an indefinite period of time until a subsequent market re-run is undertaken, will reduce the credit risk associated with possible market participant default and non-payment during the interim period.

Management recommends approval of the proposal to process and settle true-up adjustments for the trading period from April 1 through October 31, 2009, and make the associated tariff changes to support timely implementation.

Management recommends the following motion:

***Moved, that the ISO Board of Governors approves the proposal to process and settle true-up adjustments for the trading period from April 1 through October 31, 2009, as detailed in the memorandum dated May 10, 2010; 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 the proposed tariff change.***

## **DISCUSSION AND ANALYSIS**

The ISO implemented the new markets effective on trading day April 1, 2009. Effective on trading day November 1, 2009, the ISO implemented a payment acceleration program which decreased the average cash clearing schedule from approximately 80 to 25 calendar days. The payment acceleration program also afforded longer validation and dispute windows for participants, a sunset provision and a provision for charging and allocating interest associated with deviations between invoice cycles.

Before payment acceleration was implemented we settled in priority order the true-up adjustments, starting with FERC-mandated settlement re-runs, then moving on to the remaining items in the queue from oldest to newest. There are currently approximately 90 items in that queue awaiting re-runs. The same provisions would apply for the interim period between new market go live and payment acceleration implementation. Market participants expressed concern that they did not want the interim period settlements to follow the same regime as re-runs before market go live and wanted a more definitive settlement timeline. For context, we have received approximately 170 disputes since the market went live and before payment acceleration and, since there is no firm timelines or sunset provision, new disputes could continue to be received into perpetuity with no predictable timing.

To address the ambiguity in the settlement timeframe for the interim period, and respond to market participant concerns, the ISO proposed applying the principles adopted with payment acceleration to schedule and close out the settlement issues for the trading period April 1, 2009 to October 31, 2009. Application of the payment acceleration timeline enables market issues to be addressed, reviewed and closed within 36 months of each trade date. The proposed timeline resolves multiple gaps that exist with the previous market timeline previously outlined. Toward addressing the schedule gap in the new market calendar, the ISO developed and presented to stakeholders the proposal summarized below.

- Settlements will publish a defined settlement publication routine beyond the T+76B currently presented to participants as follows.

- Publication of a new true-up (or recalculation) settlement statement eighteen months after the trading day (T+18M).
  - Optional publication of an additional recalculation settlement statement thirty-five months after the trading day (T+35M), based on any data changes.
  - Optional publication of an additional recalculation settlement statement thirty-six months after the trading day (T+36M).
- The new timeline includes formal participant validation and dispute opportunities for the additional statements.
    - Disputes relating to incremental changes between the T+76B statement and the recalculation settlement statement published on T+18M may be submitted up to nineteen months from the relevant trading day, or, in other words, no later than 1 month from the publication date of the T+18M recalculation settlement statement.
    - If a T+35M recalculation settlement statement is published, disputes against the incremental changes between the T+18M recalculation settlement statement and the T+35M recalculation settlement statement may be submitted up to seven calendar days from the publication date of the T+35M recalculation settlement statement.
    - After the sunset period, or publication of a T+36M recalculation settlement statement, settlement is considered final and is not subject to dispute unless otherwise directed by the Board or FERC.
- The proposal also accommodates defined ISO assessment timelines for submitted disputes.
    - ISO determination to approve or deny the disputes submitted against the T+18M recalculation settlement statement 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.
    - ISO determination to approve or deny the disputes submitted against the T+35M recalculation settlement statement will be made no later than fourteen business days after the end of the participant dispute period.
    - ISO declaration of a complex dispute will be made within twenty business days after the end of the dispute period, in time to ensure adjustment prior to publication of the subsequent statement.
- Invoicing of billing periods 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.
- Invoice deviation interest was initially proposed to be assessed on any incremental change following the T+76B recalculation settlement statement, but eliminated based on stakeholder feedback.

## **POSITIONS OF THE PARTIES**

The ISO conducted a stakeholder process on this proposal that included three rounds of conference calls and opportunities to submit related written comments. Throughout the

initiative, stakeholder comments supported all aspects of the initial proposal with the exception of three entities that opposed the ISO's position to assess interest on the incremental changes reflected in the true-up adjustments for the trading period. One entity expressed support for the interest component.

Based on stakeholder feedback received during the first and second comment periods, the ISO revised its position to *exclude* the application of interest to any deviations contained in recalculation statements after the T+76B settlement. After revision, an additional market participant expressed support for excluding interest as well.

In view of the fact that the trading days in the bridge period had already been settled and invoiced through the T+76B statement, the ISO agreed with submitted comments that the application of interest to any remaining adjustments in the settlements cycle would result in inconsistent treatment of the payments and charges related to those trading days. The ISO reaffirmed this position during the last stakeholder conference call.

#### **MANAGEMENT RECOMMENDATION**

Management recommends that the Board approve the proposal outlined in this memo for settling the true-up adjustments beyond T+76 business days for the trading period April 1 through October 31, 2009.