

SDG&E Comments

December 2, 2008

The CAISO posted its Final Payment Acceleration Proposal on November 24, 2008 for stakeholder review. Comments are requested by December 2, 2008. SDG&E appreciates the opportunity to offer the following comments on the CAISO's Final Payment Acceleration Proposal.

Although San Diego Gas & Electric Company will not oppose other components of the CAISO's final proposal for payment acceleration under MRTU, major concerns still need to be addressed regarding the Deployment Schedule loosely described on page 16 of the proposal. It should not be assumed that the payment acceleration process will be implemented on the proposed expedited deployment schedule without unexpected problems resulting in potentially significant monetary impacts on market participants. Given current MRTU simulation challenges with settlements and invoice validation, there should be at least the same exit criteria established for implementation of the payment acceleration proposal as for the MRTU itself: completion of two consecutive months of accurate invoice calculations created in parallel with the authorized MRTU payment schedule invoices.

Other comments relating to those specific areas included in the proposed Deployment Schedule include:

1. CAISO Readiness: the proposal states that the System/Process changes will not be "finalized" until after completion of the discussions relating to this Final Proposal, but these changes need to be subject to stakeholder review prior to CAISO board approval and the FERC filing.
2. Market Simulation: this shows 1 or 2 months of simulation, but there should be at least 2 months of successful operations under a simulated payment acceleration schedule before actually switching over from the approved MRTU schedule. While this should be expected to go smoothly, it will enable market participants to practice with new internal controls and processes to effectively implement the new schedule for payments. The additional time to resolve any start-up disruptions, however, will be well worth it to market participants whose payments are substantial and have to be accurately determined from the beginning.
3. MRTU Stability: this shows just one "successfully" published MRTU monthly statement and invoice, but market participants need a minimum of two months of MRTU invoices to be produced consistently accurate and timely to verify that the change-over to payment acceleration will produce the results as expected and be processed successfully by support staff. This is especially true since the MRTU implementation itself will require close scrutiny during its initial months of operation. If there are unexpected problems with the introduction of MRTU, the prepayment acceleration deployment will need to be flexible enough to allow for additional delay until those issues are resolved.
4. Market Participant Readiness: a "checkpoint meeting" after MRTU go-live may not be sufficient a means to establish market participant readiness for implementation, especially since the CAISO proposal includes the calculation of interest and introduction of a new Charge Code for interest payments. Prior to such a meeting, developing and checking off a list of specific items or issues regarding internal processes and validation requirements would be appropriate as a minimum.
5. Initial Project Implementation Schedule: since this is based on a 03/01/2009 MRTU go-live date, the first Initial Market Invoice (for Mar09) will be published the third week in May09, with the Mar09 Recalc Invoice coming out the middle of Jun09. The 2d "successful" MRTU invoices for Apr09 would be published a month later than shown for the 1st MRTU invoice for Mar09. The proposed implementation

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shows a Market Simulation completed at month-end for May09 (for one month of simulation only) or Jun09 (for two months of simulation), with full implementation between the first of Jun09 and the first of Aug09. It is preferred to have the two months of "successful" simulation completed at month-end Jul09, with implementation not starting until the first of Aug09 at the earliest. These dates must be adjusted to account for any further delayed start-up of MRTU that may be approved by the CAISO board.

A final comment is offered that relates to the discussion in the Final Proposal about Convergence Bidding under the section on Bifurcation of DA/RT at page 6. Specifically, SDG&E recommends including a note that the Convergence Bidding market design has yet to be fully developed, tested or approved by stakeholders and is not expected to be introduced until much later than the proposed payment acceleration. Inclusion of the topic in this Final Proposal should not be construed as approval or acceptance by any market participants at this point.