Payment Default Allocation

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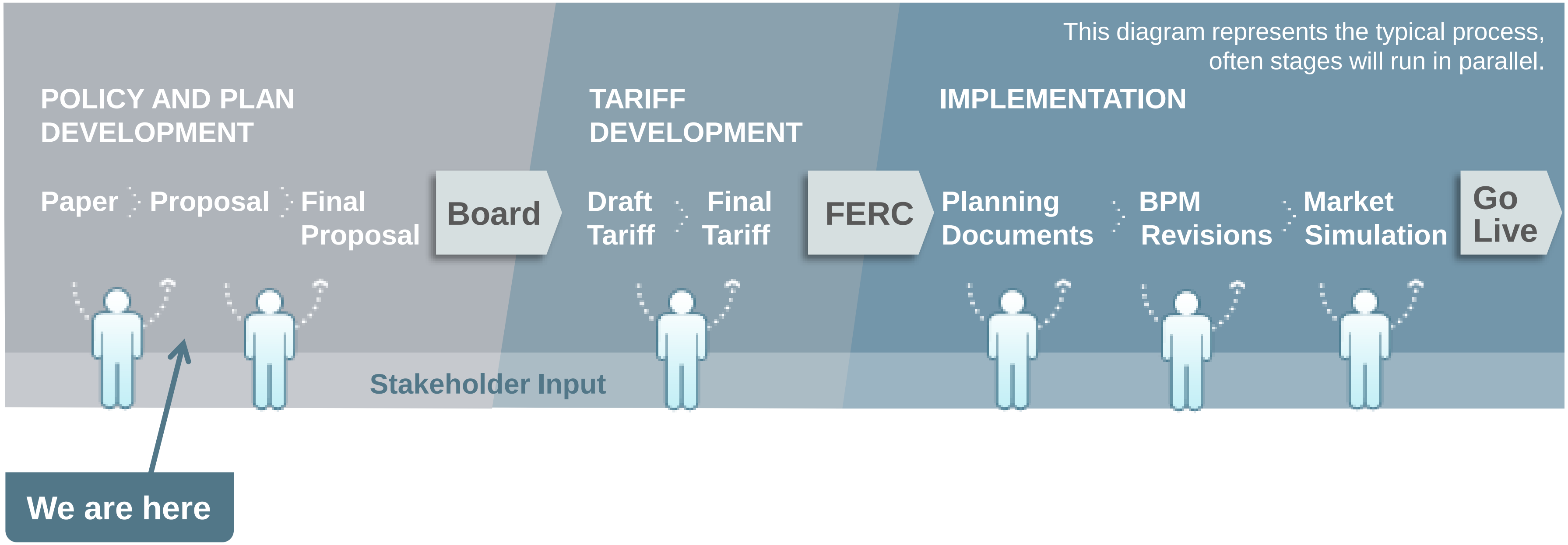
Agenda

Time	Topic	Presenters
9:00 – 9:05	Opening remarks	Kim Perez
9:05 – 9:30	Payment default allocation tariff provisions	Kevin King
	- Background	
	- Settlement agreement	
	- Default allocation process	
	- Next steps	
9:30 – 10:00	Q&A	Kevin King

Typical stakeholder process



Background

- Historically, the ISO tariff required financial losses associated with defaults to be allocated to ISO net creditors on an SCID basis
- In 2009, a coalition of net sellers filed a complaint in FERC Docket No. EL09-62 challenging the default loss allocation
- FERC found the old default loss rule to be unjust and unreasonable and established hearing and settlement judge procedures
- Following a series of settlement conferences with all interested parties, the ISO filed a settlement agreement (settlement) with FERC in 2010 that included a revised default loss allocation rule
- On February 11, 2011, FERC accepted the uncontested settlement
- Later in 2011, FERC accepted tariff provisions to implement the revised default loss rule set forth in the settlement

Article 2 of the settlement

- The tariff provisions to implement the revised default loss allocation rule will expire February 11, 2016 (the fifth anniversary of the date FERC accepted the settlement)
- No later than August 11, 2015 (six months prior to the fifth anniversary date), the ISO must begin a stakeholder process to examine whether the tariff provisions should remain in effect or should be modified or replaced
- Upon conclusion of the stakeholder process and no later than November 11, 2015 (three months prior to the fifth anniversary date), the ISO must make a filing with FERC either to request that the tariff provisions remain in effect or to modify or replace them

Overview of the existing default loss rule (tariff section 11.29.17)

- If it is not possible to clear the ISO Clearing Account due to non-payment and insufficiency of funds in the reserve account or available financial security, the tariff prescribes the following steps:
  - First, pay in full every ISO Creditor whose net amount receivable on relevant Payment Date are less than $5,000
  - Second, reduce payments to all remaining ISO Creditors proportionately to the extent necessary to clear ISO Clearing Account
- Pursuant to the settlement, payment default amounts that remain unpaid are reallocated on the next practicable invoices to all market participants
- The reallocation reflects the agreed-upon allocation of default risk that parties agreed to in the complaint proceeding

Methodology for allocating payment default amounts

- Quarterly percentage shares calculated based on quarterly average over rolling four-quarter look-back period
  - 20 percent of payment default amount allocated in proportion to net amounts payable
  - 30 percent of payment default amount allocated in proportion to sum of absolute values of dollar amounts shown on invoices payable or receivable after certain dollar amount exclusions for GMC, RMR, and Wheeling Access Charge costs and exclusions for billing of Access Charges and payment of Transmission Revenue Requirements to Participating Transmission Owners
  - 50 percent of payment default amount allocated in proportion to largest of the following amounts calculated in MWh for every month in each applicable calendar quarter
    - Cleared DA Schedules to supply Energy…
    - Metered Generation…
    - Cleared DA Schedules for demand…
    - Metered Load x 103%...
    - The greater of the quantity of CRRs or Inter-SC Trades of Energy…

Effectiveness of the default loss rule

- Although the ISO occasionally receives late payments, there have been no payment defaults subject to the new default loss rule
- Pursuant to other, non-tariff provisions of the settlement:
  - Aggregate information across defined market participant groupings (investor-owned utilities, municipalities, suppliers, marketers/importers, and CRR only) is provided quarterly
  - A Credit Working Group meets quarterly as a forum to discuss ISO credit practices
  - Both of these processes will continue, but the ISO may explore streamlining their implementation to reflect stakeholder interest
- No issues related to the default loss rule or any of its associated processes have arisen through the Credit Working Group or any other ISO stakeholder process

Current risk allocation of default loss remains reasonable

- Current risk allocation resulted from a robust settlement process in which all interested parties participated
- Current methodology allocates default risks to the entire market
- FERC accepted uncontested settlement to implement current risk allocation in 2011
- No subsequent issues or stakeholder concerns
- Current risk allocation reasonable to apply in the event of a default loss
- Subject to stakeholder comments, no change to the tariff provisions seems warranted and the ISO recommends that the existing default loss rules and associated processes remain in effect

Next steps

August 25	Stakeholders submit comments by close of business
September 8	ISO responds to comments
September	ISO schedules follow-up call if necessary
September – October	ISO revises tariff if necessary
October	ISO schedules a tariff stakeholder call if necessary
By November 11	FERC filing requesting acceptance by Feb. 2016

Comments

Stakeholders are invited to submit comments on the proposal to initiativecomments@caiso.com by close of business August 25.

Questions?