



Memorandum

To: ISO Board of Governors

From: Eric Schmitt, Vice President, Operations

Date: November 6, 2019

Re: **Decision on market settlement timeline proposal**

This memorandum requires Board action.

EXECUTIVE SUMMARY

Management proposes to re-align the current market settlement timeline to address concerns that the timeline imposes an unnecessary financial burden to market participants, by more quickly producing quality settlement statements that closely approximate the final settlements. The re-aligned timeline will also allow the ISO more time to incorporate data changes, and facilitate settlements between market participants and third parties. Furthermore, the new timeline will reduce the overall administrative burden on the ISO and market participants by reducing the total number of settlement statements for each trading day. Management recommends modifying the settlement timeline to calculate and publish two required settlement statements and three optional re-calculation statements.

Management proposes the following motion:

Moved, that the ISO Board of Governors approves the market settlement timeline proposal described in the memorandum dated November 6, 2019; 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 proposal described in the memorandum, including any filings that implement the overarching initiative policy but contain discrete revisions to incorporate Commission guidance in any initial ruling on the proposed tariff amendment.

Management presented this market settlement timeline proposal to the EIM Governing Body on October 30, 2019. The EIM Governing Body will provide any advisory input to the Board of Governors in general session.

PROPOSAL

The following sections describe Management's proposal.

Existing settlement timeline

For every trade date, the ISO calculates and publishes financial settlement statements for each market participant. The ISO then recalculates each trade date, potentially several times, according to the timeline outlined in the tariff. The ISO currently calculates and publishes three required statements at three business days, 12 business days, and 55 business days after each trade date. Furthermore, the ISO calculates and publishes four optional statements at nine months, 18 months, 33 months, and 36 months after each trade date. Market participants must retrieve, review, and validate each statement published in preparation for financial settlement with the ISO. This requires market participants to consume, process, validate, and store between 21 and 49 statements every week.

Current timeline challenges

Management has received market participant feedback that the current settlement timeline places a financial burden on many of the ISO's market participants.

The short timeframe of three days to calculate and publish the initial statement does not enable the ISO to calculate a complete set of all settlement charge codes. Since not all data is available, the ISO uses some estimated data, and therefore only calculates a portion of ISO settlement charge codes on this initial statement. Nine business days later, the ISO processes a re-calculation settlement statement which incorporates the previously unavailable data and includes the full set of ISO charge codes that reasonably approximates the final settlement. This can result in unpredictable, large financial swings between the initial statement (3 days) and first re-calculation statement (12 days). Moreover, market participants are required to settle with the ISO on the initial statement, but given the expected swing, many choose to wait for the higher quality subsequent statement to pass charges and credits down to their customers. This requires the market participant to bear the entire financial burden for the initial statement. If instead the ISO could produce a single, higher quality initial statement before 12 business days, then market participants may not have to bear the financial burden of varying magnitudes.

When the ISO first implemented the current settlement timeline, it was anticipated that settlement statements beyond 55 business days after the trade date would be rarely calculated and published. The ISO originally intended statements beyond 55 days to publish only if necessary to adjust a market participant's financial obligations as a result of complex software defects, good faith negotiations, or FERC mandated adjustments. However, the compressed timeframe between statements results in the ISO consistently needing to calculate and publish most of these optional statements. Furthermore, while there are valid reasons for these re-calculations, settlements beyond 55 days after the trade date impact only 2% of total market transactions, resulting in a high volume of statements for small financial settlements. If instead, the ISO could provide more time between statements to

ensure corrections could be processed, the ISO could reduce the number of statements needed to catch these small corrections.

Proposal to re-align required settlement statements

Management proposes to modify the settlement timeline to provide an initial settlement statement that closely approximates the final settlement statement, reducing the financial burden on market participants. Management proposes to calculate and publish only two required settlement statements, one at nine business days and one at 70 business days after each trade date. Management proposes extending the associated dispute submittal timeline to 22 business days after the publication date. Management also proposes re-aligning the settlement quality meter data submittal due dates for these required statements; with the first due date being seven days after the trade date, and the second deadline being 52 business days after the trade date.

Extending the initial required statement timeline allows the ISO time to include, among other data, actual settlement quality meter data, price correction data, and after-the-fact intertie schedules in the calculations. Including these additional data sets will enable the ISO to calculate not partial, but all, settlement charge codes on the initial required statement. The accuracy gains realized will allow the ISO to produce an initial settlement statement that more closely approximates final settlement statements sooner, therefore reducing financial swings between the initial and subsequent settlement statements.

Extending the first required re-calculation statement timeline to 70 business days after the trade date allows the ISO to also extend the dispute submittal timeframe to 22 business days after the initial statement, giving market participants more time to validate statements. This extension also allows market participants more time settle with third-parties, and provides the ISO more time to resolve and include dispute corrections in the first re-calculation statement. All of these benefits reduce financial burden to market participants.

The ISO will maintain the weekly invoice publication practice occurring each Wednesday with payments due four business days later on the following Tuesday, which FERC has found is in compliance with FERC Order No. 741. Settlement and billing must occur at least weekly, according to FERC regulation. The ISO analyzed the effect of this timeline change on the ISO credit policy, and presented this analysis to market participants. The timeline change will impact one component of the ISO credit policy, the extrapolation period, which is the lag between the trade date and the date when settlement statements are first published. The analysis indicates that the longer extrapolation period will influence market participants differently. The results also indicate the new settlement timeline did not result in an unusual increase in a market participant's credit requirement, and as such was a reasonable tradeoff for less overall volatility between settlement statements.

Proposal to re-align optional settlement statements

Management's proposal will also shorten the overall settlement cycle and reduce the total number of statements, reducing the administrative burden on the ISO and market participants. Management proposes to modify the settlement timeline to calculate and publish three optional settlement statements at 11 months, 21 months and 24 months after the trade date.

Management proposes to move the first optional statement from 9 to 11 months out to ensure the first optional statement incorporates data changes resulting from the resolution of software defects and policy gaps.

Management proposes to calculate and publish additional optional statements at 21 months and 24 months after each trade date. Like today, market participants have the opportunity to review incremental changes on optional statements and submit a dispute within 22 business days. The statement published 24 months after the trade date is not subject to dispute unless directed by ISO Board of Governors or FERC. With this proposal all market participants can reasonably expect to close their financial books within 24 months after the trade date, with less obligation to consume, process, validate, and store statements out to 36 months.

Proposal to create flexibility in publishing statements and invoices

Currently, the ISO is required to publish weekly invoices by midnight each Wednesday. While tariff provisions exist to cover delayed or failed publications of settlement statements, no provisions address delayed invoices. Management proposes to modify the publishing timeline so that weekly invoices are considered timely as long as they are published before 5:00 a.m. Thursdays. The extension allows flexibility in the event the ISO encounters processing issues, with minimal impact to market participants through the overnight hours. The ISO will inform market participants if weekly invoices will be published after 5:00 a.m. on Thursdays and adjust invoice due dates to four business days from that invoice date. This provision will only be enacted as a result of a technical or processing issue.

STAKEHOLDER PROCESS

The ISO initiated a stakeholder process in June 2019 and conducted three stakeholder meetings. Market participants strongly support Management's proposed changes to the market settlement timeline. Among other things, this change is expected to decrease the financial swings between statements and reduce market participant financial burden. Market participants also support extending the time period to submit disputes on the initial statement, giving them more time to validate their statements.

CONCLUSION

Management requests the Board of Governors approve this proposal. This re-aligned market settlements timeline will not only reduce market participant financial burden by increasing initial settlement statement quality, but also provide more accurate settlement statements in an overall shorter time horizon. It allows sufficient time to resolve disputes by the next settlement statement, incorporate data corrections and software defects, improves compatibility with third party settlements, and provides enhanced statement and invoice publication flexibility.