



**California ISO Payment Acceleration Project  
Responses to Written Comments/ Questions  
January 3, 2005**

## **From: Sempra**

### **Comment/ Question:**

SES would support the CAISO PAP.

It would seem that the first settlement will have large amounts of UFE charges/credits because of the amount of estimation on the load data, compared to the real data from the generation and tie-meters. This may be an issue that needs to be considered in the settlement processes.

I suggest that the CAISO hold a workshop to investigate methods to improve the accuracy of the load forecasting used for the initial SQMD submission, to improve the accuracy of the first settlement, in particular the Imbalance Energy and UFE charges. I've got some ideas of methods that would involve the use of the UDC's published load profiles. The 5-day reporting window may need to be moved to 7 business days, given that some UDCs don't publish profiles for 5 days, at times.

### **CAISO Response:**

We too are interested in how close the measurement file will be to the actual SQMD (by hour and by day). In our conversations with SCs, some stated that their present load forecasting is very good (some within a few percent). This is an area that the Market will be able to do some testing. You could even test your method today by comparing your process results against the real SQMD. (The ISO does not need to have the new settlements system in place to do this type of comparison.) We encourage the SCs to consider alternatives in creating the measurement file. The idea of holding a workshop to discuss various methods to formulate an SC Measurement file is a great idea. The ISO can facilitate a meeting with interested parties in 2005.

The 5 business day reporting will need to be reviewed due to this and other comments. Any changes to the first date will have an effect on the month end publishing. If the UDC publishes the load profiles by 5 days, then a small shift might be reasonable (6 B). We will review the impact of changing the due date for the measurement file to the overall payment calendar.

### **Comment/ Question:**

Wouldn't it be appropriate to charge/credit the SC for interest on the under/over payments that resulted from under/over reporting of load? If the CAISO assigns penalties for inaccurate reporting, will SCs that are accurate receive these monies to encourage them to develop systems and processes?

**CAISO Response:**

We heard in our discussions that the use of penalties would not be appropriate for this situation. The charging of interest for both under and over payments could add additional complication that will not be beneficial to the market. The ISO will monitor all metering submittals and may revert to final schedules when SC data appears to be inaccurate or incomplete. If the problem persists with certain SCs, the ISO will seek other remedies.

**Comment/ Question:**

Have you discussed this proposal with the vendors that are providing MDEF related services in California?

**CAISO Response:**

Our initial discussions were with SCs. We would like to discuss the proposal with ESPs and MDMAs. We ask that the SCs provide us some contacts to talk to as well as we are planning to attend the California retail market meetings to discuss the impact of the payment acceleration on the MDMAs' and ESPs' processes.

**From: APX**

**Comment/ Question:**

The CAISO may want to consider not settling some charge codes on the Initial Statement (based on the early Measurement File) and waiting until the First True-Up Statement when actual Settlement Quality Meter Data is available. Specifically, Charge Code 406 (Unaccounted for Energy) and possibly Charge Code 407 (Uninstructed Energy) for loads.

**CAISO Response:**

The CAISO has looked at two alternatives. The first is to settle only a percentage of the total dollars on the initial statement. The second is to exclude certain charge types on the initial statement. Based on our initial meetings with SCs, the first alternative looks preferable. This alternative allows us to protect the market from the affects of metering error by the percentage set, it does not create a neutrality issue as is the case if we settle certain charge types for some resources and not others, and still allows us to collect on our highest dollar charge types (Uninstructed Energy being one of them).

**Comment/ Question:**

If the CAISO imposes a charge to SCs that under report load or over report generation based on a large difference in the early Measurement File and the actual SQMD file, the

CAISO may want to consider a "grace period" before imposing these fees in order to give LSE's an opportunity to improve their estimation processes.

**CAISO Response:**

The Market will have an opportunity to determine what the possible cost shifts that will occur with the measurement file. We will need to consider the appropriate action once we have more data to review. Also please note the comments above on interest and penalties.

**From: AES**

**Comment/ Question:**

AES agrees with the payment acceleration initiative. The accelerated payment initiative will allow AES to receive payments faster, and allow five (5) more business days to review/dispute preliminary settlement data. Our only concern is how the "catch-up" of preliminary settlement data will occur? For instance, we are currently 40+ days behind in preliminary settlement data. Will there be an extended review/dispute timeframe for this "catch-up" of preliminary settlement data?

**CAISO Response:**

The ISO has discussed internally the details of transition between the current calendar and the new accelerated payment calendar. It could occur all at once or perhaps transitioned more gradually over a 2-month period. This matter should be further discussed in a workshop with participants to decide on payment calendar details.

**From: SDGE**

**Comment/ Question:**

SDG&E has reviewed the Whitepaper and has a number of technical comments. SDG&E's comments do not imply endorsement of the Payment Acceleration Project. The comments are presented by first quoting an excerpt from the Whitepaper, followed by SDG&E's comments.

Page 6 : SC's must submit the measurement file no later than T+5B for the initial statement. (In parallel, the CAISO needs 5B days to gather and verify polled meters and perform the VEE)

Comment: The current timeline for SC SQMD is based on calendar days, not business days, which simplifies automated processes. The estimated measurement file timeline should also be based on calendar days. The calendar day equivalent to T+5B is T+7C.

**CAISO Response:**

We will be evaluating the due date for the measurement file due to a variety of questions. It appears that participants could submit data at T+7C, which would satisfy the T+5B requirement in all cases.

**Comment/ Question:**

Page 6: SCs must submit a measurement file using OMAR. (This is to maintain consistency with the current systems)

Comment: SDG&E's merchant function does not upload files directly to OMAR, instead SDG&E submits them via FTP which winds up in OMAR. SDG&E should be able to continue to use FTP for the estimated measurement file, consistent with the current practice for submitting SQMD.

**CAISO Response:**

The SC will be able to use the FTP server to submit their measurement file. However, the functionality of submitting a measurement file that is in csv format will be available either through OMAR on-line or the FTP server.

**Comment/ Question:**

Page 6: Market clearing will occur no later than month end +20C days. (This is to make our payment calendar similar to that of the Western Markets)

Comment: Western practice is to invoice by the 10<sup>th</sup> calendar day and pay no later than the 20<sup>th</sup> unless the 20<sup>th</sup> falls on a holiday or weekend. The ISO's proposal is not consistent with that. The ISO proposal to invoice no earlier than the 9<sup>th</sup> business day would result in invoice issuance no sooner than the 11<sup>th</sup> and as late as the 15<sup>th</sup>. This gives very little time to review very complex charges. Invoices with non-ISO counterparties normally are based on schedules or metered output which is straightforward to verify.

**CAISO Response:**

The primary objective of the payment acceleration initiative was to seek financial clearing no later than 20 calendar days after the end of a month. This was selected because it is consistent with Western practices and is approximately equivalent to practices at other ISOs. The ISO's proposal would put invoice issuance at trade month + 9 business days (B), and invoice payment at trade month + 14 B. When this converts to

calendar days, invoice payment is due/made very close to 20 calendar days (C), which is the western standard. For example, using the 2004 calendar, under Payment Acceleration the invoice payments for January, March, April, September, and November would be the same as 20 C. The remaining months would financially clear between 18–21 C, which is very close.

**Comment/ Question:**

Page 7: Interval metering at each SC Metered Entities metering facility (both Load and Generation) that is polled and processed prior to T+5B would be the preferred option and would be providing actual Settlement Quality Meter Data. It is understood that this is not being done for all retail load customers; however there are certain CPUC initiatives that could make this possible (or at least increase the percentage of data processed through interval metering).

Comment: The ISO should not be basing its proposal on something as uncertain as a CPUC initiative. There is no assurance of whether or when the CPUC will act on this initiative.

**CAISO Response:**

The ISO agrees with this comment. We are not basing our proposal on the results of the CPUC initiative. However, we did want to point out that if the infrastructure for advance metering were put into place, this would certainly increase the quality of the meter data that would be available in the T+5B timeframe.

**Comment/ Question:**

Page 8: The CAISO is considering a charge to SCs that underreport load or over report generation based on a large difference in the early Measurement file and the actual SQMD file. This charge could be a specific interest rate applied to the amount of energy beyond a set bandwidth.

Comment: It is not appropriate to even consider such a charge when estimated data is being used. In less than a month after the initial estimate, the ISO will rerun everything and issue a revised invoice. If the ISO finds estimates to be that unreliable, it can always substitute its own estimate or use hour ahead final schedules.

**CAISO Response:**

This is a very good point and will be further considered. The default approach suggested above to use final schedules could be implemented in cases where SC data appears inaccurate or incomplete. Again the ISO welcomes other comments on this item.

**Comment/ Question:**

Page 8:

- First True Up Statement: SC required to submit SQMD at T+47C.
- Second True Up Statement: SC may submit corrected SQMD at T+65C.
- Third True Up Statement: SC must submit any corrected SQMD based on approved Billing Inquiries by T+11M. No corrected SQMD will be accepted unless identified on a Billing Inquiry.
- Fourth True Up Statement: SC must submit any corrected SQMD that resulted from audits (SC Self-Audits as well as ISO's SQMD audits), GFN's, or ADR's.

Comment: Western practice allows disputing any charge up to 2 years from the trade month regardless of what has been previously settled. The ISO's proposal is self-serving in that it facilitates the ISO's processing of settlements but unnecessarily restricts the rights of participants to dispute invoices.

**CAISO Response:**

Participants have repeatedly demanded more finality and fewer reruns. The sunset proposal is designed with that in mind. If several participants require a longer timeframe, the CAISO will develop an alternate calendar with this in mind. Other comments are requested on this item.

**From: Calpine**

**Comment/ Question:**

Calpine Energy Services, L.P., and Calpine Corporation (jointly Calpine), appreciate this opportunity to comment on the California Independent System Operator Corporation's (CAISO) Payment Acceleration Project Whitepaper dated October 25<sup>th</sup>, 2004, (Whitepaper) and the CAISO's Scheduling Coordinator Credit Policy Review, dated November 10, 2004 (Credit Policy Review). Calpine heartily endorses the CAISO's efforts to reduce credit risk, including enhancing market access and participation through accelerated settlements.

As discussed further below, Calpine further encourages the CAISO to: (i) to assess the feasibility of moving to weekly billing given recent developments in other ISOs and at the Federal Energy Regulatory Commission (FERC); (ii) explore the feasibility of market clearing; (iii) update its benchmark study to reflect recent improvements in settlements and billing by peer ISOs/RTOs; and (iv) expand stakeholder participation in the development of an accelerated payment calendar, as well as other improvements in the CAISO's credit policies.

## Settlement and Billing Cycle Reduction

In the Whitepaper Executive Summary, the CAISO states that (a) the CAISO payment calendar currently poses undue credit risk to market participation based on the amount of time from trade date to market clearing, and (b) that this increased risk hinders resource availability from out-of-state resources, complicates credit management, and exposes market participation to unacceptable risk in the event of defaults and bankruptcies. To reduce this “undue” credit risk as well as other settlement improvements, the CAISO has proposed market clearing 20 days after the end of the trade month, with an implementation date sometime in early 2006.<sup>1</sup>

Presently the CAISO current payment calendar defers initial settlement of market charges for up to 90 days<sup>2</sup>, and as the CAISO notes in its Whitepaper, this is longer than any other energy market, and poses unnecessary risks of defaults or bankruptcies. Moreover, the CAISO states that payment acceleration would significantly reduce required security requirements, as the current method of calculating of credit assurance requires that the Scheduling Coordinator (SC) post three months worth of credit with the CAISO in order to participate in CAISO administered markets.<sup>3</sup>

While Calpine appreciates CAISO’s recognition of the credit risks and impact on market participation on CAISO administered markets imposed by CAISOs present settlement cycle, Calpine strongly believes that CAISO should use this opportunity to assess the feasibility of moving to weekly billing, as other ISOs have successfully implemented, or are in the process of implementing.

Weekly billing has shown to provide significant reductions in loss mutualization within ISO markets, and similarly significant reductions in collateral required by market participants to participate in those markets. In the case of NEPOOL, ISO-NE data indicates that there is a significant impact on collateral requirements from shortened settlement cycles, where ““ISO-NE project[ed] that the overall amount of financial assurance required in the Pool would be reduced from approximately \$176,791,000 currently to \$58,128,000”<sup>4</sup>. While a projected reduction of over \$118 million in collateral requirements is a significant improvement to market efficiency by itself, this projected reduction illustrates the even greater magnitude of reduced risk of a default to all market participants. Since the implementation of weekly billing, ISO-NE staff has

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<sup>1</sup> Whitepaper, pg. 3. CAISO also identified other potentially significant settlement improvements including more flexibility with the dispute window and implementing sunset provisions for settlement changes.

<sup>2</sup> Per the CAISO 2004 Payment Calendar, GMC and Market Preliminary invoice due by 10 AM T + 43 Business Days from the end of the month of the trade month.

<sup>3</sup> Whitepaper, pg.4.

<sup>4</sup> Memorandum to NEPOOL Participants Committee re: Amendments to Billing Policy and Financial Assurance Policies to Implement Weekly Billing, Paul Belval and Scott Myers, NEPOOL Counsel, February 12<sup>th</sup>, 2004



confirmed that weekly billing has reduced NEPOOL exposure from market participants by approximately 65%.<sup>5</sup>

In the instance of NEPOOL, the estimated reduction of collateral of \$118 million was based on moving from a settlement cycle that was approximately 55 days (mid-month following the month of delivery). The CAISO only proposes shortening its initial settlement cycle from its current 85-90 days to the mid-month following delivery. Clearly, based on the NEPOOL experience, further substantial reductions in the risk of loss mutualization and collateral from the 50-ish days CAISO proposes, are not only possible, but have been realized by NEPOOL to the benefit of all its markets stakeholder.

Not only has FERC accepted and NEPOOL successfully adopted weekly billing, but MISO also recently filed with FERC its “Day 2” Tariff, which has been conditionally accepted, and which also provides for weekly billing. Calpine further understands that SPP is currently working with its stakeholders to develop a weekly billing settlement cycle, and that these efforts are ongoing. Moreover both PJM and NYISO are subject to FERC Orders to explore through its stakeholder process if additional changes can be made to the settlement or credit procedures including accelerated billing<sup>6</sup>.

In addition, a very recent development in the area of accelerated settlements is the FERC Policy Statement on Credit Related Issues dated November 19, 2004. While the Policy Statement addresses many different credit related areas of ISO/RTO administered markets, FERC has stated through this Policy Statement that it supports accelerated settlements, including weekly settlement, and explicitly references the expected benefits of weekly billing.<sup>7</sup> The Policy Statement requests that ISO/RTOs report back within 90 days their progress in implementing among other things shortened settlement periods.

### Market Clearing

Calpine would also suggest that CAISO explore the feasibility of market clearing, as Calpine is aware that there are several clearing solutions proposed for the ISO/RTO marketplace today, and other ISO/RTOs have had varying degrees of review of the feasibility of market clearing in their market. In fact, in ERCOT administered markets, ERCOT has issued an RFP to have a 3<sup>rd</sup> party administer (clear and settle) its planned Day Ahead Market in 2005.<sup>8</sup>

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<sup>5</sup> ISO-NE staff update to the NEPOOL Budget and Finance Committee on the impact of weekly billing on NEPOOL administered markets

<sup>6</sup> 104 FERC ¶ 61,311 (Sept. 22, 2003) –NYISO and 104 FERC ¶ 61,309 (Sept. 22, 2003) –PJM. Both PJM and NYISO have made status filings, and continue to work with their stakeholders on these issues.

<sup>7</sup> 109 FERC ¶ 61,186 (November 19, 2004)

<sup>8</sup> ERCOT Board of Directors, on the endorsement of the Technical Advisory Committee, and as approved by the stakeholders at the Wholesale Markets Subcommittee (July 17, 2004), approved ERCOT issuing a RFP on July 28, 2004 requesting a 3<sup>rd</sup> party to provide proposals to clear and settle the Day Ahead Market, as mandated by PUCT Rule 25.501 (either ERCOT or contracted).

**CAISO Response:**

Weekly Invoicing: Because of the significance of the change to payment acceleration, the CAISO believes that monthly invoicing is more appropriate initially. The CAISO is programming its systems and processes to accommodate a change to weekly invoicing in the future and encourages participants to consider this in their planning. The CAISO has discussed the NEISO's weekly invoicing and sees their approach very viable. The CAISO is also aware of the recent FERC policy statement on credit related issues.

The CAISO is closely watching the evolution of third party clearing houses, and has met with two companies that are proposing solutions. An energy-clearing house that could assume credit management and collection responsibilities, while giving participants the benefits of multi-lateral netting, appears very attractive. The CAISO will monitor these activities, and especially the PJM process and looks forward to working with participants to evaluate when to consider such a shift in the CAISO markets.