

# Stakeholder Comments Template

## Subject: Payment Acceleration Proposal

Submitted by	Company	Date Submitted
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### 1. Bifurcation of DA/RT, Estimation & Settlement Timeline Options

During the Payment Acceleration Stakeholder meeting on October 16<sup>th</sup>, 2008, alternatives were discussed in regards to the Settlements timeline, estimation, and bifurcation of DA/RT settlements. The following options were discussed:

- **Option #1** - Add a Settlement calculation at T+9B (in addition to the proposed 'DA only' calculation at T+2B). This would provide a settlement run for RT charges prior to the proposed T+50B timeline, as well as allow for a DA/RT bifurcation at T+2B. The T+9B calculation would use one of the following estimation options absent polled or SC submitted data availability:
  - DA IFM Schedules Only
  - DA IFM + adjustment based on CAISO Actual Load
  - Current Credit Liability Meter Data estimation (uses the IFM DA schedule and adder of +/- 10% factor (or other % Factor).

In addition, T+9B would replace the T+7B credit run.

	Timeline	Estimation
Option #1	T+2B – DA Only T+9B – DA &RT T+50B – 1 <sup>st</sup> true-up T+100B – 2 <sup>nd</sup> true-up T+18M - 3 <sup>rd</sup> true-up T+35M - 4 <sup>th</sup> true-up	One of three proposed options (i.e. DA IFM schedules)

*SCE does not support the CAISO option #1 for two main reasons. First, option #1 introduces an additional settlement statement at T+9B for the settlement of real-time charges prior to the T+50B settlement statement. Given the goal of option #1 is to bifurcate day-ahead and real-time charges, SCE views this additional settlement statement at T+9B as adding unnecessary complexities and confusion to payment bifurcation. Second, Option #1 is dependent upon estimated meter data and/or adjustments for T+9B settlements. Consistent with previous comments, SCE strongly opposes any estimation methodology that is largely based on the use of day-ahead schedules. Under any of the proposed estimation options, given the inequity that exists in the requirements for SC's bidding load in the day-ahead market, incentives exist for*

*loads that under-schedule in the day-ahead market in order to postpone payment for energy consumption until T+50B. In addition, two of the three estimation methodologies proposed will place additional financial risk on SC's because they will in essence be subsidizing the initial costs for all or a large portion of the load that under-schedules in the day-ahead market.*

- **Option #2** - Replace the proposed T+2B DA Only Settlement calculation with a T+5B calculation that includes both DA and RT charge codes. The T+5B calculation would use an estimation methodology based upon hourly load forecast data, which is used for all real-time load settlement calculations prior to receiving actual meter data. In addition, T+5B would replace the T+7B credit run.

Option #2	T+5B – DA &RT T+50B – 1 <sup>st</sup> true-up T+100B – 2 <sup>nd</sup> true-up T+18M - 3 <sup>rd</sup> true-up T+35M - 4 <sup>th</sup> true-up	DA schedules + hourly load forecast data
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*SCE does not support Option #2 because it requires SCs to submit hourly load forecast at T+5B timeline. Given the known challenges of accurate load forecasting, the potential gaming opportunities (day-ahead scheduling requirements), and the necessary rules, regulations, and enforcement protocol) that need to be in place, SCE feels that basing Initial real-time settlement on forecast data would introduce additional risk to the market, which don't exist today without providing much additional benefit. Moreover, uplift costs (DA, RUC, and RT) have the potential to dramatically shift between the initial settlement run and first true-up adding another layer of risk to participants who are required to schedule the majority of their load in the day-ahead market.*

- **Option #3 (SCE's Proposed DA/RT Bifurcation Proposal)** - SCE would like to propose the following alternative for Bifurcation to the CAISO and stakeholders for consideration:

**Option #3 - SCE's Proposed Settlement Statement Timeline:**

	Timeline	Description
SCE's Option	T+2B (Initial Settlement) T+7B T+38B (1 <sup>st</sup> True-up) T+51B (2 <sup>nd</sup> True-up) T+100B (3 <sup>rd</sup> True-up) T+18M (4 <sup>th</sup> True-up) T+35M (5 <sup>th</sup> true-up)	Bifurcate DA Settlement for Charge Codes 6011 and 6301 only Credit Exposure Run Complete DA + RT Settlement using Actual Meter Data True-up to T+38B True-up to T+51B True-up to T+100B – as needed True-up to T+18M – as needed

*SCE recommends a bifurcation approach which requires the CAISO to issue its Initial Settlement at T+2B based on only two charge codes:*

- 1) 6011 (Day Ahead Energy, Congestion, and Loss Settlement), and
- 2) 6301 (Day Ahead Inter-SC Trades Settlement)

*SCE's proposal also requires the CAISO to speed up the publishing of the 1st and 2nd true-up settlement statements to be consistent with the timelines which will be in place at the start of MRTU. Specifically, SCE's proposal requires the CAISO to publish the 1<sup>st</sup> True-up Settlement, at T+38B instead of the proposed T+50B and publish the 2<sup>nd</sup> True-up Settlement at T+51B instead of the proposed T+100B. Under SCE's proposal, the T+38B settlement statement will include all settlement charge codes for the day-ahead market as well as all charge codes for the real-time market using actual meter data.*

### **Credit Exposure Calculation**

*Under SCE's proposal, the CAISO will be required to perform a credit exposure calculation, using ISO polled meter data, for generators that fail to operate to the levels of their day-ahead schedules. Using the T+7B credit check run results (included in the CAISO's proposal), the CAISO will need to determine the generators daily financial exposure and include that value in the SC's Estimated Aggregated Liability (EAL) calculation to be used in the collateral requirement calculations.*

### **Invoicing**

*SCE's proposal prefers invoicing on a "fixed" date of the 20<sup>th</sup> day of every month. The CAISO's monthly invoices should include trade dates that encompass a full month of Initial Settlement statements. In addition, SCE's proposal includes invoicing full month of subsequent True-up Settlement statements on separate monthly invoices. SCE provides the following example to further illustrate our invoice proposal to show how it integrates with the SCE's proposed settlement statement timeline:*

- On October 20<sup>th</sup>, 2008 the CAISO will issue the initial invoice for September 2008. The initial invoice for September 2008 will consist of the 30 (T+2B) settlement statements produced for the month of September. Under SCE's proposal, the Initial invoice will only cover charge codes 6011 and 6301.*
- Also on October 20<sup>th</sup>, 2008 the CAISO will separately issue the 1<sup>st</sup> true-up invoice for the month of July 2008. The 1<sup>st</sup> true-up invoice for July 2008 will consist of the 31 (T+38B) settlement statements produced for the month of July. Under SCE's proposal, the 1<sup>st</sup> true-up statement will include all day-ahead settlements as well as all real-time settlement using actual meter data.*

*Lastly, if the CAISO adopts SCE's proposed Bifurcation approach, and the CAISO demonstrates settlement system stability of a period of time SCE would be open for discussions on the possibility of reducing the timeline for the issuance of the initial invoice to a semi-monthly basis*

### **Interest**

*SCE feels strongly that interest must be a part of the payment acceleration proposal. SCE's interest proposal is based on the underlying assumption that the charges/payments for charge codes (6011 & 6301) will not change after the initial invoice is issued. Based on that underlying assumption interest, under SCE's proposal, interest should be charged on all*

*delta's between the 1<sup>st</sup> and all subsequent true-ups. Interest is not needed between the Initial and the first true-up because the settlements of those two charge codes should not change.*

*Lastly, SCE recommends the CAISO to discuss with stakeholders on an appropriate interest rate (e.g. "FERC" or "Prime + 2%" interest rate) for Payment Acceleration.*

## 2. Methodology for Estimating Meter Data

SCE has suggested the CAISO to seek additional alternatives to the three estimation options presented on September 18<sup>th</sup>. In particular, SCE recommends the CAISO to investigate the meter estimation methodology used by the New York ISO. It is their understanding that the NYISO methodology is based upon hourly load forecast data which is used for all real-time load settlement calculations prior to receiving actual meter data. NYISO has been using this methodology since its market inception in 1999 and may provide the CAISO with a fair and viable alternative to the estimation approaches currently being proposed.

CAISO is exploring this option. Would you support an estimation methodology based on hourly load forecasts?

*If SCE's proposal is accepted for Bifurcation DA/RT, there will not be a need to develop methodology for estimating meter data since settlements across all timelines will be based on actual meter data.*

## 3. Implementation Schedule

Do you support the phased implementation approach discussed in the October 16<sup>th</sup> Stakeholder Meeting? Assuming invoicing remains the same as the MRTU implementation (monthly at month-end), could you support an accelerated timeline within 1-3 months post MRTU go-live? .

*The CAISO's phased implementation approach does not present fully functional Payment Acceleration rules (e.g. interest) for Phase I deployment. Due to incompleteness, SCE does not support the phased implementation approach and strongly urges the CAISO to have all rules fully functional before it proceeds with the implementation of Payment Acceleration.*

## 4. Invoicing

Would you support an invoice solution that meets the following criteria?

- Does not mix initial and true-up statements from previous accounting months
- Includes trade dates from a specific month only, but not necessarily includes trade dates that encompass a full month (i.e. could include a partial month).
- Monthly charges are on invoice that included the month end date.

Please provide detailed examples of your preferred invoicing solution.

*Discussed in SCE's bifurcation proposal above.*

## 5. Other Comments?

*Discussed in SCE's bifurcation proposal above.*

## 6. Conclusion:

*In summary, SCE strongly believes that there are significant benefits to our DA/RT Bifurcation proposal in achieving certainty and accuracy with payment acceleration settlements.*

*Therefore, SCE will support the DA/RT Bifurcation concept only if the CAISO accepts SCE's DA/RT Bifurcation approach. The following are benefits to SCE's Bifurcation Proposal:*

- 1. Since the 1<sup>st</sup> true-up Settlement will be based on **actual** meter data, there will be no need for any manual adjustments, +/- 10% adders, or load forecast. Since the 1<sup>st</sup> true-up Settlement will be based on actual meter data, any variations will be minimal, which will enable improvement for 2<sup>nd</sup> true-up Settlement timeline to T+51B instead of T+100B.*
- 2. Initial Settlement based on charge codes 6011 and 6301 will reflect **actual** Day Ahead schedules for both Energy and Inter-SC Trades.*
- 3. Based on the 1<sup>st</sup> true-up Settlement obtaining **actual** meter data, estimation of meter data will no longer be needed.*

*Lastly, SCE would like to reiterate the importance of interest provision as a "must" for the implementation of payment acceleration. If the CAISO adopts SCE's DA/RT Bifurcation proposal, the interest should be applied between 1st and subsequent true-up statements.*