August 6, 2020

Honorable Kimberly D. Bose
Secretary
Federal Energy Regulatory Commission
888 First Street, NE
Washington, DC 20426

Re: California Independent System Operator Corporation
Docket No. ER20-______-000

Market Settlement Timeline Tariff Amendment

Dear Secretary Bose:

The California Independent System Operator (CAISO) submits these tariff amendments[1] to address the concerns of its market participants about the inaccuracy of the initial settlement statements that CAISO currently issues three business days after a trading day. EIM entities – *i.e.*, the balancing authority areas that have joined the Energy Imbalance Market – have raised this concern during regular meetings with CAISO staff, and some also raised it during their initial training to join the market. In addition, California-based investor-owned utilities raised the same issue during their meetings with CAISO staff.

Because the initial settlement statements are based entirely on estimated meter data, the outcome is often subject to major adjustments on the second settlement statement, issued after twelve business days. As a result, many market participants are unable to bill the charges from the initial settlement statement to their own customers and must defer billing until after the second settlement statement. This effectively requires the market participants to bear the financial consequences of the fact that the initial settlement statement is financially binding as between the market participants and the CAISO, but not as between market participants and their own customers. These tariff amendments modify the timeline for issuing and reviewing settlement statements to mitigate this problem and to provide several other benefits, as explained below.

In addition to the core change to the timeline for issuing settlement statements, this filing includes amendments in two related areas. A second change extends the deadline for the ISO to publish invoices from midnight until 5:00 am Pacific Time. A third group of changes clarifies tariff provisions regarding settlement and billing, corrects

[1] CAISO submits this filing pursuant to section 205 of the Federal Power Act, 16 U.S.C. § 824d.

inadvertent errors, and moves some tariff provisions to different locations within the tariff as a way to improve readability and clarity by grouping related subjects.

The proposed changes to the settlement timeline[2] are integrated and interdependent, and must be considered together as a package. The remainder of the proposed amendments – *i.e*., the deadline for publishing invoices and the clarifications and corrections – are discrete and severable, and would not be affected by the Commission's actions on any of the other changes. Thus, the Commission should evaluate the justness and reasonableness of each of these remaining proposed amendments (other than the changes to the settlement timeline) based on the individual merit of each change, and need not consider them as an integrated package.

The CAISO respectfully requests that the Commission issue an order accepting the proposed revisions by October 30, 2020, with an effective date of January 1, 2021. This timing would provide regulatory certainty and the necessary lead-time for the CAISO and market participants to implement the new software and business processes. Issuing an order after October 30, 2020, that does not accept the market settlement timeline change could leave market participants without enough time to make and test the necessary system modifications. In addition, they could result in a significant delay of these beneficial tariff provisions, given the strong preference of market participants to transition the timeline effective on the first trading day of a calendar year.

Stakeholders support the proposed amendments.

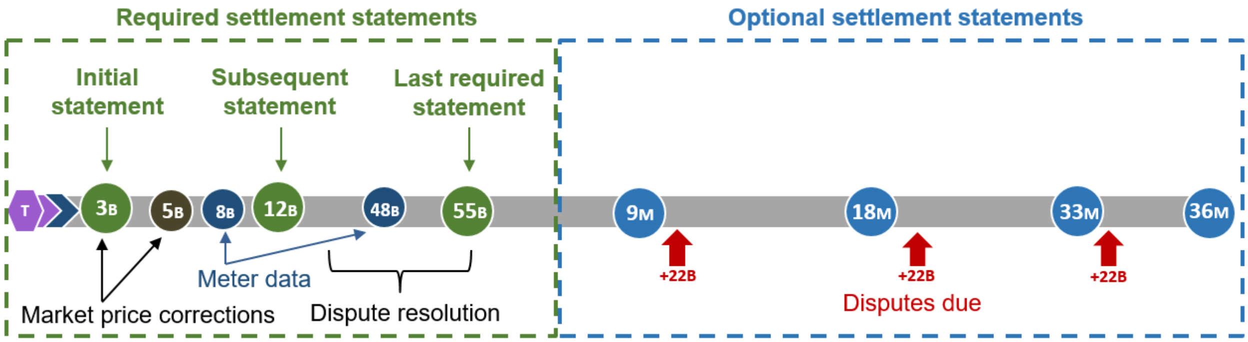
I. Background: The CAISO Settlement Process and the Current Challenges

This tariff amendment adjusts the schedule on which the CAISO issues "settlement statements." A settlement statement calculates the amounts due to and from market participants for a given trading day. The CAISO issues an initial settlement statement three business days after each trading day (T+3B), which it calculates using estimated meter data because, at that time, market participants have not yet provided actual meter data.

The CAISO then recalculates these initial settlements several times at scheduled intervals over the next three years as meter data and other information becomes available. The first recalculation settlement statement issues twelve business days after the trading day (T+12B) and incorporates most of the actual meter data that will eventually be available, as well as some price corrections that were not available for the initial statement. Further recalculation settlement statements issue at fifty-five business days (T+55B), after CAISO has received all of the actual meter data, then at nine months (T+9M), eighteen months (T+18M), thirty-three months (T+33M), and thirty-six months (T+36M) after the trading day. These later settlement statements include

[2] That is, the changes described in Section II.A.1, below, which include changes to the timelines for issuing settlement statements and providing meter data, plus the provisions governing settlement disputes and the transition to the new timeline (11.29.7.4).

adjustments to reflect the outcome of disputes, Commission orders, and software corrections. The following chart depicts the current settlement timeline:



Because the CAISO recalculates each trading day multiple times over the three year cycle, market participants receive several settlement statements every business day, with each settlement statement calculating or recalculating a different past trading day. For example, on Thursday, June 18, 2020, market participants received a T+3B for Monday, June 15, a T+12B for Tuesday, June 2, a T+55B for April 1, a T+9M for September 11, 2019, a T+18M for December 11, 2018, a T+33M for September 18, 2017 and a T+36M for June 14, 2017. The settlement statements after the T+55B are optional, meaning that the CAISO issues them only if new information will change the settlements for that trading day. In practice, the CAISO issues the T+9M, T+18M, and T+33M for more than 95 percent of trading days. A market participant will receive between 3 and 10 settlement statements daily, per business associate ID[3] – even more after weekends and holidays. A market participant must review each of these statements and submit any disputes within the deadline specified in the tariff.

Settlement statements and the recalculation timeline are distinct from the billing process. This amendment does not propose to change the billing process. Every Wednesday, the CAISO issues bills or "invoices"[4] that reflect the net amounts due or payable on the accumulated settlement statements. Invoices include all settlement statements issued since the previous Wednesday (*i.e.*, Thursday to Wednesday), with one refinement. To enable market participants to easily see the incremental changes on T+12B settlement statements (as against the T+3Bs), the CAISO includes T+12B settlement statements on invoices in the same groupings, for the same trading days, that were invoiced together on T+3B statements.

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[3] Also known as a BAID. Many market participants have multiple BAIDs as a way to facilitate separate accounting for different aspects of their business.

[4] When the net of the settlement statement is a credit due to the market participant, the bill is referred to as a "payment advice."

The annual payment calendar, which is available on the CAISO website, shows the dates settlement statements are issued, invoiced and payable.[5]

A. Initial Settlement Statements Based on Estimated Data Are Not Accurate Enough

The initial settlement statements that the CAISO currently issues after three business days pose a problem for market participants because they do not reasonably approximate succeeding settlement statements. At that point, the CAISO has not yet received actual meter data, and must therefore use estimates that assume all market participants performed based on their day-ahead schedules. This results in significant inaccuracies in several charge codes. For example,

- *Uninstructed Imbalance Energy and Instructed Imbalance Energy*: The gap between schedules and actual output (or use) affects the settlement of instructed and uninstructed imbalance energy through the real-time market offset charge codes, and also the allocation of those charges. The financial consequences can be substantial if prices in the real-time market are above average. For example, if a resource is dispatched to meet a 1,000 MW increase in the demand forecast between the day-ahead market and real-time market, the T+3B settlement statement will include payments for the 1,000 MWs dispatched to meet the change in net demand, but not charges for the net demand itself. The difference is borne temporarily (until the T+12B) by load and exports as a whole, including EIM entities, through allocations in the real-time offset charge codes.

- *Unaccounted for Energy*: Charges for unaccounted for energy do not appear on the T+3B initial settlement statement, because they would require actual meter data from the interties, and instead appear for the first time on the T+12B settlement statement. On the T+3B, these costs are instead reflected in the real-time offset charge code, which decreases or increases accordingly in the T+12B settlement statement.

- *Bid Cost Recovery*: Resources dispatched for energy, ancillary services or flexible ramping are assured of recovering their bid costs if they deliver as dispatched. But to determine whether the resource actually delivered, the CAISO needs actual meter data from the resource. Because resources do not always deliver fully, assuming otherwise on the initial settlement statement can result in overpayment of bid cost recovery. The excess costs, which are allocated to scheduling coordinators for load and exports and to EIM entities, can be large under some market conditions.

Although all scheduling coordinators are affected by these and other inaccuracies, EIM entities, non-participating loads, and export resources bear a

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[5] The payment calendars for 2019 and 2020 are available on the settlements page, here.

disproportionate burden. The meter data available for the T+12B and T+55B settlement statements removes the inaccuracies, but as a result these statements often vary significantly from the T+3B. The potential for large variations prevents many market participants from billing CAISO charges to their own customers until after the T+12B settlement statement. In the interim, they must bear the financial burden of the T+3B statement. Even market participants that temporarily gain from the inaccuracies on the T+3B must pay interest on the difference, to their detriment on the whole.

The main purpose of this filing is to address the problems that stem from the inaccuracy of the initial settlement statement by producing a high quality initial statement sooner than twelve business days after the trading day. This change will reduce the length of time market participants have to float financial obligations from the initial settlement statements for their own customers, and reduce interest charges to the market participants that temporarily receive extra funds.

The adjustments to the timeline for issuing settlement statements will also address other issues that stem from issuing the initial settlement statement so soon. Price corrections, which the CAISO must implement after five business days, are often not complete before then. Consequently, CAISO often faces a decision whether to delay publication of the T+3B initial settlement statement in order to incorporate forthcoming price corrections, or to publish the statement on time with incorrect prices. The CAISO ultimately delayed publishing the T+3B settlement statement eight percent of the time in 2018 and almost seven percent of the time in 2019. These delays cost market participants time they need to process the statements before payment is due.

The amendments also spread out the recalculation settlement statements in order to address another challenge. The current timeline's earlier settlement statements are compressed in a way that does not allow enough time to resolve disputes and implement the resulting changes on the next statement – in particular from the T+12B to the T+55B, and also from the T+55B to the T+9M. Allowing more time between the statements will enable CAISO to resolve settlement disputes by the next statement, benefitting market participants by reducing interest charges. In addition, CAISO expects the new timeline will reduce the need for some of the later settlement statements, which will in turn reduce the overall administrative burden on both market participants and CAISO.

B. The Deadline for Publishing Invoices Is Unnecessarily Early

Another challenge under the current tariff is the inflexibility of the requirement that CAISO publish weekly invoices "on Wednesday of each week"[6] – in other words, by midnight Pacific Time. Although the CAISO ordinarily sends these invoices during work hours, technical issues can sometimes delay the process and require work after hours and even into the night. If the CAISO is unable to complete publication by midnight

[6] Tariff § 11.29.10.

Pacific Time, unnecessary questions arise about whether the deadline for paying the invoice should be extended.

II. Proposed Tariff Amendments

The proposed changes fall in the three categories discussed above: changes to the settlement timeline, additional flexibility in the time of day when the ISO may issue invoices, and clarification of these and other tariff provisions related to settlement and billing.

A. The Settlement Timeline

The revisions to the settlement timeline include changes to four discrete subtopics: (1) the schedule for issuing settlement statements; (2) the deadlines to submit meter data; (3) the deadline to submit settlement disputes; and (4) the transition from the current settlement timeline to the new one.

1. Schedule for Issuing Settlement Statements

First, the CAISO proposes to issue the initial settlement statement nine business days after the trading day (T+9B). Moving the initial settlement statement date from T+3B to T+9B will make the initial settlement statements significantly more accurate because they will use mostly actual meter data and reflect all initial price corrections.[7] The CAISO will be able to include polled meter data for generation within the CAISO balancing authority area and expects to receive and incorporate meter data for generation and load from most participants in the Energy Imbalance Market and other scheduling coordinators, including intertie schedule quantities. Although the tariff will not mandate the submission of meter data in time for the initial settlement statement at T+9B, most market participants currently submit the data within eight business days as a matter of practice. They will have a strong incentive to submit the same data within the proposed new seven-day deadline[8] to receive a more accurate initial settlement statement. When polled or submitted meter data is unavailable, the CAISO will continue to use its current meter estimation methodology to produce a complete initial settlement statement.

The availability of actual meter data will mitigate the fundamental accuracy problems with the current initial settlement statements described on page 4, above. It will allow the CAISO to include reasonably accurate calculations of charge codes that

[7] Under ordinary circumstances, CAISO must complete its quality review of real-time prices and implement all corrections within five business days. Tariff §§ 35.2 and 35.3.2. Given this deadline, the CAISO must sometimes issue the initial settlement statement T+3B before it finishes correcting real-time prices, as discussed on page 5, above.

[8] *See* Section II.A.2, below.

do not currently appear on the initial settlement statement, such as unaccounted for energy, allocation of real-time market bid cost uplift adjustments, and metered sub-system deviations, and also charge codes that do appear but often change a great deal on subsequent settlements. The new initial settlement statements issued on the ninth business day should closely approximate final settlements sooner than the currently effective timeline, and avoid the significant financial swings between the first and second settlement statements.

The CAISO also proposes to change later phases of the settlement timeline to extend the time between recalculation settlement statements. The CAISO proposes to issue the second settlement statement after 70 business days (T+70B), in contrast to the current 55 business days. This change will allow enough time for an extension of the dispute deadline for the initial settlement statement.[9] It will also provide CAISO more time to resolve settlement disputes and include the adjustments on the next settlement statement, rather than waiting for another settlement statement later in the cycle. For this same reason, the CAISO proposes to issue the next recalculation settlement statement after eleven months (rather than nine), which will allow six more weeks between settlement statements than the current timeline. And the next statement will be at 21 months (rather than the current 18 months), allowing one additional month after the previous statement compared to the current timeline.[10]

All of the recalculation settlement statements after the T+70B – that is, the T+11M, T+21M, and T+24M recalculation settlement statements – will be optional, issued only when necessary to adjust settlements. The CAISO expects that under the new timeline it will issue these optional settlement statements less often than it currently issues optional statements,[11] because the CAISO will have more time to implement adjustments for settlement disputes and software changes sooner in the cycle.

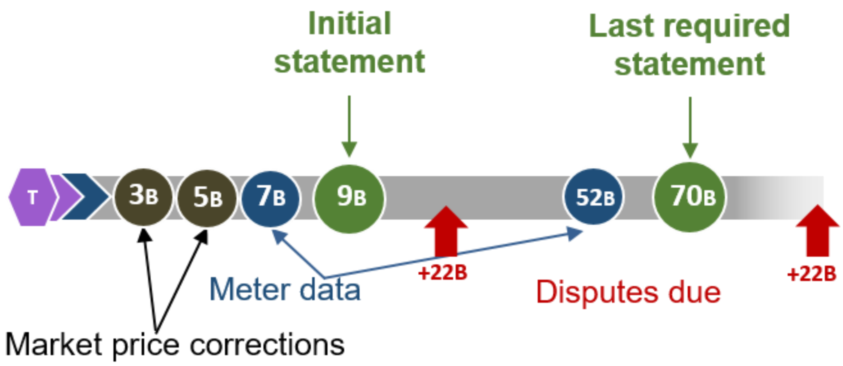
The T+24M will be the final scheduled recalculation settlement statement, and will not be subject to dispute. The proposed amendments will thus shorten the overall length of the settlement cycle by one year, as the current timeline includes a scheduled settlement statement at T+36M.

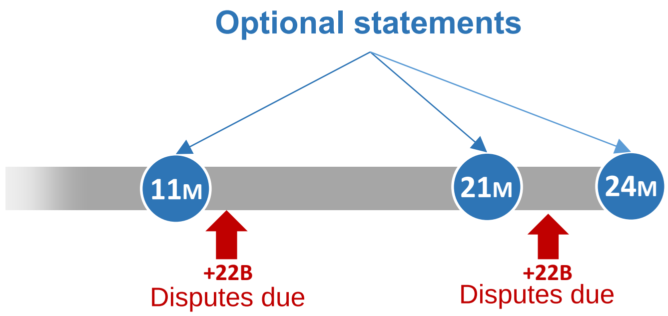
The following charts depict the proposed new settlement timeline:

[9] *See* Section II.A.3, below.

[10] That is, the proposed T+21M will be issued ten months after the T+11M. Currently, the T+18M is nine months after the T+9M.

[11] See page 3, above, with statistics about issuance of optional settlement statements.





This amendment does not alter the billing process: the CAISO will continue to issue invoices every Wednesday with payment due four business days later.

The amendment will change how the CAISO complies with one aspect of Order No. 844,[12] which requires ISOs and RTOs to post reports about uplift costs. The CAISO implemented these requirements by adding to its tariff sections 6.5.14 (zonal uplifts), 6.5.15 (resource-specific uplifts) and 6.5.16 (operator-initiated commitments). Section 6.5.15 requires the CAISO to post its reports about resource-specific uplift costs "[w]ithin 90 days of the end of each calendar month." Currently, CAISO uses data from the T+55B settlement statement for this report. After this amendment becomes effective, CAISO will instead use data from the T+9B settlement statement in order to ensure that the data is posted within 90 days. The data from the T+70B will be more accurate, though, and so the CAISO plans to update its reports with this data 120 days after the end of each month.

The following chart compares the key dates and deadlines in this amendment with the currently effective timeline:

[12] *Uplift Cost Allocation and Transparency in Markets Operated by Regional Transmission Organizations and Independent System Operators*, 163 FERC ¶ 61,041 (2018) (Order No. 844).

Current Settlement Timeline		Proposed Amended Settlement Timeline	
Publish Initial Statement	3B	Receive End-Use Meter Data, Manual Submission of non-PTO Wheeling Data	7B
		Publish Initial Statement	9B
		End of T+22B SC Review Period/Dispute Submittal Deadline	31B
Publish Weekly Invoice	Wednesday	Publish Weekly Invoice	Wednesday
Weekly Invoice Due Date	4B	Weekly Invoice Due Date	4B
Receive End-Use Meter Data, Manual Submission of non-PTO Wheeling Data	8B	n/a	n/a
Publish 1st Recalculation Statement	12B		
End of T+14B SC Review Period/Dispute Submittal Deadline	26B		
Receive End-Use Meter Data (to include non-PTO load)	48B	Receive End-Use Meter Data (to include non-PTO load)	52B
Publish 2nd Recalculation Statement	55B	Publish 1st Recalculation Statement	70B
End of T+22B SC Review Period/Dispute Submittal Deadline	77B	End of T+22B SC Review Period/Dispute Submittal Deadline	92B
Meter Data Resubmittal Deadline (to include non-PTO load) T+8M	172B - 168B	Receive End-Use Meter Data (to include non-PTO load) T+10M	214B
Publish 3rd Recalculation Statement T+9M	194B	Publish 2nd Recalculation Statement T+11M	234B
End of T+22B SC Review Period/Dispute Submittal Deadline	216B	End of T+22B SC Review Period/Dispute Submittal Deadline	256B
Publish 4th Recalculation Statement T+18M	383B	Publish 3rd Recalculation Statement T+21M	446B
End of T+22B SC Review Period/Dispute Submittal Deadline	405B	End of T+22B SC Review Period/Dispute Submittal Deadline	468B
Publish 5th Recalculation Statement T+33M	693B	n/a	n/a
End of T+22B SC Review Period/Dispute Submittal Deadline	715B		
Publish 6th Recalculation Statement T+36M	759B	Publish 4th Recalculation Statement T+24M	512B
Unscheduled Directed Reissue Statement	9M - 18M	Unscheduled Directed Reissue Statement	70B - 11M
Unscheduled Directed Reissue Statement	18M - 33M	Unscheduled Directed Reissue Statement	11M - 21M

A. Implications for Market Participant Credit Obligations

This amendment will not change the core rules of the CAISO's credit policy, which require market participants to secure their liability to the market. As discussed below, however, the proposed change to the settlement timeline will affect one element in the calculation of the amount of security a market participant must provide. As a result, it will increase the amount of credit support that a few market participants must provide, as demonstrated by a study that CAISO conducted at the request of market participants during the stakeholder review process.

By way of background, each CAISO market participant must have unsecured credit, based on its demonstrated financial condition, and post financial security to cover its "estimated aggregate liability" (EAL).[13] The EAL figure is intended to reflect the participant's total unpaid liability to the market, plus expected future liability it could incur during the time required to respond to a collateral call. The CAISO calculates EAL as directed in the tariff, which identifies 13 separate financial components that must be captured.[14]

The amendment to the settlement timeline change will affect how CAISO calculates one of the 13 components of EAL, extrapolated amounts, which estimates a participant's liability from trading days for which settlement statements have not yet been calculated. There are distinct extrapolation periods for daily charges and monthly charges, and the amendment will increase both because it will increase the time between the trading day and the initial settlement statement (shifting from T+3B to T+9B). Currently, the extrapolation period for daily charges is ten days.[15] The amendment would increase the extrapolation period for daily charges by nine days, to nineteen days. For monthly charges, the extrapolation period currently ranges from nine to forty-two days, depending on the day of the month. The tariff amendment would increase this range by eight days, from seventeen to fifty days. For market participants that incur net charges, both of these changes will increase the extrapolated component of their EAL.[16]

The CAISO studied the effect on credit requirements of longer extrapolation periods that would result from the timeline change. The study was based on even

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[13] Tariff § 12.1.2.

[14] *See* Tariff § 12.1.3.1.1. The 13 components of estimated aggregate liability are: (a) amounts invoiced but unpaid, (b) amounts in published settlement statements not yet invoiced, (c) estimated liabilities – *i.e.*, on estimated settlement statements calculated by the CAISO based on estimated data, (d) extrapolated amounts for trading days for which settlement statements have not been either published or calculated using estimated data, (e) congestion revenue right (CRR) portfolio values, (f) CRR auction limit, (g) CRR auction awards, (h) virtual bids, virtual day ahead, virtual real time, (i) past due invoices, (j) FERC annual charges, (k) future wheeling access charge, (l) current wheeling access charge, and (m) any extraordinary adjustments. For detailed description of how the CAISO calculates each EAL component, see the BPM for Credit Management and Market Clearing.

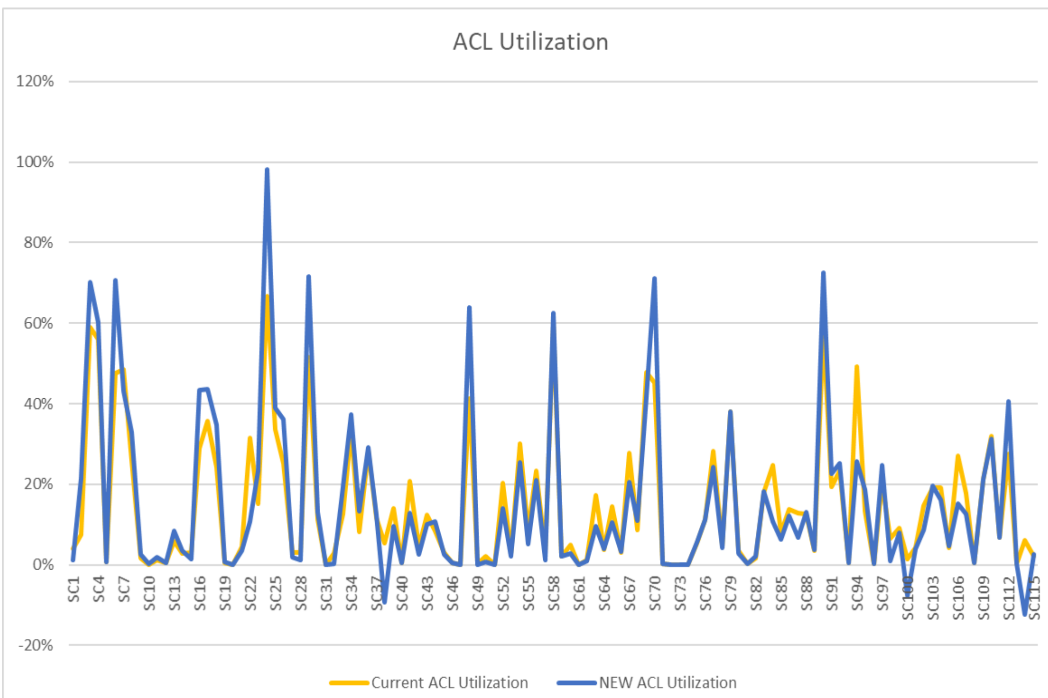
[15] The current ten-day extrapolation period reflects the number of trading days before the CAISO receives new collateral. It assumes that the period between the trading day and the collateral posting spans two weekends, one of which is a three-day weekend. Specifically,

- Three business days between the trading day and the calculation of the initial settlement statement,
- Two more business days for the market participant to post additional collateral, if the calculated results on the settlement statement trigger a collateral call, and
- Five additional days to cover two intervening weekends, one of which is a three-day weekend.

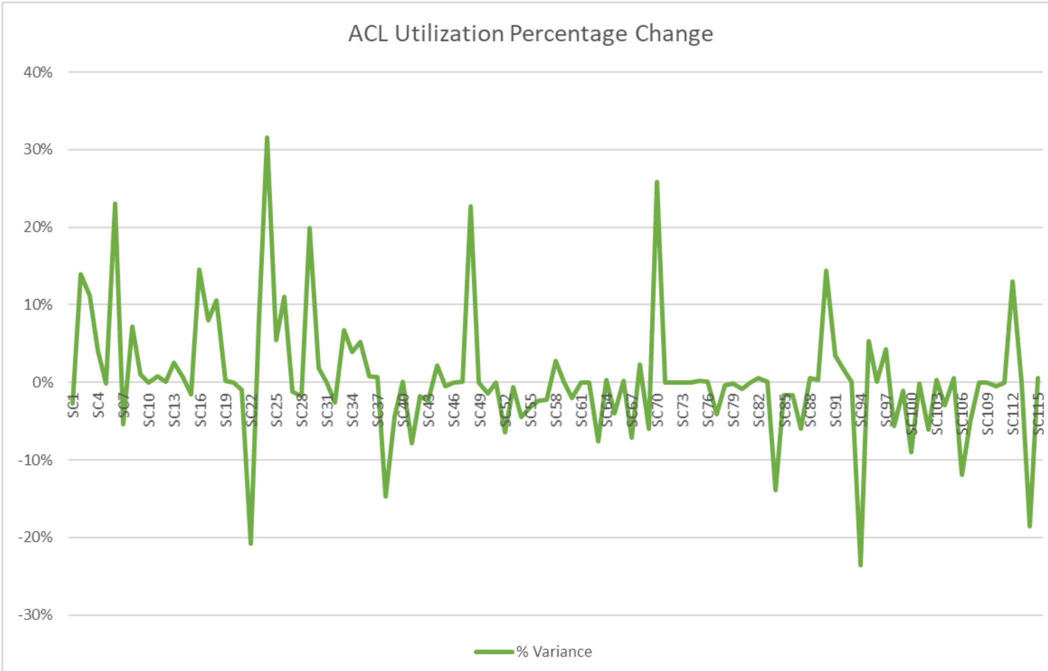
[16] The nineteen-day extrapolation period for the modified settlement timeline represents an increase of nine days. Six of these days come from the change in the timing of the initial settlement statement (from three to nine business days). Three more days are intended to cover the worst-case scenario in terms of intervening weekends and holidays.

longer extrapolation periods than the CAISO will actually use – a twenty-day period for daily charges versus the nineteen-day period CAISO will use, and a fifty-five-day period for monthly charges versus a range from seventeen to fifty. The study applied these periods to each scheduling coordinator's actual market data from January 1, 2018 through March 31, 2018, as well as June 1, 2018 through August 31, 2018. The CAISO then compared each market participant's average EAL for the study period against the credit it had available during the same period between the financial security it posted and its unsecured credit limit. The results showed an "ACL utilization" figure for each scheduling coordinator, meaning the percentage of the scheduling coordinator's available credit limit that was "used" by its EAL. The results indicated that the new settlement timeline will increase the ACL utilization of some participants, but seldom to a degree that would have required the participant to post additional collateral. (When ACL utilization reaches 90%, the CAISO requests additional collateral.) Rather, the participants will simply be using a larger percentage of the credit they had available.

The following chart compares actual ACL utilization figures under the current settlement timeline for each scheduling coordinator (yellow) with the study results for the proposed new settlement timeline (blue) (with identities masked).



The next chart shows the net change in ACL utilization. The maximum increase was 32%, and the maximum decrease was 24%.



Other results of the study:

- The 10 market participants with the highest estimated aggregate liability will see an increase of 23.4% in their ACL utilization,
- The 20 market participants with the highest estimated aggregate liability will see an increase of 18.5% in their ACL utilization,
- Market participants with an estimated aggregate liability over $500K will see an increase of 13.4% in their ACL utilization,
- Market participants with an estimated aggregate liability over $100K will see an increase of 9.68% in their ACL utilization, and
- Market participants with an estimated aggregate liability over $0 (average for all market participants) will see an increase of 6.29% of their aggregate credit limit utilization.

Accordingly, the CAISO believes the change will affect mainly those market participants that take the risk of narrowly aligning their collateral to their estimated aggregate liability. Otherwise, and despite the likely increases in estimated aggregate liability for some market participants, the CAISO believes there will be minimal need for market participants to actually post additional collateral.

CAISO shared these results with market participants, some of whom also conducted their own studies. As indicated elsewhere in this filing, those market participants support the amendment.

B. The New Timeline Complies with Order No. 741

This amendment is consistent with both the letter and the spirit of Order No. 741.[17] It does not change how the CAISO complies with the requirement that "billing and settlement periods" must be seven days or less.[18] The "settlement period" is the number of days after an invoice is issued that payment is due, as the Commission explained in Order No. 741:

> [T]he Commission adopts the NOPR proposal to direct each ISO and RTO to ... establish billing periods of no more than seven days and *settlement periods of no more than seven days after issuance of bills*.[19]

The requirement of weekly billing refers to the frequency of invoices, which must be issued at least once a week. The Commission also noted this in Order No. 741, in the process of rejecting proposals for a billing period shorter than seven days:

> Recognizing the benefits that will flow from requiring *billing to be at least weekly*, and balancing the incremental benefits and incremental burdens of daily billing, we will not require daily billing at this time. Instead, we will require, as discussed above, weekly billing.[20]

The "billing period" does not include the days from the trading date until invoices are issued, as confirmed by the Commission's order accepting ISO-NE's compliance

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17 *Credit Reforms in Organized Wholesale Electric Markets*, Order No. 741, FERC Stats. & Regs. ¶ 31,317 (2010), *order on reh'g*, Order No. 741-A, FERC Stats. & Regs. ¶ 31,320 (2011), *order denying reh'g*, Order No. 741-B, 135 FERC ¶ 61,242 (2011) ("Order No. 741").

18 *See* 18 CFR § 35.47(b) ("Each organized wholesale electric market must have tariff provisions that: … (b) Adopt a billing period of no more than seven days and allow a settlement period of no more than seven days").

19 Order No. 741 at P 32. In addition, footnote 18 clarified that the "settlement period" is the number of days that participants have to pay a billed amount:

> Some parties sought clarification of the Commission's definition of "settlement cycle" in the NOPR, recognizing that settlement encompasses both the billing period *and the additional time for final payment of the billed amount*. The Commission will therefore refer to each period separately as the "billing period" and the "settlement period."

Accord Midwest Indep. Trans. Sys. Operator, Inc., Order on Compliance Filing, 136 FERC ¶ 61,188 at P 11 (2011) ("MISO's currently effective Tariff provides that payments are due within seven days; therefore, we find that MISO's currently effective Tariff complies with the directive of Order No. 741 to establish settlement periods of no more than seven days").

20 Order No. 741 at P 37.

filing.[21] The transmittal letter explained that all non-hourly charges appear on settlement statements until at least eleven days after the end of the trading month, meaning that some trading days would not be invoiced for the first time for at least 42 days.[22] The Commission accepted the filing, however, because the invoices that included these and other settlement statements were issued at least weekly and payment was due within two business days.[23]

This amendment complies with these requirements because it will not change either the settlement period or the billing period under the CAISO tariff:

- The CAISO's billing period will remain seven days – invoices are issued on Wednesday of each week, and
- The settlement period is six calendar days, or four business days, because payment is due the following Tuesday.

In addition to complying with the requirements of Order No. 741, the amendment is consistent with its purpose, described in the order as "a package of reforms designed to reduce default risk,"[24] to protect against further "disruption in the market [after a default,] such as cascading defaults and dramatically reduced market liquidity."[25] This amendment shares this goal, with a broader focus. Order No. 741 focused exclusively on centralized markets and reducing default risk in those markets.[26] This amendment

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21 The order accepting MISO's compliance filing is similar. MISO filed tariff language stating that invoices would reflect seven days of settlements charges from its seven-day statement. However, MISO would not issue some of these invoices for more than a week after the after the trading day or "Operating Day". Specifically, MISO added the following language to section 7.6 of its tariff:

> The Transmission Provider invoices based on a seven-day billing period. The weekly invoice contains Settlement charges and revenue that are published seven days after the Operating Day *during the week prior to* invoice issuance

Transmittal letter, docket no. ER11-3970 (filed December 14, 2011) (emphasis added); *see also* Business Practices Manual: Market Settlement, version 19 issued February 8, 2020, available here, pp. 130 and 132 (showing that invoices are issued on Tuesdays for Saturday through Friday the week before. The Commission accepted these changes, which it characterized as "tariff [revisions] to specify that the issuance of invoices is based on a seven-day billing period." Order on Compliance Filing, 138 FERC ¶ 61,184 at P 19 (2012). "We find that MISO's proposed revisions comply with … Order No. 741's directive that MISO … establish billing periods that are, at most, weekly." *Id.* at P 20.

22 *See* ISO-NE Transmittal Letter, docket no. ER11-3953, p. 10 nn. 60 & 61 (filed June 30, 2011).

23 *ISO New England Inc. et al.*, Order on Compliance Filing, 136 FERC ¶ 61,191 at PP 9, 10.

24 Order No. 741 at P 32

25 *Id.* at P 33.

26 *Id.*

pursues the same objective across the broader network of energy transactions, including bilaterals, with the goal of strengthening the centralized market by benefitting its participants. Because the CAISO tariff will continue to require market participants to secure their full liability to the market, the timeline change may require some of these market participants to commit additional capital as financial security for the CAISO market.[27] At the same time, the CAISO is informed that the amendment will reduce the sums that market participants must float for their own customers, due to the fact that they are currently unable to collect CAISO charges based on the T+3B settlement statement. The CAISO understands that these market participants support the amendment because they believe the improvements with respect to the transactions with their own customers will outweigh any increase in the collateral they must post with the CAISO. In other words, it will reduce their overall risk and costs, thereby improving the overall financial circumstances of the participants in the CAISO market, and thus strengthen the market overall.

2. Deadlines for Submitting Meter Data

The new settlement timeline will require changes to the deadlines for submitting meter data. A scheduling coordinator's actual or estimated meter data will be reflected in the initial settlement statement only if CAISO receives the data by 10:00 am on the seventh business day after the trading day.[28] This new deadline, which will be one business day earlier than under the currently effective tariff, is necessary to enable CAISO to complete its settlement calculations by the ninth business day.

Any end-user meter data that is not received in time for the initial settlement statement must be submitted by the 52nd business day after the trading day. This extends the current deadline of 48 business days by four business days. Market participants that fail to submit meter data by this deadline will be subject to the existing penalty of $1000 per day.[29]

The deadline for re-submitting meter data with corrections will be 214 business days after the trading day, which will enable the CAISO to include any corrections on the T+11M settlement statement.[30] This new deadline for resubmittal extends the currently effective deadline, under which scheduling coordinators may resubmit meter

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27 *See* Section II.A.1.A, above.

28 *See* proposed Tariff §§ 10.3.6.2 and 10.3.6.5.

29 *See* Tariff § 37.11.1.

30 *See* amended Tariff § 10.3.6.4.

data through the 172nd business day. The new timeline will allow scheduling coordinators to submit the meter data through the 214th business day.[31]

3. Settlement Disputes

Market participants may dispute any item on either the initial settlement statement T+9B or the recalculation settlement statement T+70B.[32] On later recalculation settlement statements, disputes are limited to incremental changes from the previous settlement statement. This rule, which helps to bring the settlements closer to finality as the process moves along, aligns with the current settlement timeline. Currently, market participants may dispute any items on the first two settlement statements that are subject to dispute – *i.e.*, the T+12B and T+55B – and only incremental changes thereafter.[33]

The final settlement statement issued at T+24M will not be subject to disputes. This is consistent with the existing rule applicable to the last settlement – the T+36M.

The deadline for submitting any dispute of a settlement statement will be 22 business days after a settlement statement is issued. This continues the dispute rule from the currently effective timeline, except it extends the deadline for submitting disputes on the first disputable settlement statement (currently the T+12B, which will become T+9B) from 14 business days to 22 business days. As a result, there will be a single deadline of 22 business days for disputing all settlement statements.

In addition, the proposed changes would improve the readability of the tariff by consolidating the tariff provisions that govern settlement disputes into a single section – Section 11.29.8.2. The currently effective tariff has a separate section or subsection about the dispute of each separate settlement statement, spread across sections 11.29.8.3 through 11.29.8.8, including subparts. The CAISO proposes to delete these sections and replace them with Section 11.29.8.2, which will govern all settlement disputes.

4. Transition Period

As stated in Section IV, below, the CAISO proposes that the new settlement timeline become effective beginning with the January 1, 2021 trading day. At that point, trading days in 2018, 2019, and 2020 will be in the midst of re-settlement under the currently effective timeline. CAISO discussed various options for cutting over to the new timeline with market participants, who expressed a strong preference to continue applying the currently effective timeline to the pending trading days for practical

31 *Id.*

32 *See* proposed Tariff § 11.29.8.2.

33 Tariff § 11.29.8.4.

reasons. Continuing to apply the same rules to the pending trading days would greatly simplify the transition from the standpoint of software and system changes. Accordingly, the CAISO proposes that the currently effective timeline continue to apply to all trading days before January 1, 2021.

Proposed Section 11.29.7.4 implements this transition with rules that apply to trading days before January 1, 2021. This section includes rules that will supplement (or, where stated explicitly, replace) the tariff rules that apply going forward, and are intended to mirror the currently effective settlement timeline and related rules. Amended sections 11.29.7.4.8 and 11.29.7.4.9 replicate the new, consolidated section governing settlement disputes[34] except with the rules and deadlines of the currently effective timeline.

B. Timeline for Publishing Invoices

CAISO proposes to amend Section 11.29.10, which requires CAISO to publish invoices “on Wednesday of each week,” to clarify that invoices will be deemed published on Wednesday if they are available to market by 5:00 am Thursday Pacific Time. This change will allow extra time when necessary to address technical issues that can occasionally delay the publication of invoices, but without triggering legal issues about whether the payment date should be extended. Market participants will be unharmed by a publication after midnight, provided the invoice is issued before work begins the following day.

C. Clarifications and Corrections of Related Tariff Provisions

In preparing these amendments, the CAISO identified the need to clarify certain provisions regarding billing and settlement and correct inadvertent errors that have accrued over time. As proposed in this filing, these revisions do not change established policies, nor do they materially affect the rights and obligations of the CAISO or its market participants. These revisions correct typographical errors, realign or remove erroneous cross-references, and clarify the meaning of potentially ambiguous tariff provisions. CAISO files such corrections for the entire tariff annually.[35]

These clarifications and corrections appear throughout the amended sections, as follows:

Deletion of duplicate language: In two instances, Section 11.29 contained provisions that addressed exactly the same topic using slightly different language. For clarity, this filing deletes, in relevant part, one of the two provisions:

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[34] *See* proposed Tariff § 11.29.8.2.

[35] *Cal. Indep. Sys. Operator Corp.*, 168 FERC ¶ 61,084 (2019) (accepting such a filing of clarifications and corrections).

- It deletes Tariff § 11.29.2 regarding when market participants must pay invoices. The relevant rule is also in Tariff § 11.29.10 and will remain in place.

- It deletes Tariff § 11.29.5.2 regarding the right to dispute settlement statements. This subject is addressed elsewhere. After the amendment, it is addressed in Tariff § 11.29.8.2.

- It deletes the final sentence of § 11.29.7.2 about a market participant's obligation to pay any net debit and right to receive any net credit. The relevant rule is also in § 11.29.8.6 (final sentence) and will remain in place.

Deletion of outdated material: Tariff § 11.29 contains a number of "bridge period" provisions that were added to govern the transitions to past changes of the settlement timeline. Some of these bridge period provisions are now long outdated and can no longer affect settlements. For this reason, CAISO is deleted or adjusting in relevant part Tariff §§ 11.29.7.1.5, 11.29.17.2.2, 11.29.17.2.4 (b) and (c), 11.29.17.2.5 and 11.29.17.2.6.

Deleting or consolidating unnecessarily repetitive terms: Many provisions in Tariff § 11.29 often specify that certain provisions apply to the types of market participants that are financial principals in the market – *i.e.*, scheduling coordinators, CRR holders, black start generators, and participating TOs. In several places, this level of detail is unnecessary, either because it is clear from context (about invoices or payments advices, which are issued only to these financial principals) or because a shorter term would suffice (such as "CAISO Creditor," "CAISO Debtor" or "Business Associate"). To improve the readability of these provisions, CAISO has proposed appropriate changes to §§ 11.29.10.1, 11.29.11, 11.29.12, 11.29.13.1, 11.29.13.2, 11.29.13.3, 11.29.13.5, 11.29.13.9, 11.29.17.1, 11.29.17.2.1, and 11.29.24.

Consolidating related subjects:

- The process for estimating meter data when actual data is unavailable is currently in § 11.1.4. The material is out of place there, because the process for issuing initial settlement statements is otherwise addressed in § 11.20. Accordingly, the CAISO is moving it to § 11.29.7.1 where it will be with other material about the issuance of the initial settlement statement.

- Language about CAISO's obligation to pay market participants if a payment default occurs is currently in § 11.29.17, which specifies how any payment shortfall will be allocated to market participants. The process of allocating the shortfall occurs mostly a week or two after the payment default. Accordingly, the CAISO is moving material about CAISO's obligations to pay on the payment date to § 11.29.12, where it will be with other language about CAISO's obligations on a payment date in the event a participant defaults.

Other clarifications related to the allocation of default losses: Regarding the change described in the previous bullet, CAISO has added language to

- Tariff § 11.29.17.1, which concerns the allocation of default losses, to reconcile it with CAISO's authority in § 11.29.11 to instruct a market participant not to pay certain charges if they are verifiably erroneous. The additional language clarifies that a non-payment as instructed by CAISO under § 11.29.11 does not trigger an allocation of default losses.

- Tariff § 11.29.12, where the obligation to pay language has been moved. The rule from § 11.29.17.1 is that default losses will be allocated to market participants as opposed to internal accounts, such as CAISO's grid management charge or the CRR balancing account.[36] The additional language at the conclusion of § 11.19.12 clarifies the CAISO's obligation to pay in light of this rule.

Corrections of inadvertent errors: CAISO is amending the following sections to correct inadvertent errors:

- Tariff § 11.29.7.3.6 to delete references to post-closing adjustments, which is a remnant of past settlement processes that were in place before 2009. The term has no current significance. In addition, delete reference to authority to separately invoice the outcome of alternative dispute resolution proceedings. This authority is addressed elsewhere, in Tariff § 11.29.10.3.

- Tariff § 11.29.8.6 to clarify that settlement disputes are governed by the settlement dispute process in § 11.29.8 in the first instance rather than § 13. While the resolution of disputes is ultimately subject to resolution under the ADR process in § 13, disputes must be processed first through the dispute-specific process in § 11.29.8.

- Tariff § 11.29.9.5, to clarify that the rule against commingling funds applies in all instances, and not only when necessary to facilitate processing of payment defaults.

- Tariff § 11.29.10 to delete unnecessary and potentially confusing language suggesting that a market participant may need to pay the amount shown on a "Payment Advice." A "Payment Advice" is a bill showing an amount payable to the market participant. In the same phrase, delete a reference to charges payable under long-term contracts, which suggested that these charges appear

[36] *See* Tariff § 11.29.9.6.1 (regarding CAISO's right to collect its grid management charge and FERC annual charges "with priority over any other payments to be remitted …") and Tariff § 11.29.17.2.1 (payment shortfalls to be allocated to scheduling coordinators).

on invoices or payment advices. This is a remnant of past settlement processes and has no current significance.

- Tariff § 11.29.10.3 to delete a suggestion that the grid management charge should be added to invoices in a way that is distinct from other settlement charges. This language is no longer necessary because the grid management charge now appears on settlement statements, which are in turn reflected on invoices.[37]

- Tariff § 11.29.10.3 to clarify that a shortfall allocation is not an "Invoice" as defined in the tariff, because it does not adjust amounts legally due and owing, only the amount payable at that time.

- Tariff § 11.29.10.3 to delete the terms "post closing adjustment" and "monthly" market activities, which are remnants of past settlement processes that were in place before 2009. The terms have no current significance.

III. Stakeholder Engagement

Over the past couple of years, market participants have in various settings informed the CAISO about the issue that has driven this initiative – *i.e.*, their inability to bill their customers based on the initial settlement statement at T+3B. The EIM entities – the balancing authority areas that have joined the Energy Imbalance Market – have raised this concern during regular meetings with CAISO staff, and some EIM entities also raised it during their initial training to join the market. In addition, California-based investor-owned utilities raised the same issue during their meetings with CAISO staff.

In response to these requests, and in particular after gathering more information from EIM Entities about the impact of the current settlement timeline, CAISO prepared an Issue Paper and Straw Proposal, which it posted on June 11, 2019, proposing to change the settlement timeline.[38] Though this initial proposal differed in detail from what is proposed here, it contained the same basic elements. It would have delayed the initial settlement statement until meter data becomes available, shortened the overall length of the settlement cycle from three years to two, and spread out the intermediate recalculation settlement statements to allow more time to resolve settlement disputes before the next statement.

The CAISO presented this proposal to stakeholders on June 13, 2019 and, on June 28, stakeholders submitted 16 sets of written comments. In addition to supporting the CAISO's proposal to modify the settlement timeline, one theme of the comments

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37 *See* Tariff § 11.29(d).

38 It also proposed to allow the CAISO to publish invoices as late as 5:00 am. Through the course of the formal stakeholder process, this proposal was refined to clarify that CAISO would publish after midnight only if necessary, and that a midnight deadline would remain the expectation.

was a request for more time to submit meter data than the CAISO had proposed initially.

Based on that feedback, the CAISO posted its Revised Straw Proposal on August 15 and provided a sample payment calendar for 2021 under the proposed new timeline. That paper proposed the same timing for the initial, mandatory, settlement statements that is reflected in the amendments filed today – T+9B and T+70B. The CAISO presented this revised straw proposal in a conference call on August 21. By September 9, stakeholders had submitted 15 sets of written comments. In addition to support for the proposed settlement timeline, major themes of these comments included a suggestion that there was too long of a time period after the T+70B until the first optional settlement statement, which had been T+12M, and requests for information about the effect of the new timeline on credit requirements for market participants. In addition, one market participant commented on compliance with Order No. 741, which regulates the “billing period” and the “settlement period” for ISO and RTO settlements.

On September 24, the CAISO posted its draft final proposal, together with a new sample payment calendar. It modified the timeline by accelerating the statement that would have been issued at T+12M to T+11M to address concerns about the long gap. The paper also published data analyzing the effect of the timeline changes on collateral requirements. The CAISO presented the new paper to stakeholders on September 30. Five market participants submitted written comments, with four supporting the proposal and one expressly not opposing it.

In an open meeting on November 14, 2019, with the support of the EIM Governing Body, the CAISO’s Board of Governors approved the proposed changes for filing.

In December 2019, the CAISO began discussions with stakeholders about how it would transition to the new settlement timeline. During two standing bi-weekly public conference calls in which CAISO staff discusses issues with market participants, the Settlement User Group and the Release User Group, CAISO staff presented options. The strong feedback from both calls supported the transition presented here.[39] In the following meetings of these groups, staff explained that the initiative would proceed with this approach.

Draft tariff language was posted for stakeholder review on May 20, 2020, with comments requested either before or after a conference call to be held on June 5. Two market participants submitted comments before the call. CAISO staff addressed these comments during the June 5 call, during which it proposed further revisions to address the comments. After the call, stakeholders did not submit any further comments.

[39] *See* Section II.A.IV, above.

IV. Effective Date

The CAISO proposes that the new settlement timeline become effective for trading day January 1, 2021.[40] It was important to CAISO stakeholders that, for accounting purposes, the transition should take place at the beginning of a calendar year. An order in advance of the planned transition date is necessary so the CAISO and market participants are prepared for the transition or, if necessary, to make and test the modifications necessary to undo and test the changes.[41] Accordingly, the CAISO respectfully requests that the Commission issue an order by the end of October, 2020, accepting the tariff revisions contained in this filing, to become effective January 1, 2021.

V. Communications

Pursuant to Rule 203(b)(3), 18 C.F.R. § 385.203(b)(3), please provide all correspondence and other communications to the following individuals, whose names appear on the official service list established by the Commission with respect to this filing:

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[40] Pursuant to Section 35.11 of the Commission's regulations (18 C.F.R. § 35.11), the CAISO requests waiver of the 120-day notice requirement in Section 35.3(a)(1) of the Commission's regulations (18 C.F.R. § 35.3(a)(1)). There is good cause for waiver; CAISO has filed this amendment more than 120 days in advance of the proposed effective date to allow adequate time for both the Commission's consideration of the amendments and for market participants and CAISO to adjust their software to comply with the Commission's order.

[41] Significant work would be required to undo the system changes associated with the proposed market settlement timeline, as this amendment is one of five sets of changes in the CAISO's fall release that will affect settlements and those changes are, in many cases, inter-related.

VI. Service

The CAISO has served copies of this filing on the California Public Utilities Commission, the California Energy Commission, and all parties with scheduling coordinator agreements under the CAISO tariff. In addition, the CAISO has posted a copy of this filing on the CAISO website.

VII. Contents of Filing

In addition to this transmittal letter, this filing includes the following attachments:

Attachment A: Clean CAISO tariff sheets incorporating this tariff amendment

Attachment B: Marked CAISO tariff sheeting showing the revisions contained in this tariff amendment

VIII. Conclusion

For the reasons set forth in this filing, the CAISO respectfully requests that the Commission issue an order by October 30, 2020, accepting the proposed tariff revisions for filing, to become effective as of January 1, 2021.

Respectfully submitted,

/s/ Daniel Shonkwiler
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