

Memorandum

To: ISO Board of Governors

From: Nancy Traweek, Director, Market Services

Date: July 6, 2011

Re: **Decision on the Settlement Process Timeline Change**

This memorandum requires Board action.

EXECUTIVE SUMMARY

In May 2011, the California Independent System Operator Corporation Board of Governors reviewed and authorized Management to proceed with the necessary actions to implement the credit policy enhancements to support FERC Order 741-Credit Reforms in Organized Wholesale Electric Markets. At that time, Management stated that the ISO settlement team was engaged in a stakeholder process to make additional improvements to the ISO settlement timeline¹ and intended to implement these changes in conjunction with the credit reform items on October 1, 2011.

Management is seeking Board approval of the following five enhancements to the settlement process timeline:

- Shortening the timeframe between the scheduled settlement statement publications;
- Adding authority to process an unscheduled corrective action settlement statement;
- Adjusting the submittal timeline for settlement quality meter data;
- Modifying the sanction under the rules of conduct for inaccurate and timely settlement of settlement quality meter data; and
- Adjusting the invoicing method.

The changes recommended are in harmony with the concept of early market settlement and still provide the market participants additional time to submit the highest quality meter data needed for financial certainty.

Management believes these changes, in combination with the approved credit policy enhancements, will provide additional market settlement efficiencies for both the market participants and the ISO.

¹ The ISO settlement timeline provides market participants with the required dates for meter data submittals, settlement statement publication and invoice issuance, and available dispute periods.

Moved, that the ISO Board of Governors approves the proposed settlement process timeline tariff change as described in the memorandum dated July 6, 2011;and

Moved, that the ISO Board of Governors authorizes Management to make all necessary and appropriate filings with the Federal Energy Regulatory Commission to implement the proposed tariff change.

DISCUSSION AND ANALYSIS

The implementation of the credit reform enhancements accelerates the initial settlement statement by introducing a settlement statement three business days (referred to as T+3B) after the market trade day. The introduction of the T+3B settlement statement and the existing large gap between subsequent statements precipitated a re-evaluation of the timelines for settlements and meter data submittals. Therefore, an initiative was commenced to consider changes to the settlement timeline to provide a more effective and efficient overall settlement process.

The current settlement timeline includes three mandatory settlement statements published between seven business days and 76 business days after the market trade date. In addition, the ISO can publish three optional settlement statements. The optional statements are published as necessary to ensure any approved settlement corrections are performed prior to the settlement sunset date. The sunset provision in the tariff precludes settlement adjustments after three years, except in limited circumstances as directed by the Board or Commission order.

Shortening the timeframe between the scheduled settlement statement publications

The ISO and stakeholders reviewed the entire settlement cycle and determined that certain settlement statements could be accelerated in the current timeline. The chart below provides the present and proposed settlement statement publication dates. The last three statements will remain the same. Note “B” refers to business days and “M” refers to months in the table below.

Present Statements	Proposed Statements
T+7B	T+3B
T+38B	T+12B
T+76B	T+55B
Na	T+9M (optional)
T+18M (optional)	T+18M (optional)
T+35M(optional)	T+35M (optional)
T+36M (optional)	T+36M (optional)

Other changes are needed to adjust the dispute periods after the associated settlement statement publication to allow ample time for market participants to assess the results and submit disputes.

Additionally, there is a large gap of time for settlement if a settlement dispute or an ISO-discovered issue that is not resolved by the T+76B statement occurs. Settlement issues are then not financially settled until the next scheduled settlement statement at T+18M. The ISO is recommending an optional settlement statement at T+9M, to be used only when needed, to

close this gap and potentially move forward the opportunity for final settlement of a given trade date. This optional settlement statement is identified in the above chart.

Adding authority to process an unscheduled corrective action settlement statement

While the introduction of a T+9M optional settlement statement significantly closes a known gap, the ISO and market participants recognize that a sizeable gap also exists between the proposed T+9M statement and the T+18M statement. A further gap exists between the T+18M statement and the next opportunity to resolve issues at T+35M. Therefore, the ISO is recommending tariff changes to allow the ISO to recalculate and invoice a corrective statement for issues identified on either the T+9M statement or the T+18M statement that is later found to contain a material settlement calculation error that results in a significant market financial impact. Management believes that the appropriate criterion to perform this unscheduled corrective settlement is a fiscal impact greater than \$1,000,000 to the market as a whole for the given trading day.

Adjusting the submittal timeline for Settlement quality meter data

Settlement quality meter data is a critical component in the accuracy of market settlements. The ISO uses both ISO-gathered meter data (mainly generation, imports and exports) and scheduling coordinator-submitted settlement quality meter data (mainly load) for the billing quantities for market settlement. The proposed settlement statement timeline allows for associated changes to the submittal dates for settlement quality meter data. The due dates for meter data submittals to support the different settlement statements are provided in the chart below. The recommended due date of T+48B is an important change from the present due date. This change provides for two retail billing cycles to pass before the actual settlement quality meter data is required to be submitted to the ISO. The ISO and the majority of stakeholders believe that this additional time will reduce the need to resubmit revised meter data after the T+48B timeframe and provide for a more accurate market settlement earlier in the settlement timeline.

Meter Data Due Date	Settlement Statement
T+8B	T+12B
T+48B	T+55B
T+172B (window T+168 to T+172B)	T+9M

Modifying the sanction under the Rules of Conduct for Inaccurate and Timely Settlement of Settlement Quality Meter Data

In conjunction with these changes, a revision is recommended to the Rules of Conduct penalty related to the submittal of actual settlement quality meter data. Presently, if a scheduling coordinator submits corrected settlement quality meter data after the T+43 calendar day, deadline, an inaccurate meter data penalty applies. The penalty is based on the volume difference from the initial meter data submittal and the corrected submittal. The level of penalty is 30% of the value of the energy in error if identified by the scheduling coordinator and 75% if the error is discovered by the ISO. The sanction is in addition to interest charges calculated during the re-settlement process. The ISO believes that the current penalty is overly burdensome for submitting correcting meter data and that an appropriate incentive for the

market participants to submit accurate and timely settlement quality meter data would be a set sanction of \$1,000 for each trade day corrected. The ISO believes that this sanction and the changed timelines will incent market participants to put into place applicable controls to assure that settlement quality meter data is submitted by the required due date while still allowing a reasonable time for scheduling coordinators to gather and submit the data without incurring penalties. The ISO will monitor the frequency of this new penalty sanction in incenting appropriate meter data submittal behavior. If there appears to be a decline in scheduling coordinators' performance, the ISO will recommend an increased sanction.

Adjusting the invoicing method

With the weekly invoicing methodology created by the credit reform enhancements, the ISO is recommending that the billing periods on the invoices for the T+3B and the T+12B settlement statements be revised. The change will align the trade dates invoice for the T+12B recalculation period with the same trade dates invoiced during the T+3B initial period. The majority of market participants believe that this alignment would provide for efficient accounting and reconciliation.

POSITIONS OF THE PARTIES

The ISO conducted a stakeholder process over the past few months made up of the following meetings and conference calls – each with a corresponding written comment period:

- Web conference call to discuss Issue Paper – May 3, 2011
- Web conference call to discuss the ISO Straw Draft Proposal – May 19, 2011
- Web conference call to discuss the ISO Final Draft Proposal – June 16, 2011

Papers, proposals and all other related stakeholder meeting materials are available on the ISO Settlement Process Timeline Change Stakeholder Process webpage at <http://www.caiso.com/2b6b/2b6b81c056f40.html>. A stakeholder matrix summarizing the position of a representative sample of stakeholders accompanies this memorandum in Attachment A.

Stakeholders generally supported Management's proposals throughout the stakeholder process. However, certain stakeholders expressed concerns that the timelines for invoicing also should be changed. The final proposal accommodates the market participants' suggestions and provides for like trade dates in the invoices.

Stakeholders also requested that criteria be created to measure the impact of corrective settlement statements on an individual scheduling coordinator and to aggregate smaller corrections that may be needed over multiple days to get to the \$1 million threshold for an unscheduled corrective settlement. The ISO intends to use this correction settlement process rarely, and only when the error has a significant impact on the overall market. The ISO will indeed correct all of these issues; however, unless it is a significant impact to the market, it will be done on the next available settlement statement for that trade day rather than an unscheduled correction statement.

Management feels its proposal is reasonable and provides additional benefits to the market participants including a more efficient and accurate overall settlement process.

MANAGEMENT RECOMMENDATION

Management recommends the following changes to the settlement process timeline and associated activities:

- The publication of settlement statements and settlement dispute deadlines:

Proposed Statements
T+3B
T+12B
T+55B
T+9M (optional)
T+18M (optional)
T+35M (optional)
T+36M (optional)

Statement Publication	Settlement Dispute Deadline	Settlement Dispute Scope
T+12B	T+26B	All, but estimated meter data
T+55B	T+77B	All
T+9M (T+194B)	T+10M (T+216B)	Incremental changes only

- Propose tariff language to allow the ISO to process an unscheduled correction settlement statement after T+9M or T+18M if the appropriate criteria have been met.
- Meter data submittal at:

Meter Data Due Date	Settlement Statement
T+8B	T+12B
T+48B	T+55B
T+172B (window of T+168 to T+172B)	T+9M

- Change the calculation methodology of the sanctions for rules of conduct violations related to meter data submittals. First, the specific sanction for failure to submit actual settlement quality meter data by T+48B would be calculated as a \$1,000 penalty and the scheduling coordinator must submit settlement quality meter data for use in the T+9M settlement statement. The specific sanction for failing to submit settlement quality meter data for the subsequent T+9M settlement statement would be \$3,000. Second, for submittal of revised settlement quality meter data after T+48B, the sanction would be \$1,000 regardless of the size of the megawatt value change. All applicable settlement charge codes for the T+9M statement would be calculated based on the revised meter data and interest would be calculated and applied to the invoiced difference.
- Deviation interest changed to be calculated on a daily basis trade date by trade date.
- Align the T+3B and T+12B settlement statement billing periods for weekly invoices.