

# Stakeholder Comments on: The CAISO's Payment Acceleration Project

Submitted by (Name and phone number)	Company or Entity	Date Submitted
Edwin Tso (626) 302-9712	Southern California Edison	September 16, 2008

Southern California Edison Company ("SCE") hereby submits its initial comments on the California Independent System Operator's ("CAISO") draft Proposal on the Payment Acceleration Project, dated September 2, 2008.

## I. Introduction

SCE appreciates the opportunity to submit comments regarding the Payment Acceleration Project. The CAISO's payment acceleration proposal raises several significant issues that must be fully vetted before any payment acceleration proposal is filed with FERC. SCE urges the CAISO to conduct a thorough stakeholder process to address these issues. The CAISO's payment acceleration proposal includes a fundamental shift in the way settlements are conducted – initial settlements would be based upon *estimated* metered data, not settlement quality meter data (SQMD). Any proposal to base settlements upon estimated meter data must ensure that there are not any financial incentives to submit unreasonable estimates of load or generation. SCE provides detailed comments below.

## II. Any Settlement Proposal Based Upon Estimated Data Must Reflect Interest:

The CAISO's payment acceleration proposal would result in an initial settlement statement based upon *estimated* metered data (submitted by SCs at T+5B). Having settlements

based upon estimated metered data introduces several issues that are not relevant in today's settlement system or the settlement system in the current MRTU Tariff. The fundamental question that must be answered is this – How will the CAISO's Tariff ensure that initial settlement statement is just and reasonable given that it is based on *estimated* meter data?

Any proposal to base settlements upon estimated meter data must ensure that there are not any financial incentives to submit unreasonable estimates of load or generation. The CAISO's payment acceleration proposal does not include any standards regarding the accuracy of SC's estimated metered data submitted at T+5B. Indeed it is not even clear whether the SCs of generators with settlement quality metering would have to submit estimated metered data or would have their initial settlement based upon the CAISO polled meter data. It is SCE's position that generators with settlement quality meters have their initial settlement statements based upon the CAISO's polled meter data. SCE does not recommend that the CAISO pursue the development of guidelines for SCs to submit estimated metered data. Instead, SCE recommends that the CAISO apply interest<sup>1</sup> to the difference between the initial settlement statement based upon estimated metered data and the first true-up statement. The application of interest in this manner will eliminate the opportunity for an SC to gain an unjust or unreasonable advantage by estimating a value for its load or generation that would result in the SC, in essence, getting a 41 day interest free loan through the CAISO settlements. For example, an SC with a 100 MW load could estimate its load to be 70 MW and thus could gain a 41 day interest free loan on 30% of the amount money it owes the CAISO. Without the application of interest, SCE cannot support the use of estimated metered data for settlement purposes.

While the application of interest from the estimated metered data to the first true-up eliminates the opportunity for SCs to obtain an interest free loan, interest alone may not be a sufficient incentive for SCs to use best efforts to submit reasonable values for their estimated meter data. SCE encourages the CAISO to consider whether the Rules of Conduct in Section 37

---

<sup>1</sup> An appropriate rate (e.g. "FERC" or "Prime +2%" interest rate) needs to be discussed with stakeholders.

of its MRTU Tariff are sufficient to discourage SCs from not reporting unreasonable estimated meter data. If the CAISO believes those conduct rules aren't sufficient, then the CAISO should discuss with stakeholders what changes it believes are necessary.

While SCE recognizes that interest is not applied to settlement true-ups today (nor has it been since the CAISO began operations in 1998), with a proposal to have settlements based upon estimated metered data, interest must be applied between the initial settlement and the first true-ups to present an equitable approach to avoid any potential winners/losers with settlement transactions. Indeed other ISOs (e.g. New York ISO) do apply interest between true-ups. Interest applied between the initial settlement and the first true-up is required to prevent SCs from obtaining interest free loans from the CAISO's settlement process. The application of interest to subsequent true-ups (i.e. after the first true-up) should be reviewed and discussed in the CAISO's stakeholder process on payment acceleration.

With the application of interest and the Rules of Conduct in Section 37 of the CAISO's MRTU Tariff, SCE does not believe it is necessary to have the CAISO's proposed arbitrary 10% adjustments to load or generation final hour-ahead schedules if SCs fail to submit estimated metered data.

### **III. Invoice Date:**

Presently, the CAISO is proposing to process settlement invoices on every 3<sup>rd</sup> Tuesday of each month. For better manageable and organized process, SCE recommends the CAISO to apply a "fixed" date rather than constant changes of date on every 3<sup>rd</sup> Tuesday of each month. Moreover, SCE prefers the "20<sup>th</sup> of every month" as the appropriate date for the settlement invoices, which is similar to the CAISO's proposal, 3<sup>rd</sup> Tuesday of each month.

#### **IV. Mixing Initial and True-up Statements Across Different Accounting Months on the Same**

##### **Invoice:**

SCE does not support the CAISO's proposal to invoice a mix of initial and True-up settlement statements from previous accounting months on the same invoice. SCE feels that the current proposal negatively impacts SCE's ability to efficiently process settlement statements consistent with industry accounting, reporting and payment standards. Therefore, SCE submits the following as an alternative to the CAISO's proposal.

The CAISO's monthly invoice should only include trade dates that encompass a full month rather than individual trade dates from various months. Specifically, an invoice should contain the prior months trade dates (initial month) and could also contain true-up months based on the CAISO's enhanced settlement statement timeline. The initial months invoice will include all day-ahead and real-time settlements for all trade dates of the given month. True-up months will be monthly settlement deltas between the prior and current true-up versions and should have interest applied for deltas between Initial and the first True-up Statements while subsequent true-ups should be reviewed and discussed in the CAISO's stakeholder process.

For example, assume payment acceleration is effective as of May 2009 and the current trading month is December 2009. Based on the CAISO's proposal on January 19<sup>th</sup> 2010 (3<sup>rd</sup> Tuesday) the CAISO will issue an invoice. That invoice would include the entire month of December 2009 (initial month) as well as the first true-up invoice (T+50) for September 2009 and the second true-up invoice for June 2009.

The combination of invoicing an entire month and the CAISO enhanced settlement statement timeline provide stakeholders with the structured schedule needed to properly prepare for and administer invoices issued by the CAISO.

**V. Calpine’s Proposal on Payment Acceleration Implementation Date and Bifurcate DA and RT Settlements:**

Given the challenges with the MRTU Project, SCE opposes the Calpine’s proposal of implementing the Payment Acceleration Project as one of the module with the MRTU go-live date. The launch date for Payment Acceleration should be discussed more thoroughly as the proposal is further developed, including the timing of MAP releases.

In addition, SCE does not support Calpine’s proposal to bifurcate DA and RT Settlements and requests the CAISO to continue with its plan to settle both DA and RT settlements together on the same invoice. Separating DA settlements from RT would result an unacceptable time delay to reflect financial adjustments due to performance differences from the DA vs. RT markets (e.g. generator trips or produces less than its DA schedule).

**VI. Conclusion:**

SCE strongly recommends the CAISO to develop a stakeholder process along with a project schedule that will allow a comprehensive review of these issues mentioned above before finalizing a proposal and filing it with FERC. Moreover, SCE strongly believes that the interest provision is a “Must” for the Payment Acceleration Project’s Go-Live date. Without the application of interest, SCE cannot support the CAISO’s Payment Acceleration Project.