

WORKING DRAFT

IOU Invoicing and BEEP/AS Payment Procedures

Executive Summary:

This document describes the procedures established by the California Independent System Operator Corporation (the “**ISO**”) and the California Department of Water Resources, (the latter acting solely under the authority and powers created by AB1-X, codified as Sections 80000 through 80270 of the California Water Code, as amended (the “**Act**”), and not under its powers and responsibilities with respect to the California State Water Resources Development System (as so acting, “**CDWR**”), with respect to specific charges invoiced to California’s investor-owned utilities (the “**IOUs**”) by the ISO and CDWR's payment of specified real time energy¹ and ancillary services² which have been credit-backed by CDWR in accordance with previously issued market notices³ For the purposes of these procedures, the term “**BEEP/AS**” means the portion of AS and RTE which has been credit-backed by CDWR in accordance with previously issued Market Notices⁴.

Briefly, each IOU will transfer to CDWR the portion of that IOU’s accounts payable for those ISO invoice charges for which CDWR has assumed responsibility, all as more specifically set forth in the appropriate implementation agreement with the IOU (each such agreement, an “**Imbalance Energy Agreement**”). These transferred payables will then be netted against CDWR’s ISO invoice balance and settled through the ISO settlement system (this procedure, the “**IOU Netting**”). Similarly, CDWR will cause each supplier to be paid directly for the net qualifying amount due for BEEP/AS and each supplier will transfer the related net BEEP/AS receivable to CDWR. The transferred receivable will then be netted against CDWR’s ISO invoice balance and settled through the ISO settlement system (this procedure, the “**Supplier Settlements**”). As agreements are reached with appropriate parties to implement these

¹ Instructed imbalance energy, instructed supplemental energy and uninstructed imbalance energy to the extent (but only to the extent) associated with the provision of regulation, in all cases other than OOM (as defined below) (collectively, “**RTE**”).

² Spin, non-spin, replacement reserve capacity and regulation (collectively, “**AS**”).

³ Specifically, the market notices dated January 21, 2001, April 13, 2001 and May 25, 2001 (the “**Market Notices**”).

⁴ The Imbalance Energy Agreements between CDWR and the IOUs will provide that CDWR’s financial obligation with respect to BEEP/AS dispatched by an IOU will be determined in accordance with appropriate California Public Utility Commission (the “**CPUC**”) orders and the agreements entered into between that IOU and CDWR with any resulting adjustments made to non-BEEP/AS charge types.

procedures, settlement of the ISO markets will reflect both IOU Netting and Supplier Settlements procedures.

The proposed settlement process developed by the ISO and CDWR is intended to accomplish the following objectives:

1. Allow the ISO to provide CDWR with financial settlement information that will enable CDWR to settle directly the portion of an IOU's ISO charges for which CDWR has assumed financial responsibility authorized under the Act and in accordance with CDWR's agreements with each IOU and to recognize the portion of those IOU charges (such as OOM) previously paid by CDWR.
2. Facilitate payment to suppliers' Scheduling Coordinators ("**SCs**") as contemplated by the Market Notices and FERC directives.
3. Facilitate CDWR's direct payment to suppliers' SCs for BEEP/AS dispatched through the ISO's markets, while preserving the efficiencies of existing market structures.
4. Eliminate "double billing" of IOUs for BEEP/AS and additional real time energy procured on bilateral basis and previously paid by CDWR ("**OOM**").
5. Allow ready implementation within applicable legal requirements and market structures.

This document is divided into two sections. The first section summarizes IOU Netting and describes the requirements for implementing this procedure, including the different requirements for implementing IOU Netting for OOM and for BEEP/AS, respectively. The second section summarizes Supplier Settlements and describes the requirements for implementing this procedure. The attached Appendix describes these procedures in greater detail and provides illustrative examples.

These procedures will most benefit SCs, the IOUs, CDWR and the ISO when both are implemented. The implementation of one procedure is not conditioned upon the implementation of the other. The implementation of one or both procedures with respect to one SC or IOU is not conditioned upon implementation with respect to any other SC or IOU. The IOU Netting will initially consist of netting the IOU invoice balance to reflect that CDWR has already paid for OOM; however, netting of BEEP/AS from IOU invoices will occur upon verification of BEEP/AS by CDWR. The implementation of the procedures will require the execution and delivery of appropriate implementing agreements among the affected parties. The ISO stands ready to implement these procedures on an incremental basis as implementation agreements become effective and expects to be able to implement these procedures for the July, 2001 markets for parties whose implementation agreements become effective by October 5, 2001.

These proposals have been agreed to by the ISO and CDWR, however, as the described procedures are implemented, changes or refinements may be needed.

1. Summary and Requirements for IOU Netting

1.1. Summary of Steps for IOU Netting:

CDWR intends to enter into Imbalance Energy Agreements with each IOU to implement CDWR's assumption of financial responsibility for specific ISO charges currently included in such IOU's invoices from the ISO. The following sets forth the sequence of steps pursuant to which CDWR's assumption of financial responsibility for specified IOU charges for a given settlement month (a "**Current Month**") will be implemented.

- Step 1: *(Daily during Current Month)* CDWR receives, on a daily basis, the detailed preliminary and final IOU settlement statement information.
- Step 2: *(Invoice Date: currently 51 business days after end of Current Month)* The ISO issues monthly invoices to each IOU and delivers or makes available a copy of this invoice to CDWR. The ISO will publish total market real-time deviation, on a ten-minute interval basis, as well as provide the total OOM market purchases, based on the ISO's information, for verification purposes, in each case for the Current Month.
- Step 3: *(Not later than 12 pm, California time, on the 3rd business day after the Invoice Date)* CDWR and each IOU allocate the ISO charges invoiced to the IOU between them and CDWR informs the ISO of the allocation in accordance with each Imbalance Energy Agreement. Each IOU and CDWR will be deemed to have authorized the transfer of that portion of the IOU's Due ISO payable for which CDWR is assuming responsibility (the "**Transferred Payable**") to CDWR for ISO settlement purposes.⁵
- Step 4: *(Not later than 12 pm, California time on the 4th business day after the Invoice Date)* The ISO records the transfer of the Transferred Payable from the IOU to CDWR.⁶
- Step 5: *(5th business day after the Invoice Date)* The IOU and CDWR pay amounts due, if any, into the ISO settlement system, after giving

⁵ This will require an agreement between CDWR and the IOU SC. A copy of each such agreement will be provided to the ISO.

⁶ The ISO Tariff precludes the ISO from issuing more than one invoice to an SC for a settlement month. All adjustments, therefore, must be made on a post invoice basis, however, the ISO will give effect to the transfer of the Transferred Payables when it settles each monthly period during which these procedures are in effect.

effect to IOU Netting (and, in the case of CDWR, after giving effect to Supplier Settlements as then in effect).

1.2. Requirements for Implementing IOU Netting:

The principal prerequisite necessary for implementation of this procedure for an IOU is that CDWR and that IOU to finalize their negotiations and enter into an Imbalance Energy Agreement. Each Imbalance Energy Agreement will provide, among other things, for the following:

1. The IOU will authorize the ISO to share the IOU's settlement statements and meter data with CDWR.
2. CDWR will receive the IOU's settlement statements.
3. CDWR and the IOU will agree on the terms of the invoice splitting agreements.
4. CDWR will notify the ISO of invoice splitting arrangements.
5. The IOU and CDWR will authorize the ISO to rely on CDWR's notification of the Transferred Payable for settlement purposes.

Each Imbalance Energy Agreement will delineate the specific invoice charges and charge types for which CDWR has assumed financial responsibility. These charges are generally anticipated to reflect permitted items of recovery in the CDWR's revenue requirement as approved by the CPUC.⁷

The principal portion of the charges that will be netted out of each IOU's invoice under these procedures consists of charges for OOM and BEEP/AS. ISO invoices do not differentiate OOM from other real-time energy and ancillary services charges allocated to an SC. Instead, all OOM, RTE, AS and similar charges are combined as 407/487 charge types. Two separate methods will be used to determine the portion of the 407/487 charge types constituting OOM purchases and BEEP/AS that will be allocated as Transferred Payables using IOU Netting:

1.2.1. OOM. To date, CDWR is current on payment of all of its OOM purchases. To determine the OOM cost in an IOU's ISO invoice, the Imbalance Energy Agreement will provide that CDWR will use the IOU's daily settlement data, published total market deviation data, on a ten-minute basis, and CDWR's total market OOM purchases to determine

⁷ The terms and conditions under which each IOU will bill and collect from its customers for energy (including RTE), AS and other services provided by CDWR to those customers are or will be set out in one or more service agreements between that IOU and CDWR.

the amount of OOM cost allocable to the IOU's invoice and therefore eligible for IOU Netting as a Transferred Payable.

1.2.2. BEEP/AS. To determine how much of the remaining portion of 407/487 charge types shown on an IOUs' invoices qualifies as BEEP/AS, CDWR will receive settlement data for RTE and AS purchases. In addition, CDWR will perform the verification procedures to be described in the related Imbalance Energy Agreement to calculate the amount of BEEP/AS cost eligible for IOU Netting as a Transferred Receivable. Upon this determination, CDWR will notify the appropriate IOU and the ISO as to the appropriate amount of BEEP/AS amount to be netted from such IOU's invoice.

The Imbalance Energy Agreements may be amended or supplemented from time to time. For example, the ISO and CDWR believe that the allocation of OOM costs and other agreed-upon transferable amounts may be implemented while the parties determine the criteria under which RTE costs will qualify as BEEP/AS and determine what other costs, if any will be netted from an IOU's invoice.

Additional requirements, if any, will be determined based upon further analysis by the affected parties.

2. Summary and Requirements for Supplier Settlements:

2.1 Summary of Steps for Supplier Settlements.

The following sets forth the sequence of steps pursuant to which CDWR will pay net amounts due supplier SCs for the sale of BEEP/AS for a Current Month.

- Step 1: *(Daily during Current Month)* CDWR receives, on a daily basis, the supplier SCs' detailed preliminary and final settlement statement information relating to RTE and AS.
- Step 2: *(Invoice Date)* The ISO issues monthly invoice to supplier SCs and delivers or makes available to CDWR a copy of (1) the total Due SC and Due ISO amounts relating to RTE and AS, and (2) the total net Due SC amount from these invoices.⁸
- Step 3: *(Not later than 12 pm, California time, on the 3rd business day after the Invoice Date)* CDWR calculates each supplier SC's guaranteed BEEP/AS payment amount (the "**Guaranteed Amount**")⁹ and provides that information to the ISO. Each supplier SC will be

⁸ Concurrently with the delivery of this invoice information, the ISO will notify CDWR of any change in the payment status of a supplier SC since the ISO's most recent market certification.

⁹ The Guaranteed Amount is (A) the lesser of (i) the Due SC amount, if any, constituting BEEP/AS (that portion of the RTE and AS for which CDWR has assumed financial responsibility under the Market Notices) or (ii) the net Due SC amount.

deemed to have authorized the transfer of its Due SC receivable, to the extent of the Guaranteed Amount, from the SC to CDWR for ISO settlement purposes.¹⁰

- Step 4: (*Between 3rd and 5th business day after the Invoice Date*) CDWR deposits the Guaranteed Amount for each supplier SC in the CDWR "**Holding Account.**"¹¹ CDWR notifies each supplier SC of the deposit.
- Step 5: (*Not later than 12 pm, California time, on the 4th business day after the Invoice Date*) The ISO records the transfer of the Due SC receivable from the SC to CDWR, on ISO's records, in an amount equal to that SC's Guaranteed Amount.
- Step 6: (*5th business day after the Invoice Date*) SCs with Due ISO net invoice amounts make their payments to the ISO for their invoices. The ISO will confirm with CDWR whether supplier SCs with Guaranteed Amounts on deposit in the Holding Account have paid their Due ISO net invoice amount.
- Step 7: (*8th business day after the Invoice Date*) Guaranteed Amounts are disbursed from the Holding Account to qualifying supplier SCs.
- Step 8: The ISO distributes revenues for Current Month in accordance with its then-current procedures, after giving effect to the Supplier Settlements (*Currently, these distributions are made within 10 business days of the Invoice Date*).

2.2. Requirements to Implement Supplier Settlements.

The principal prerequisite necessary for implementation of Supplier Settlements for an SC is that CDWR and that SC to enter into an implementation agreement (the "**SC Agreement**"), which will provide, among other things, for the following:

1. The SC will authorize CDWR to receive from the ISO detailed preliminary and final settlement statement and invoice information as it relates to BEEP/AS and to the SC's net Due SC position.

¹⁰ This will require an agreement between CDWR and the supplier's SC. A copy of each such agreement will be provided to the ISO.

¹¹ CDWR intends to establish a trust account to act as the Holding Account for Supplier Settlements. CDWR will not deposit the Guaranteed Amount for the benefit of a supplier SC, unless the ISO confirms that such SC has no outstanding obligations to the ISO market for prior periods. The Guaranteed Amount will not be disbursed to a supplier SC unless the ISO confirms that such supplier SC has paid its net Due ISO invoice amount, if any, for the Current Month. An SC transferring its receivable to CDWR must be current with ISO as a condition of deposit into and disbursement out of the Holding Account because, if an SC is not current, any payments due it from the Current Month will be applied under the ISO's settlement procedures to satisfy prior obligations. Deposits will be held in the Holding Account, and available for disbursement, for a period of time (not more than 2 years) yet to be determined by CDWR.

2. SCs will authorize CDWR to calculate the Guaranteed Amount and to notify the ISO of the Guaranteed Amount.
3. SCs and CDWR will authorize the ISO to rely on CDWR's notification of the Guaranteed Amount in recognizing the transfer to CDWR of the SCs' ISO receivable in an amount equal to the Guaranteed Amount.

Additional requirements, if any, will be determined based upon further analysis among the affected parties.

APPENDIX

Detailed Analysis and Examples

1. Detailed Analysis and Examples for IOU Netting:

Step 1: *(Daily during July; the Current Month)* CDWR receives, on a daily basis, the detailed preliminary and final IOU settlement statement information.

Step 2: *(October 11: Invoice Date)* The ISO issues monthly invoices to each IOU and delivers or makes available a copy of this invoice to CDWR. The ISO will publish total market real-time deviation, on a ten-minute interval basis, as well as provide total OOM market purchases, based on the ISO's information, for verification purposes, in each case for the Current Month.

The table below illustrates the ISO payments and charges for the hypothetical SCs shown below and the portion of the total payments and charges that are associated with BEEP/AS. July 2001 is used as the hypothetical Current Month for the purpose of illustrating the timeline only, and none of the example numbers or calculations are intended to reflect actual settlement data from July 2001. The following example also assumes that all RTE and AS have been verified, and it has been determined that such RTE and AS constitutes BEEP/AS and, therefore that all OOM and BEEP/AS as shown below become Transferred Payables.

	Due ISO			Due SC			SC
	Tot	OOM	BEEP/ AS	Tot	OOM	BEEP/ AS	Invoice
Supl. 1	\$ 15	\$	-	\$ (31)	\$	(2)	\$ (16)
Supl. 2	\$ 35	\$	-	\$ (17)	\$	(3)	\$ 18
Supl. 3	\$ 15	\$	-	\$ (37)	\$	(32)	\$ (22)
Supl. 4	\$ 35	\$	-	\$ (17)	\$	(16)	\$ 18
Non-IOU	\$ 20	\$	4	\$ -	\$		\$ 20
IOU	\$ 135	\$ 50	49	\$ (65)	\$		\$ 70
CDWR	\$ 100			\$ (188)	\$(50)		\$ (88)
Total	\$ 355	\$ 50	53	\$ (355)	\$(50)	(53)	\$ -

Step 3: *(Not later than 12 pm, California time, on October 16th; the 3rd business day after the Invoice Date)* CDWR and each IOU allocate the ISO charges invoiced to the IOU between them and CDWR informs the ISO of the allocation in accordance with each Imbalance Energy Agreement. Each IOU and CDWR

will be deemed to have authorized the transfer of the Transferred Payable to CDWR for ISO settlement purposes.

The calculation of the Transferred Payable in this example would be as follows:

(a.) Subtract IOU OOM and BEEP/AS charges from IOU due ISO amount:

$$\$135 \text{ (Due ISO)} - \$49 \text{ (BEEP/AS)} - \$50 \text{ (OOM)} = \$36$$

(b.) Adj'd IOU Net charges amount:

$$\$36 - \$65 \text{ (Due SC)} = \$29 \text{ Net Due SC to IOU}$$

(c.) Add IOU BEEP/AS and OOM charges as Transferred Payable to net amount Due ISO on CDWR invoice:

$$\$100 \text{ (Due ISO)} + \$49 \text{ (BEEP/AS)} + \$50 \text{ (OOM)} = \$199$$

Step 4: *(Not later than 12 pm, California time on October 17th; the 4th business day after the Invoice Date)* The ISO records the transfer of the Transferred Payable from the IOU to CDWR.

Step 5: *(October 18th; the 5th business day after the Invoice Date)* The IOU and CDWR pay amounts due, if any, into the ISO settlement system, after giving effect to IOU Netting (and, in the case of CDWR, after giving effect to Supplier Settlements as then in effect).

CDWR net charges amount is as follows:

$$\$199 - \$188 \text{ (Due SC)} = \$11 \text{ Net Due ISO from CDWR}$$

	Due ISO			Due SC			SC	Adj'd
	Tot	OOM	BEEP/AS	Tot	OOM	BEEP/AS	Invoice	
Supl. 1	\$ 15	\$ --	\$ -	\$ (31)	\$ --	\$ (2)	\$ (16)	\$ (16)
Supl. 2	\$ 35	\$ --	\$ -	\$ (17)	\$ --	\$ (3)	\$ 18	\$ 18
Supl. 3	\$ 15	\$ --	\$ -	\$ (37)	\$ --	\$ (32)	\$ (22)	\$ (22)
Supl. 4	\$ 35	\$ --	\$ -	\$ (17)	\$ --	\$ (16)	\$ 18	\$ 18
Non-IOU	\$ 20	\$ --	\$ 4	\$ -	\$ --	\$ -	\$ 20	\$ 20
IOU	\$ 36	\$ --	\$ -	\$ (65)	\$ --	\$ -	\$ 70	\$ (29)
CDWR	\$ 199	\$ 50	\$ 49	\$ (188)	\$ 50	\$ -	\$ (88)	\$ 11
Total	\$ 355	\$ 50	\$ 53	\$ (355)	\$ 50	(53)	\$ -	

2. Detailed Analysis and Examples for Supplier Settlements:

The table below illustrates the ISO payments and charges for the hypothetical SCs shown below and the portion of the total payments and charges that are

associated with BEEP/AS. July, 2001 is used as the hypothetical Current Month for the purpose of illustrating the timeline only, and none of the example numbers or calculations are intended to reflect actual settlement data from July, 2001. The following example also assumes that all RTE and AS constitutes BEEP/AS.

SCs	Due ISO		Due SC	
	Tot	BEEP/AS	Tot	BEEP/AS
Supl 1 SC	\$ 15	\$ -	\$ (31)	\$ (2)
Supl 2 SC	\$ 35	\$ -	\$ (17)	\$ (3)
Supl 3 SC	\$ 15	\$ -	\$ (37)	\$ (32)
Supl 4 SC	\$ 35	\$ -	\$ (17)	\$ (16)
Non-IOU SC	\$ 20	\$ 4	\$ -	\$ -
IOU SC	\$ 85	\$ 49	\$ (65)	\$ -
CDWR SC	\$ 100	\$ -	\$ (138)	\$ -
Total	\$ 305	\$ 53	\$ (305)	\$ (53)

Step 1: *(Daily during July; the Current Month)* CDWR receives, on a daily basis, the supplier SCs' detailed preliminary and final settlement statement information relating to RTE and AS.

CDWR anticipates each SC would, separately or as part of its SC Agreement, sign a release that would allow CDWR to access detailed SC settlement information directly from the ISO. The ISO intends to allow CDWR access to an SC's settlement data from a secure site on the ISO website, if the SC gives the ISO permission to furnish this information.

Step 2: *(October 11; Invoice Date)* The ISO issues monthly invoices to supplier SCs and delivers or makes available to CDWR a copy of (1) the total Due SC and Due ISO amounts relating to RTE and AS, and (2) the total net Due SC amount from these invoices.

The ISO invoice is the net of the Due ISO amount and the Due SC amount, as shown below:

SC	Due ISO		Due SC		SC
	Tot	BEEP/AS	Tot	BEEP/AS	Invoice
Supl 1	\$ 15	\$ -	\$ (31)	\$ (2)	\$ (16)
Supl 2	\$ 35	\$ -	\$ (17)	\$ (3)	\$ 18
Supl 3	\$ 15	\$ -	\$ (37)	\$ (32)	\$ (22)
Supl 4	\$ 35	\$ -	\$ (17)	\$ (16)	\$ 18
Non-IOU	\$ 20	\$ 4	\$ -	\$ -	\$ 20
IOU	\$ 85	\$ 49	\$ (65)	\$ -	\$ 20
CDWR	\$ 100	\$ -	\$ (138)	\$ -	\$ (38)
Total	\$ 305	\$ 53	\$ (305)	\$ (53)	\$ -

CDWR would calculate the Guaranteed Amount from the net due ISO information and the detailed settlement information.

Step 3: *(Not later than 12 pm, California time, on October 16, the third business day after the Invoice Date)* CDWR calculates each supplier SC's Guaranteed Amount and provides that information to the ISO. Each supplier SC will be deemed to have authorized the transfer of its Due SC receivable, to the extent of the Guaranteed Amount, from the SC to CDWR for ISO settlement purposes.

The Guaranteed Amount is (A) the lesser of (i) the Due SC amount, if any, relating to BEEP/AS (that portion of RTE and AS that CDWR has agreed to assume under the Market Notices) or (ii) the net Due SC amount.

SC	Due ISO		Due SC		SC	CDWR
	Tot	BEEP/AS	Tot	BEEP/AS	Invoice	Guarantee
Supl 1	\$ 15	\$ -	\$ (31)	\$ (2)	\$ (16)	\$ 2
Supl 2	\$ 35	\$ -	\$ (17)	\$ (3)	\$ 18	\$ -
Supl 3	\$ 15	\$ -	\$ (37)	\$ (32)	\$ (22)	\$ 22
Supl 4	\$ 35	\$ -	\$ (17)	\$ (16)	\$ 18	\$ -
Non-IOU	\$ 20	\$ 4	\$ -	\$ -	\$ 20	\$ -
IOU	\$ 85	\$ 49	\$ (65)	\$ -	\$ 20	\$ -
CDWR	\$ 100	\$ -	\$ (138)	\$ -	\$ (38)	\$ -
Total	\$ 305	\$ 53	\$ (305)	\$ (53)	\$ -	\$ 24

For Supplier 1: The ISO Market owes Supplier 1's SC \$16, but Supplier 1 provided only \$2 of BEEP/AS.

CDWR will guaranty the SC's \$2 BEEP/AS receivable under the Supplier Settlements procedure and will calculate the Guaranteed Amount as \$2.

For Supplier 2: Supplier 2's SC owes the ISO Market \$18 net and CDWR has provided \$3 of BEEP/AS.

CDWR will calculate the Guaranteed Amount for this SC as \$0: Payment to the supplier for BEEP/AS has been fully satisfied through the ISO settlement process because the ISO credited the BEEP/AS due SC against SC's charges due ISO.

For Supplier 3: The supplier has supplied \$32 of BEEP/AS, but Supplier 3's SC has a net Due SC of \$22.

CDWR will calculate the Guaranteed Amount as \$22 of the \$32 BEEP/AS receivable, because the other \$10 owed for BEEP/AS has been satisfied through the ISO settlement process when the ISO credited this amount against charges due ISO.

For Supplier 4: Supplier 4's SC is owed \$16 for BEEP/AS, but Supplier 4's SC owes the ISO market a net \$18.

CDWR will calculate the Guaranteed Amount for this SC as \$0, because the ISO credited the BEEP/AS due SC amount against the SC's charges due ISO.

Step 4: *(Between October 16 and October 18, the 3rd and 5th business day after the Invoice Date)* CDWR deposits the Guaranteed Amount for each qualifying supplier SC in the Holding Account. CDWR notifies each supplier SC of the deposit.

Step 5: *(Not later than 12 pm, California time, October 17, the 4th business day after the Invoice Date)* The ISO records the transfer of the Due SC receivable from the SC to CDWR in an amount equal to that SC's Guaranteed Amount.

Guaranteed Amounts, calculated and recorded according to the method in Step 3, are illustrated by the following calculations:

SC	Due ISO		Due SC		Invoice	Supl Adj'd	CDWR Adj'd	SC Adj'd
	Tot	BEEP/AS	Tot	BEEP/AS				
Supl 1	\$ 15	\$ -	\$ (31)	\$ (2)	\$ (16)	\$ 2	\$ -	\$ (14)
Supl 2	\$ 35	\$ -	\$ (17)	\$ (3)	\$ 18	\$ -	\$ -	\$ 18
Supl 3	\$ 15	\$ -	\$ (37)	\$ (32)	\$ (22)	\$ 22	\$ -	\$ -
Supl 4	\$ 35	\$ -	\$ (17)	\$ (16)	\$ 18	\$ -	\$ -	\$ 18
Non-IOU	\$ 20	\$ 4	\$ -	\$ -	\$ 20	\$ -	\$ -	\$ 20
IOU	\$ 85	\$ 49	\$ (65)	\$ -	\$ 20	\$ -	\$ -	\$ 20
CDWR							\$ -	
	\$ 100	\$ -	\$ (138)	\$ -	\$ (38)	\$ -	(24)	\$ (62)
Total							\$ -	
	\$ 305	\$ 53	\$ (305)	\$ (53)	\$ -	\$ 24	(24)	\$ -

The table below depicts the adjusted Due ISO and Due SC amounts::

SC	Due ISO		Due SC		SC Adj'd
	Tot	BEEP/AS	Tot	BEEP/AS	
Supl 1	\$ 15	\$ -	\$ (29)	\$ -	\$ (14)
Supl 2	\$ 35	\$ -	\$ (17)	\$ (3)	\$ 18
Supl 3	\$ 15	\$ -	\$ (15)	\$ (10)	\$ -
Supl 4	\$ 35	\$ -	\$ (17)	\$ (16)	\$ 18
Non-IOU	\$ 20	\$ 4	\$ -	\$ -	\$ 20
IOU	\$ 85	\$ 49	\$ (65)	\$ -	\$ 20
CDWR	\$ 100	\$ -	\$ (162)	\$ (24)	\$ (62)
Total	\$ 305	\$ 53	\$ (305)	\$ (53)	\$ -

Step 6: *(October 18th; 5th business day after Invoice Date)* SC's with Due ISO net invoice amounts make their payments to the ISO for their invoices. The ISO will confirm with CDWR whether supplier SCs with Guaranteed Amounts on deposit in the Holding Account have paid their Due ISO net invoice amount.

Step 7: *(October 23rd; 8th business day after Invoice Date)* Guaranteed Amounts are disbursed from the Holding Account to qualifying supplier SC's.

Step 8: The ISO distributes revenues for the Current Month in accordance with its then-current procedures, after giving effect to the Supplier Settlements. *(Currently three*

distributions are made within 10 business days of the Invoice Date.)

Under the ISO settlement system, the net Due SC for a given monthly period is subject to an offset reduction for net amounts due the ISO market for prior monthly settlement periods. If an SC were to transfer its Due SC receivable to CDWR (or to any other party), that transferred receivable would continue to be subject to this offsetting reduction. If a supplier's SC owed the market for prior periods and transferred a Due SC amount to CDWR in accordance with the procedures described in this document, then CDWR would not be able to recover any amounts reduced by offset through the market, and CDWR would be, in effect, covering that SC's prior default, which CDWR is not authorized to do. Accordingly, CDWR will not deposit the Guaranteed Amount into the Holding Account, and the Guaranteed Amount will not be disbursed from the Holding Account to the extent that an SC owes the market on a cumulative basis for any prior period or the Current Month. See footnote 11 for further information.

Assume all SCs pay 100% - CDWR would receive \$62 from ISO and all SCs owed money from ISO would receive the total amount owed as shown in the table below and CDWR would cause the Guaranteed Amount to be disbursed from the Holding Account:

SC	Adj'd	ISO	Adj'd	ISO	CDWR
	Due ISO	Rec'd	Due SC	Payout	Payout
Supl. 1	\$ -	\$ -	\$ (14)	\$ (14)	\$ 2
Supl. 2	\$ 18	\$ 18	\$ -	\$ -	\$ -
Supl. 3	\$ -	\$ -	\$ -	\$ -	\$ 22
Supl. 4	\$ 18	\$ 18	\$ -	\$ -	\$ -
Non-IOU	\$ 20	\$ 20	\$ -	\$ -	\$ -
IOU	\$ 20	\$ 20	\$ -	\$ -	\$ -
CDWR	\$ -	\$ -	\$ (62)	\$ (62)	\$ -
Total	\$ 76	\$ 76	\$ (76)	\$ (76)	\$ 24

Assume Supplier 2's SC does not pay the ISO: The ISO has only \$58 to distribute to SCs who are owed \$76. The ISO prorates the amount received in accordance with existing procedure as shown below.

The prorated amount is 58/76 of the amount owed from the market and CDWR receives \$47.32 instead of the \$76 owed. But, all SC's receive their full payment of the Guaranteed Amount for BEEP/AS, under the terms of the guarantee described above.

	Due ISO		Due SC		Adj'd	ISO	Adj'd	ISO	CDWR
	Tot	BEEP/AS	Tot	BEEP/AS	Due ISO	Rec'd	Due SC	Payout	Payout
Supl. 1	\$ 15	\$ -	\$ (31)	\$ (2)	\$ -	\$ -	\$ (14)	\$10.68	\$ 2
Supl. 2	\$ 35	\$ -	\$ (17)	\$ (3)	\$ 18	\$ -	\$ -	\$ -	\$ -
Supl. 3	\$ 15	\$ -	\$ (37)	\$ (32)	\$ -	\$ -	\$ -	\$ -	\$ 22
Supl. 4	\$ 35	\$ -	\$ (17)	\$ (16)	\$ 18	\$ 18	\$ -	\$ -	\$ -
Non-IOU	\$ 20	\$ 4	\$ -	\$ -	\$ 20	\$ 20	\$ -	\$ -	\$ -
IOU	\$ 85	\$ 49	\$ (65)	\$ -	\$ 20	\$ 20	\$ -	\$ -	\$ -
CDWR	\$ 100	\$ -	\$ (138)	\$ (24)	\$ -	\$ -	\$ (62)	\$47.32	\$ -
Total					\$ 76	\$ 58	\$ (76)	\$58.00	\$ 24

Supplier 1's SC receives \$10.68 of the \$14 owed from the ISO market, but CDWR will cause the entire \$2 Guaranteed Amount for BEEP/AS to be disbursed through the separate Holding Account.

Supplier 3's SC is owed \$32 for BEEP/AS, but \$10 of the amount owed is netted against other payments and charges due ISO. Therefore, the remaining \$22 Guaranteed Amount owed by the market through the ISO and attributed under the BEEP/AS, is held in the CDWR Holding Account because it is all attributed to BEEP/AS. Supplier 3's SC had no monies owed from the ISO market and the entire \$22 owed is disbursed from the Holding Account.

3. Example of IOU Netting and Supplier Combined:

- Step 1:** *(Daily during July: the Current Month)* CDWR receives, on a daily basis, (1) the detailed preliminary and final IOU settlement statement information, and (2) each supplier SC's detailed preliminary and final settlement statement information relating to RTE and AS.
- Step 2:** *(October 11: the Invoice Date)* The ISO issues monthly invoices to IOUs and delivers or makes available a copy of these invoices to CDWR. The ISO issues monthly invoices to supplier SCs and delivers or makes available to CDWR a copy of (1) the total Due SC and Due ISO amounts relating to RTE and AS, and (2) the total net Due SC amount from these invoices. The ISO will publish total market real-time deviation, on a ten-minute interval basis, as well as provide the total OOM market purchases, based on the ISO's information, for verification purposes, in each case for the Current Month.
- Step 3:** *(Not later than 12pm, California time, on October 16, the 3rd business day after the Invoice Date),* CDWR and each IOU allocate the ISO changes invoiced to the IOU between them

and CDWR informs the ISO of the allocation in accordance with each Imbalance Energy Agreement. CDWR calculates each supplier SC's Guaranteed Amount and provides this information to the ISO. Each IOU and CDWR will be deemed to have authorized the transfer of the IOUs Transferred Payable to CDWR for ISO settlement purposes. Each supplier SC will be deemed to have authorized the transfer of its Due SC receivable, to the extent of the Guaranteed Amount, from the SC to CDWR, for ISO settlement purposes.

- Step 4:** *(Between October 16 and October 18; the 3rd and 5th business days after the Invoice Date)* CDWR deposits the Guaranteed Amount for each qualifying supplier SC in the Holding Account. CDWR notifies each supplier SC of the deposit.
- Step 5:** *(Not later than 12pm, California time, on October 18, the fourth business day after the Invoice Date)* The ISO records (1) the transfer of the Transferred Payable from the IOU to CDWR, and (2) the transfer of the Due SC receivable from the SC to CDWR, in an amount equal to the SC's Guaranteed Amount.
- Step 6:** *(October 18; 5th business day after Invoice Date)* SC's, IOU's and CDWR pay amounts due, if any, into the ISO settlement system, after giving effort to IOU Netting and Supplier Settlements. The ISO will confirm with CDWR whether supplier SCs with Guaranteed Amounts on deposit in the Holding Account have paid their Due ISO net invoice amount.
- Step 7:** *(October 23, 8th business days after the Invoice Date)* Guaranteed Amounts are distributed from the Holding Account to qualified supplier SC's.
- Step 8:** The ISO distributes revenues for the Current Month in accordance with its then-current procedures, after giving effect to IOU Netting and Supplier Settlements.

Assume all SCs pay 100% - CDWR would receive \$13 from ISO and all SCs owed money from ISO would receive the total amount owed as shown in the table below and the Guaranteed Amount would be disbursed from the Holding Account.

	Adj'd Due ISO	ISO Rec'd	Adj'd Due SC	ISO Payout	CDWR Payout
Supl. 1	\$ -	\$ -	\$ (14)	\$ (14)	\$ 2
Supl. 2	\$ 18	\$ 18	\$ -	\$ -	\$ -
Supl. 3	\$ -	\$ -	\$ -	\$ -	\$ 22
Supl. 4	\$ 18	\$ 18	\$ -	\$ -	\$ -
Non-IOU	\$ 20	\$ 20	\$ -	\$ -	\$ -
IOU	\$ -	\$ -	\$ (29)	\$ (29)	\$ -
CDWR	\$ -	\$ -	\$ (13)	\$ (13)	\$ -
Total	\$ 56	\$ 56	\$ (56)	\$ (56)	\$ 24

Assume Supplier 2 does not pay the ISO: The ISO has only \$38 to distribute to SCs who are owed \$56. The ISO prorates the amount received as shown below.

CDWR receives \$8.82 ($38 \times 13/56$) instead of the \$13 owed. But, all suppliers receive their full payment for BEEP/AS, using Supplier Settlements.

The IOU receives \$19.68 ($38 \times 29/56$) instead of the \$29 amount owed.

	Due ISO		Due SC		Adj'd	ISO	Adj'd	ISO	CDWR
	Tot	BEEP/AS	Tot	BEEP/AS	Due ISO	Rec'd	Due SC	Payout	Payout
Supl. 1	\$ 15	\$ -	\$ (31)	\$ (2)	\$ -	\$ -	\$ (14)	\$9.50	\$ 2
Supl. 2	\$ 35	\$ -	\$ (17)	\$ (3)	\$ 18	\$ -	\$ -	\$ -	\$ -
Supl. 3	\$ 15	\$ -	\$ (37)	\$ (32)	\$ -	\$ -	\$ -	\$ -	\$ 22
Supl. 4	\$ 35	\$ -	\$ (17)	\$ (16)	\$ 18	\$ 18	\$ -	\$ -	\$ -
Non-IOU	\$ 20	\$ 4	\$ -	\$ -	\$ 20	\$ 20	\$ -	\$ -	\$ -
IOU	\$ 36	\$ -	\$ (65)	\$ -	\$ -	\$ -	\$ (29)	\$19.68	\$ -
CDWR	\$ 149	\$ 49	\$ (138)	\$ (24)	\$ -	\$ -	\$ (13)	\$8.82	\$ -
Total					\$ 56	\$ 38	\$ (56)	\$56.00	\$ 24

Supplier 1 receives \$9.50 ($38 \times 14/56$) of the \$14 owed from the ISO, but CDWR will disburse the entire \$2 amount for BEEP/AS from the separate Holding Account.

Supplier 3 is owed \$32 for BEEP/AS, but \$10 of the amount owed is netted against other payments and charges due ISO. Therefore, the remaining \$22 owed by the ISO and attributed to BEEP/AS is deposited in the Holding Account because it is all attributed to BEEP/AS in accordance with Supplier Settlements. Supplier 3 had no monies owed from the ISO and the entire \$22 owed is disbursed directly from the Holding Account.

	Due ISO		Due SC		SC	Supplier
	Tot	BEEP/AS	Tot	BEEP/AS	Invoice	Settlements
Supl. 1	\$ 15	\$ -	\$ (31)	\$ (2)	\$ (16)	\$ 2
Supl. 2	\$ 35	\$ -	\$ (17)	\$ (3)	\$ 18	\$ -
Supl. 3	\$ 15	\$ -	\$ (37)	\$ (32)	\$ (22)	\$ 22
Supl. 4	\$ 35	\$ -	\$ (17)	\$ (16)	\$ 18	\$ -
Non-IOU	\$ 20	\$ 4	\$ -	\$ -	\$ 20	\$ -
IOU	\$ 36	\$ -	\$ (65)	\$ -	\$ (29)	\$ -
CDWR	\$ 149	\$ 49	\$ (138)	\$ -	\$ 11	\$ -
Total	\$ 305	\$ 53	\$ (305)	\$ (53)	\$ -	\$ 24

For Supplier 1: The ISO market owes Supplier 1 \$16, but Supplier 1 provided only \$2 of BEEP/AS. CDWR will cause the supplier's \$2 BEEP/AS payment to be made through Supplier Settlements.

For Supplier 2: Supplier 2 owes the ISO \$18 net for service provided by the ISO and has provided \$3 of BEEP/AS.

For Supplier 3: Supplier 3 has provided \$32 of BEEP/AS, but Supplier 3 has net payments owed by the ISO market of \$22.

For Supplier 4: Supplier is owed \$16 for BEEP/AS, but Supplier 4 owes the ISO market net \$18.

Payables and receivables are adjusted according to the method in Step 5:

	Due ISO		Due SC		Invoice	Supl Adj'd	CDWR Adj'd	SC Adj'd
	Tot	BEEP/AS	Tot	BEEP/AS				
Supl 1	\$ 15	\$ -	\$ (31)	\$ (2)	\$ (16)	\$ 2	\$ -	\$ (14)
Supl 2	\$ 35	\$ -	\$ (17)	\$ (3)	\$ 18	\$ -	\$ -	\$ 18
Supl 3	\$ 15	\$ -	\$ (37)	\$ (32)	\$ (22)	\$ 22	\$ -	\$ -
Supl 4	\$ 35	\$ -	\$ (17)	\$ (16)	\$ 18	\$ -	\$ -	\$ 18
Non-IOU	\$ 20	\$ 4	\$ -	\$ -	\$ 20	\$ -	\$ -	\$ 20
IOU	\$ 36	\$ -	\$ (65)	\$ -	\$ (29)	\$ -	\$ -	\$ (29)
CDWR	\$ 149	\$ 49	\$ (138)	\$ -	\$ 11	\$ -	\$ (24)	\$ (13)
Total	\$ 305	\$ 53	\$ (305)	\$ (53)	\$ -	\$ 24	\$ (24)	\$ -

The table below depicts market positions after adjustments:

	Due ISO		Due SC		SC Adj'd
	Tot	BEEP	Tot	BEEP	
Supl 1	\$ 15	\$ -	\$ (29)	\$ -	\$ (14)
Supl 2	\$ 35	\$ -	\$ (17)	\$ (3)	\$ 18
Supl 3	\$ 15	\$ -	\$ (15)	\$ (10)	\$ -
Supl 4	\$ 35	\$ -	\$ (17)	\$ (16)	\$ 18
Non- IOU	\$ 20	\$ 4	\$ -	\$ -	\$ 20
IOU	\$ 36	\$ -	\$ (65)	\$ -	\$ (29)
CDWR	\$ 149	\$ 49	\$ (162)	\$ (24)	\$ (13)
Total	\$ 305	\$ 53	\$ (305)	\$ (53)	\$ -