

Stakeholder Comments Template

Subject: Payment Acceleration Proposal

Submitted by	Company	Date Submitted
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This template has been created for submission of stakeholder comments on the following topics in regards to Payment Acceleration. Upon completion of this template please submit (in MS Word) to pacceleration@caiso.com. Submissions are requested by close of business on October 2nd, 2008.

Please submit your comments to the following questions for each topic in the spaces indicated.

1. Bifurcation of DA/RT Settlements

During the Payment Acceleration Stakeholder meeting on August 19th, 2008, Calpine presented a proposal to bifurcate the DA/RT settlements (proposal was posted for MP review on 8/20/08). CAISO is conducting an impact analysis on this proposal and to date has concluded the following:

- No legal or policy issues exist that would prevent a DA/RT market settlement bifurcation.
- System and process impacts exist, however; CAISO feels they are manageable.
- Due to system/process impacts, implementation would occur post MRTU go-live.
- Complexity of Meter Estimation is eliminated.

Please provide comments on any impacts this proposal would have on your systems and/or processes.

APX appreciates the CAISO's initial review of Calpine's proposal to bifurcate the DA/RT settlements. The CAISO's above conclusions make it appear that there aren't any significant issues associated with the bifurcation proposal and APX is in agreement with the CAISO's conclusions. However, there are some questions and recommendations that should be addressed.

The Calpine proposal has four main parts: (a) Bifurcation of day-ahead and real-time settlements, (b) Invoice the day-ahead market on a weekly basis, (c) Implement settlement bifurcation with MRTU Go-Live, and (d) Settle real-time markets on the current settlement schedule of 6-months after MRTU implementation. Below, APX provides a summary of our position regarding the support of the Calpine Proposal.

(A) Bifurcate Day-Ahead and Real-Time Settlements

Under Calpine's proposal the CAISO would perform settlements on the day-ahead market results shortly after the close of the day-ahead market and perform real-time settlement calculation at a later date when all real-time data is available. Creating an Initial Settlement Statement using data from the DA IFM Schedules eliminates the need to estimate meter data, the DA schedules will cover the majority of energy scheduled and this methodology is consistent with other ISOs. However, APX has the following questions regarding bifurcating settlements between day-ahead and real-time:

- **Load which does not schedule in the day-ahead market** – The August 18th FERC order addresses underscheduling of load in the day-ahead market imposes hourly charges to SC's whose actual metered demand exceeds scheduled demand cleared in the day-ahead market by greater than 15 percent. This will basically assure that the majority of demand, and the dollars associated with supplying it, are in the CAISO DA energy market.
- **RUC Settlements** - The Calpine proposal states that all data required to settle the Day-Ahead and RUC process is available after the DA Market closes. APX agrees with Calpine that RUC prices are available for payments to generators. However, it is very unlikely that there will be significant amounts of RUC procured outside of the quantity that is available from RA resources. APX recommends the ISO to consider the RUC settlements being deferred to the RT settlement process. Deferring RUC settlements to Real-Time wouldn't pose significant impacts to suppliers. Under MRTU, RUC should largely be supplied by RA resources that aren't entitled to capacity payments since they are compensated directly for capacity under their RA contract with LSEs

(B) Invoice the Day-Ahead Market on a Weekly Basis

Calpine's proposal calls for the CAISO to produce weekly invoices containing day-ahead market results. APX doesn't support weekly invoices due to the unnecessary overhead associated with banking on a weekly basis (given the possibility of the banking system to fail meeting such expectation) and more frequently than standard monthly accounting practices. Further it is not clear how the CAISO would address day-ahead price corrections particularly on trade days that have already been invoiced? According to the MRTU tariff Section 35.2 the price correction process for each trading day shall end on the 8th calendar day following the trade day. Potentially this would mean unnecessary corrections on subsequent recalculation statements.

(C) Implement Settlement Bifurcation with MRTU Go-Live

APX does not support the implementation of Calpine's Proposal for payment acceleration to occur alongside with the start of MRTU. Rather, APX supports the CAISO to continue conducting a stakeholder process to identify an alternative approach that incorporates all

stakeholders' issues and concerns as well as the time required to implement a payment acceleration program that addresses all stakeholders' needs.

(D) Settlement the Real-Time Market on the CAISO's Payment Acceleration Time Line

APX supports settling the Real-Time Market 6 months after MRTU Go-Live.

2. Methodology for Estimating Meter Data

CAISO held a conference call on September 18th, 2008 to discuss potential methodologies for estimating Meter Data at T+5B absent polled or SC submitted data availability. Options discussed are listed below:

- Using DA IFM Schedules Only
- Using DA IFM + adjustment based on CAISO Actual Load
- Use current Credit Liability Meter Data estimation (uses the IFM DA schedule and adder of +/- 10% factor (or other % Factor).

APX agrees with using the DA IFM Schedules Only as it aligns with the support of the Calpine Proposal. Using DA IFM Schedules Only will eliminate the need to estimate meter data and the methodology is consistent with other ISOs.

The three options presented by the CAISO use day-ahead schedules as a basis for the estimation process. Using the Day-Ahead Schedules with or without a 10 percent adder imposes additional costs and risks to large Load Serving Entities (LSE's) who are required to purchase a minimum of 95% of their load in the day-ahead market.

Under the CAISO's proposals, incremental load that show up in real-time will be classified as Uninstructed Imbalance energy (UIE) and allocated to LSE's using a load ratio share methodology based solely on day-ahead schedules. Additionally, because small LSE's (less than 500 MWs) are exempt from underscheduling charges, the potential for these LSEs to not schedule any of their load in the day-ahead market and purchase all of their load in real-time will exist.

Therefore, under the CAISO proposal, LSEs who do not schedule load in the day-ahead market will not get charged for their real-time purchases until the T+50B true-up. Instead, the CAISO's proposal treats the small LSEs load as UIE and will initially pass on the cost of that load to all LSEs who schedule load in the day-ahead market. The end result of this approach is that large LSEs in effect will be subsidizing the purchases of the small LSEs until the T+50B true-up.

APX strongly opposes credit liability meter data estimation methodology that adds additional costs and risks to its customers. The CAISO should research further the meter estimation methodology used by the NYISO (and other markets that have already developed reasonable and practical methodologies). The 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. ERCOT relies on load profiles based on historical loads for a 10-day period in its settlement.

3. Guidelines for SC submitted T+5B Meter Data

- “measurement file” guideline vs. SQMD requirement
- Determining accuracy for SC submitted “measurement file” or SQMD
- Responsibilities for compliance for SC submitted “measurement file” or SQMD

There are a number of SCs who use different methodologies for the estimation process. It would be very difficult for each market participant to identify the pros and cons for each guideline specified above. APX doesn't support the CAISO to require SCs to apply guidelines for their estimation process. APX recognizes the CAISO would like to obtain each market participant's view and perform an evaluation to ensure SCs submit practical estimated meter data. As previously stated, APX recommends the CAISO to support the Calpine Proposal.

4. In cases where Meter Data estimation is used, do you support applying interest charges on the variation between initial & true-up statements?

APX does not support applying interest charges on the variation between initial and true-up statements. Currently there isn't an interest charge assessed between preliminary and final settlement statements. The concept of payment acceleration is that you are receiving payment sooner to minimize any carrying costs. Since the true up should be relatively minor compared to the overall settlement, the effort and complexity associated with calculating and applying interest would be counter productive.

5. Implementation Schedule

Would you support a manual invoicing process to accelerate payments and cash clearing on an interim basis until the final Payment Acceleration solution can be implemented post MRTU go-live? The manual process would not require any SaMC external interface changes. It would be based on pre-payment of DA charge codes and be reflected on the SaMC invoice.

APX does not support a manual invoicing process to accelerate payments and cash clearing on an interim basis until final Payment Acceleration solution can be implemented post MRTU Go-Live. Manually invoicing market settlements is prone to introduce settlement errors and additional complexities that may even have financial consequences, to an already complex settlement process.

APX supports the CAISO's Payment Acceleration plan under MRTU but recommends that CAISO continue to conduct a stakeholder process and address all Market Participants issues and concerns. We would rather have CAISO utilize the time needed to implement a sound program than to rush to implement a program that won't meet the needs and expectations of the stakeholders.

6. Invoicing Options

Please comment on the following invoice preference:

- Monthly on a fixed date - i.e.) 20th of every month
- Proposed – 3rd Tuesday of each month
- Semi-Annual or Weekly

Mixing Initial & True-up Statement across Different Accounting Months on same invoice.

To be consistent with other accounting and payment practices, APX prefers invoicing on a “fixed” date of the 20th day of every month rather than the proposed 3rd Tuesday of each month. If you invoice on the 3rd Tuesday of each month, the invoicing dates will never be constant. The CAISO’s monthly invoices should include trade dates that encompass a full month of Initial settlement statement and a full month of subsequent True-up settlement statements on separate monthly invoices.

7. Other Comments?

APX appreciates the opportunity to submit comments on the Payment Acceleration Proposal. APX supports the CAISO’s efforts to accelerate the current payment cycle and urges the CAISO to conduct a thorough stakeholder process and address all issues and concerns prior to implementing Payment Acceleration.