

**UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION**

**California Independent System) Docket Nos. ER09-1247-000
Operator Corporation) ER09-1247-001**

**MOTION FOR LEAVE TO FILE ANSWER AND ANSWER TO
MOTIONS TO INTERVENE, COMMENTS AND PROTESTS OF THE
CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION**

I. INTRODUCTION

On June 1, 2009, the California Independent System Operator Corporation (“CAISO”)¹ submitted a filing pursuant to Section 205 of the Federal Power Act (“FPA”), 16 U.S.C. § 824d, and Part 35 of the regulations of the Federal Energy Regulatory Commission (“FERC” or “Commission”), 18 C.F.R. § 35 *et seq.*, that proposed to revise the CAISO Tariff to implement changes that will accelerate the CAISO’s settlement and payment timeline, effective October 1, 2009. On June 4, 2009, the CAISO submitted an errata filing to correct the proposed effective date for the payment acceleration program from October 1, 2009 to November 1, 2009 (these filings are collectively referred to as “Payment Acceleration Filing”).

Pursuant to the Commission’s Combined Notice of Filings issued June 3 and June 9, 2009, motions to intervene, comments and protests in this matter were due to be filed on June 22 and June 25, 2009. On June 25, 2009, fifteen entities, collectively, had submitted motions to intervene, motions to intervene

¹ Capitalized terms not otherwise defined herein have the same meaning as set forth in the CAISO Tariff, Appendix A, Master Definition Supplement.

and comment, or motions to intervene and protest.²

II. MOTION TO FILE ANSWER

Pursuant to Rule 213 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.213 (2008), the CAISO hereby requests leave to file this answer to the motions to intervene, comments, and protest submitted in the above-referenced proceeding. To the extent necessary, the CAISO requests waiver of Rule 213(a)(2) (18 C.F.R. § 385.213(a)(2)) to permit it to answer the protest. Good cause for this requested waiver exists because the answer will aid the Commission in understanding the issues in the proceeding, provide additional information to assist the Commission in the decision-making process, and help to ensure a complete and accurate record in this case.³

² The following eight entities submitted only motions to intervene: the City of Santa Clara, California ("Santa Clara"), doing business as Silicon Valley Power ("SVP"), and the M-S-R Public Power Agency ("M-S-R") (collectively "SVP-MSR"); Pacific Gas and Electric Company ("PG&E"); Mirant Energy Trading, LLC ("MET"), Mirant Delta, LLC ("Mirant Delta") and Mirant Potrero, LLC ("Mirant Potrero") (collectively, the "Mirant Parties"); California Department of Water Resources State Water Project ("SWP"); Alliance for Retail Energy Markets ("AREM"); Modesto Irrigation District; Constellation Energy Commodities Group, Inc. and Constellation NewEnergy, Inc., (collectively "Constellation"); and California Public Utilities Commission ("CPUC").

The following six entities submitted motions to intervene and comments: Southern California Edison Company ("SCE"); Northern California Power Agency ("NCPA"); Western Power Trading Forum ("WPTF"); Calpine Corporation ("Calpine"); Powerex Corp. ("Powerex"); and NRG Power Marketing LLC, Cabrillo Power I LLC, Cabrillo Power II LLC, El Segundo Power, LLC, and Long Beach Generation LLC (collectively, "NRG" or the "NRG Companies"), Dynegy Morro Bay, LLC., Dynegy Moss Landing Bay, LLC, Dynegy Oakland, LLC, and Dynegy South Bay, LLC. (collectively, "Dynegy"), RRI Energy, Inc. ("RRI"), and J.P. Morgan Ventures Energy Corporation ("JPMVEC") and BE CA LLC ("BE CA" and together with JPMVEC, "J.P. Morgan") (collectively "Joint Parties").

Only one entity submitted a motion to intervene and protest: the Cities of Anaheim, Azusa, Banning, Colton, Pasadena and Riverside California (collectively, "Six Cities").

³ See, e.g., *Entergy Services, Inc.*, 116 FERC ¶ 61,286 at P 6 (2006); *Midwest Independent Transmission System Operator, Inc.*, 116 FERC ¶ 61,124 at P 11 (2006); *High Island Offshore System, L.L.C.*, 113 FERC ¶ 61,202 at P 8 (2005); *Entergy Services, Inc.*, 101 FERC ¶ 61,289, at 62,163 (2002); *Duke Energy Corp.*, 100 FERC ¶ 61,251, at 61,886 (2002); *Delmarva Power & Light Co.*, 93 FERC ¶ 61,098, at 61,259 (2000).

III. ANSWER

A. Summary

As discussed in the CAISO's *Five-Year Strategic Plan 2008-2012*,⁴ it is a key priority of the CAISO to mitigate the credit risk to market participation by reducing the amount and length of time that market charges and payments are outstanding from the Trading Day to the invoice date. The CAISO's payment acceleration proposal in this proceeding results from that priority. The proposal was developed and refined by the CAISO through an extensive stakeholder process during which stakeholders engaged in numerous meetings and workshops with CAISO staff and provided significant input on all aspects of the proposal.⁵

The proposed tariff changes resulting from these efforts will implement payment acceleration by shortening the payment calendar. They shorten the timeframe for the CAISO's release of its Initial Settlement Statement for each Trading Day from 38 to 7 Business Days and decrease the payment timeline from 38 Business Days after the last Trading Day of the month to semi-monthly invoicing. This will decrease the average cash clearing schedule from approximately 80 to 25 calendar days. The proposal will also increase certainty in final payments by implementing a sunset provision that permits adjustments to be made through Settlement Statements for up to 36 months after the Trading Day, and thereafter only by direction of the Board or order of the Commission.

⁴ The *Five-Year Strategic Plan 2008-2012* is posted on the CAISO's Website at <http://www.caiso.com/1fa4/1fa4c0d125c80.pdf>.

⁵ The stakeholder process is described in Section II of the Payment Acceleration Filing.

The motions to intervene and comments submitted in this proceeding in response to the CAISO's proposal express universal support for payment acceleration. Not only is the support universal, it extends across a diverse cross-section of stakeholders. For example, Joint Parties and WPTF comment that "the timely implementation of the CAISO's Payment Acceleration proposal is critical to the continued success of the CAISO's newly implemented market and as a means to ensure the going-forward liquidity and stability of the market."⁶ Further, Joint Parties and WPTF state that payment acceleration "is necessary to align the CAISO markets with the "best practices" in place in other organized electricity markets."⁷ Calpine commends the CAISO for "working cooperatively with stakeholders and for diligently and effectively developing in its stakeholder process a proposal that advances the interests of most market participants and has met with widespread support."⁸ In its comments, NCPA expresses strong support for the CAISO's proposal to accelerate the settlement and payment process under the CAISO Tariff. NCPA endorses payment acceleration for the reason that "shortening the time during which invoices remain outstanding should reduce the collateral burden that market participants must bear and increase liquidity in the markets. . . ."⁹ SCE supports the CAISO's goal of shortening the settlement cycle and "appreciates the hard work and effort put forth by CAISO staff to engage stakeholders and incorporate stakeholder recommendations into

⁶ Joint Parties at 6; WPTF at 3.

⁷ *Id.*

⁸ Calpine at 3.

⁹ NCPA at 3.

the CAISO final proposal.”¹⁰ Six Cities, which filed the sole protest in this matter, also commented that they “fully support” the “objectives and most elements of the Payment Acceleration Amendments.”¹¹

Although the comments and protest do not challenge the overall design of payment acceleration, or oppose its adoption, several do suggest targeted modifications to the CAISO’s proposal. These suggested changes focus on discrete areas of the CAISO’s proposal, such as the submission and retention of meter data, the timeline for resolving settlements disputes, and the application of interest to settlement statements subsequent to those that contain estimated data. As discussed below, the CAISO has no objection to several modifications recommended in the parties’ comments but contends that the remainder of the changes are unsupported and without merit.

The CAISO submits that its payment acceleration proposal is just and reasonable.¹² The Payment Acceleration Filing is carefully balanced and can be implemented in accordance with the new market structure and existing CAISO systems. It will enhance the settlement process and reduce credit risk for Market Participants. The CAISO urges the Commission to approve the filing, with the modifications agreed to by the CAISO herein.

¹⁰ SCE at 2.

¹¹ Six Cities at 4.

¹² *City of Bethany v. FERC*, 727 F.2d 1131, 1136 (D.C. Cir. 1984), *cert denied*, 469 U.S. 917 (1984) (utility need establish that its proposed rate design is reasonable, not that it is superior to all alternatives).

B. Meter Data

1. Retention Standard

The Payment Acceleration Filing proposes to amend CAISO Tariff Section 10.1 .2 to shorten the time period that the CAISO is required to retain Revenue Quality Meter Data and Settlement Quality Meter Data provided to it, as well as the Settlement Quality Meter Data it produces. The amendment eliminates the current requirement that the CAISO maintain a record of all Revenue Quality Meter Data and Settlement Quality Meter Data for a period of 10 years in the CAISO's archive storage facilities. In its place, the amendment requires the CAISO to retain the data for a period which, at least, allows for the re-run of data as required by the tariff any adjustment rules of the Local Regulatory Authority governing the Scheduling Coordinators and their End-Use customers and FERC. Six Cities claims that the modified retention standard is vague and unsupported, and that the current provision should instead remain in place or be revised to specify the length of a new retention period.

The CAISO disagrees with Six Cities. The modified retention standard is not unsupported. As discussed in the Payment Acceleration Filing, page 20, the CAISO is amending Section 10.1.2 so that the retention standard for Revenue Quality Meter Data and Settlement Quality Meter Data is the same as that set forth in Section 11.1(c)¹³ for settlement data in general. Settlement data and meter data are integral to performing re-runs and it is logical that both sets of

¹³ Section 11.1(c) provides that: "The CAISO shall retain all Settlement data records for a period which, at least, allows for the re-run of data as required by this CAISO Tariff and any adjustments of the Local Regulatory Authority governing the Scheduling Coordinators and their End-Use Customers and FERC."

data be maintained for the same period of time. The modified retention standard is also not vague. It establishes the retention period for meter data in terms other than a designated number of years, but that is not equivalent to vagueness, as Six Cities seems to believe. The proposed retention standard sets forth clear criteria that the period must, at least, allow for the re-run of data as required by the tariff, a Local Regulatory Authority, and FERC. That retention standard is identical to the language the Commission has already approved and that is contained in currently effective Tariff Section 11.1(c). For these reasons, the Commission should approve the proposed amendment to Section 10.1.2 and reject the revision Six Cities' advocate.

2. Revised Actual Settlement Quality Meter Data

NCPA requests that CAISO Tariff Section 10.3.6.1 be revised to clarify that if a Scheduling Coordinator timely submits Actual Settlement Quality Data no later than noon on T+5B for calculation of the Initial Settlement Statement T+7B, it may also submit revised Actual Settlement Quality Data no later than midnight on T+43C for calculation of the Recalculation Settlement Statement T+38B, consistent with Section 10.3.2. The CAISO is willing to include this clarification in Section 10.3.6.2 in its compliance filing in this matter. It was not the CAISO's intent to prevent a Scheduling Coordinator from submitting revised Actual Settlement Quality Meter Data after T+5B.

3. Meter Data Estimation

CAISO Tariff Section 11.1.5 specifies the methodology the CAISO will use to estimate meter data for Scheduling Coordinators that fail to submit actual or

estimated meter data in time for publishing the Initial Settlement Statement T+7B. In its comments, SCE asserts that the methodology set forth in Section 11.1.5 for calculating CAISO Estimated Settlement Quality Meter Data uses conflicting methodologies by determining the initial estimated metered demand value at the Load Aggregation Point (“LAP”) level and then determining whether to increase the amount of CAISO estimated metered demand by 15 percent at the system level. SCE suggests, in the alternative, that the CAISO’s estimation methodology be targeted at the Transmission Access Charge (“TAC”) level to better align the estimation with the market settlement of Unaccounted for Energy.

The CAISO does not agree with SCE that the proposed estimation methodology should be modified. The CAISO considered the TAC-based methodology SCE suggested during the stakeholder process, but opted instead to use a system-demand-based approach, which compares total actual system Demand to the sum value of Scheduling Coordinator submitted Demand, CAISO polled Estimated Settlement Quality Metered Demand, and Scheduled Demand for unsubmitted metered Demand, to determine whether a 15 percent adjustment for unsubmitted Load is necessary. The CAISO believes that its methodology, as described in proposed Tariff Section 11.1.5, will produce a reasonably representative estimation of the outstanding metered Demand or Generation for use in the Initial Settlement Statement T+7B calculation. The CAISO’s estimation methodology is designed to: 1) minimize the deviation of Real-Time calculations due to differences between expected energy and Day-Ahead schedules for generators; 2) minimize the impact of Day-Ahead charges, such as

Bid Cost Recovery payments to generators and Bid Cost Recovery Uplift charges due to their reliance on Real-Time data; 3) minimize imbalances between payments made to suppliers and charges to Demand due to estimations; 4) increase the incentive for Scheduling Coordinators to accelerate submittal of accurate meter data and not be dependant on a CAISO meter data estimation on their behalf; 5) recognize technology advancement in meter data collection and estimation; 6) align with current requirements and processes for submitting Settlement Quality Meter Data; and 7) leverage current metering infrastructures and file formats. Further, to the extent that the estimation departs from actual data subsequently submitted, the estimation will be subject to adjustment and the application of interest to the incremental changes on Recalculation Settlement Statement T+38B. For these reasons, the CAISO maintains that its estimation methodology is reasonable and should accepted by the Commission.

C. Wheeling Out and Wheeling Through Data

Currently, CAISO Tariff Section 26.1.4.4 requires Scheduling Coordinators for Wheeling Out and Wheeling Through transactions to a Bulk Supply Point, or other point of interconnection between the CAISO Control Grid and the transmission system of a Non-Participating PTO, that are located within the CAISO Balancing Authority Area, to submit data for the transactions once a month, for each Trading Day in the month, on the fifth day following the end of the month. NCPA suggests that this section be modified to align the submission of data for these Wheeling Out and Wheeling Through transactions with the new

timelines for submitting Settlement Quality Meter Data under the payment acceleration provisions.

The suggestion that the timelines should be modified for submitting data for Wheeling Out and Wheeling Through transactions is being raised for the first time in this proceeding. NCPA did not question the timelines for submitting wheeling data during the lengthy stakeholder process for payment acceleration, nor did the CAISO propose to amend Section 26.1.4.4 in its Payment Acceleration Filing. It is not appropriate to adopt such change at this time given that it has not been vetted with stakeholders.

The CAISO believes that NCPA's suggestion does warrant consideration in a future stakeholder process. The CAISO agrees with NCPA that requiring a more frequent submission rate than monthly submission of data for the assessment of Wheeling Access Charges would be more consistent with the submittal of meter data under payment acceleration. At the time of filing this answer, however, the CAISO has not had sufficient time to adequately analyze the appropriateness and ramifications of changing the timelines for submitting Wheeling Out and Wheeling Through data and fully discuss the implications of the proposed change with stakeholders.

Because NCPA is the first, and only stakeholder, to suggest that these timelines be changed, the CAISO would like the opportunity to vet the issue with other affected Scheduling Coordinators. The CAISO believes that it is important to obtain the views of the other affected Scheduling Coordinators on this change, in particular to determine the feasibility of the change and their capability to move

from monthly to daily data submissions for these transactions. The CAISO recognizes that advancing the submittal of this data to a daily function will likely impact the systems and processes of those Scheduling Coordinators as much as the systems and processes of the CAISO. The CAISO will take that impact into account.

In that regard, the CAISO also requires additional time to undertake its own systems analysis. The CAISO must determine what configuration modifications would be needed to accommodate the change to the extent possible through an automated process, using existing systems, so that use of a costly and labor-intensive manual process can be avoided.

The CAISO will endeavor to obtain feedback from the affected Scheduling Coordinators, and complete its own system analysis, by the end August 2009. If this review results in a decision to proceed with a change, the CAISO will take steps necessary to obtain the requisite approvals of the CAISO Board of Governors ("Board") and the Commission, in order to allow the change to become effective on November 1, 2009, coincident with the implementation of payment acceleration, or shortly thereafter.

D. Disputes

Six Cities and Powerex oppose the CAISO's modifications to Sections 11.29.8.5 and 11.29.8.6 that delete certain language related to the resolution of disputes. The CAISO believes that this opposition is based on oversight or a misunderstanding of the amendments. The CAISO is deleting the language in Sections 11.29.8.5 and 11.29.8.6 because it has been replaced with greatly

expanded provisions on disputes and exceptions in new Section 11.29.8.4. That section now contains a separate provision for each type of Settlement Statement that establishes the requirements for the initiation and scope of disputes, the treatment of valid disputes, and recourse of the disputing party in the event that it disagrees with the CAISO's resolution of the matter. The CAISO will also include a detailed process and timeline for the CAISO to respond to disputes, in the appropriate Business Practice Manual ("BPM"). In light of the expanded provisions in Section 11.29.8.4 and the detailed business process for disputes that will be addressed in the BPM, there is simply no valid basis to retain the language proposed for deletion in Sections 11.29.8.5 and 11.29.8.6.

Powerex also requests that the Commission direct the CAISO to clarify and amend the Tariff as necessary to outline the steps a Market Participant should take to address a dispute that has not be resolved for inclusion on Recalculation Settlement Statement T+36M before the sunset date occurs and further adjustments are prohibited. It is unnecessary for the Commission to order the CAISO to clarify this point. The detailed business process to be included in the BPM will outline the steps for timely resolving disputes in advance of Recalculation Settlement Statement T+36M. In addition, if a dispute is not timely resolved, Section 11.29.8.4.6 already expressly recognizes the right of the CAISO or disputing party to seek redress from FERC in accordance with the Federal Power Act.

E. Interest

The current CAISO Tariff does not contain an interest provision to compensate Market Participants for the time value on money on adjustments made in the settlements process. This is a significant change proposed the Payment Acceleration Filing. It adds Section 11.29.10.2 to the Tariff to apply interest to deviations through Recalculation Settlement Statement T+76B. SCE and Six Cities support the introduction of an interest component into the CAISO's settlements process, but recommend in their comments that interest be applied across the entire payment cycle.¹⁴ The concern underlying both parties' recommendation appears to be that they will not receive interest on disputes that are resolved after Recalculation Settlement Statement T+76B is issued.

As the CAISO explained during the stakeholder process, the CAISO is adopting an interest provision to compensate Scheduling Coordinators for the time value of money and to remove the financial incentive for Scheduling Coordinators to submit unreasonable estimates of meter data by assessing interest on the differences between estimated and actual meter data. The CAISO limited the application of interest to only deviations from Initial Settlement Statement T+7B to Recalculation Settlement Statement T+38B, and from Recalculation Settlement Statement T+38B to Recalculation Settlement Statement T+76B, to align the assessment of interest with the use of estimated meter data in calculating these statements. Since subsequent statements will be

¹⁴ SCE at 4-5; Six Cities at 6-7.

calculated using Actual Settlement Quality Meter Data, the CAISO did not extend the application of interest to Recalculation Settlement Statement T+18M, Recalculation Settlement Statement T+35M, or Recalculation Settlement Statement T+36M.

Further, the CAISO does not believe that extending interest to the subsequent Settlement Statements is warranted. The CAISO anticipates that Incremental Changes on these outlying Settlement Statements will be limited, and that the attendant dollar amount of interest will be likely be very small. On the other hand, the CAISO anticipates that calculating interest for each and every time segment would require implementation of a detailed manual process and significant expenditure of resources to track the otherwise very small interest calculations and any disputes that arise related to the underlying adjustment or the interest itself. In considering and balancing these factors, the CAISO submits that the application of interest beyond Recalculation Settlement Statement T+76B is not warranted.

F. Invoicing

1. Weekly Invoices

Calpine supports the CAISO's proposal for shortening the invoice cycle and payments calendar as a significant improvement over the existing payment timeline. Calpine also supports the CAISO's plan to move to weekly invoicing in the future as a means to "further decrease the credit and default risks in the CAISO market and eliminate inefficient market behavior pursued by market

participants in an effort to mitigate their exposure to default risk.”¹⁵ In its comments, Calpine does not recommend changing the payment acceleration proposal currently before the Commission, but rather requests that the Commission direct the CAISO to follow-through expeditiously on moving from semi-monthly invoicing to weekly invoicing, with accelerated payment dates.

During the stakeholder process, the CAISO considered Calpine’s suggestion to include weekly invoicing as part of the initial deployment of payment acceleration, but determined that moving first to semi-monthly invoices would serve as a more reasonable transition to a weekly cycle. The CAISO does plan to ultimately invoice on a weekly basis. However, the CAISO has not yet set a timeline for that occur and objects to Calpine’s request that the Commission direct the CAISO to act expeditiously, or that it set an arbitrary deadline for the invoicing change. The CAISO’s proposal is just and reasonable as submitted in the Payment Acceleration Filing.¹⁶

The CAISO believes that it is prudent to deploy and obtain experience with settlements under payment acceleration and semi-monthly invoicing before we commit to a definite date for initiating weekly invoices. In addition, Stakeholder readiness for changing the invoice periods and payment dates is important. Stakeholders have advised the CAISO that they have developed sophisticated and expensive settlements programs to verify CAISO settlements and are concerned that they have sufficient opportunity to be confident that their

¹⁵ Calpine at 4.

¹⁶ *City of Bethany v. FERC*, 727 F.2d 1131, 1136 (D.C. Cir. 1984), *cert denied*, 469 U.S. 917 (1984) (utility need establish that its proposed rate design is reasonable, not that it is superior to all other alternatives).

“shadow” settlements programs are functioning properly with the new markets and with the implementation of payment acceleration before further changes to the invoice and payment timelines are made. Once this initial payment acceleration proposal is successfully deployed, the CAISO will work with Stakeholders and undertake a provides to develop an appropriate timeline for implementing weekly invoices and will coordinate the system changes, as necessary, with market design initiatives contemplated by the CAISO’s 2009 Roadmap process.¹⁷

2. Other Invoicing Provisions

Tariff Section 11.29.10.3 gives the CAISO discretion to invoice certain items separately from monthly market activities (e.g., post-closing adjustments and the financial settlement of disputes) and requires the CAISO to publish a Market Notice prior to issuing a non-routine Invoice or Payment Advice. In the Payment Acceleration Filing, the CAISO modified this section to delete the requirement that the CAISO provide the Market Notice at least 30 days in advance of such issuance. Six Cities argues that 30-day notice should be retained to alert Market Participants to anticipate a non-routine Invoice or Payment Advice.

The CAISO deleted the 30-day notice requirement consistent with the objectives of payment acceleration, in order to permit the items covered by the provision to be more quickly settled, either by separate invoice or in the next semi-monthly invoice. In response to Six Cities’ comments, the CAISO will in its

¹⁷ See the CAISO’s *Catalog of Market Design Initiatives June, 2009*, posted on the CAISO’s Website at <http://www.aiso.com/23cb/23cbe0fd29060.pdf>.

compliance filing in this matter revise Section 11.29.10.3 to require that Market Notice be published at least five business days in advance of a non-routine Invoice or Payment Advice. The CAISO believes that this shortened notice period strikes a reasonable balance by providing the timely alert sought by Six Cities while also allowing quicker invoicing and settlement of these items.

G. Transitional Tariff Language

The CAISO has proposed that the new payment acceleration timelines apply to Trading Days beginning with the effective date of November 1, 2009. Transactions for Trading Days prior to that effective date will continue to be settled under the terms of the currently effective metering and settlement provisions of the CAISO Tariff. To accommodate this need to have two settlement timelines in effect for a transitional period and to provide the CAISO with authority in the CAISO Tariff to process the necessary metering data, produce Settlement Statements, and handle any billing inquiries, the CAISO's Payment Acceleration Filing incorporated the existing provisions of Tariff Sections 10 and 11 into a separate Appendix H. As noted by SCE, the CAISO's errata filing changed the effective date for payment acceleration from October 1 to November 1, but did not make a corresponding change to the Trading Days to which Appendix H will apply.¹⁸ The CAISO will revise Appendix H to make clear that it applies the metering and settlement provisions of the currently effective CAISO Tariff to all market transactions that occur prior to the November 1, 2009 effective date for payment acceleration.

¹⁸ SCE at 5.

H. Maximum Unsecured Credit Limit

CAISO Tariff Section 12 contains comprehensive creditworthiness provisions designed to ensure that Market Participants satisfy creditworthiness standards or post financial security sufficient to cover all of their financial obligations in the CAISO settlement process and to discourage defaults in the CAISO's markets. The creditworthiness provisions require each Market Participant to secure its transactions with the CAISO by maintaining an Unsecured Credit Limit and/or by posting Financial Security. Under Section 12.1.1 the maximum Unsecured Credit Limit for any Market Participant is \$150 million.

During the stakeholder process for payment acceleration, the CAISO discussed its intent to reduce the \$150 million maximum Unsecured Credit Limit set forth in Tariff Section 12.1.1 to a lesser amount commensurate with the decrease in credit risk that will result from implementing a shortened payment timeline. At the December 16, 2008 meeting of the Board, CAISO management presented the payment acceleration proposal and a recommendation to reduce the maximum Unsecured Credit Limit to \$50 million to the Board for consideration as separate agenda items. The Board approved both items. The CAISO thereafter submitted its Payment Acceleration Filing but, as noted in the comments of Joint Parties and Powerex, the filing did not include the reduction in the Unsecured Credit Limit. Joint Parties and Powerex support reducing the Unsecured Credit Limit and have requested that the CAISO clarify its plans for filing a Tariff amendment to effectuate that reduction or that the Commission

direct the CAISO to timely file for a reduction of the Unsecured Credit Limit.

The CAISO did not propose to change the maximum Unsecured Credit Limit in the Payment Acceleration Filing because it wanted to re-evaluate the intended \$50 million maximum to determine if it remains the appropriate limit in light of new market results. The CAISO implemented the new markets on March 31, 2009. At the time the CAISO was preparing the Payment Acceleration Filing, it was reviewing the operation and results of the new markets and had begun to issue Settlement Statements for Trading Days under the new market structure. Rather than ignore this information pertinent to outstanding market obligations,¹⁹ and proceed with a filing to reduce the maximum Unsecured Credit Limit, the CAISO opted to delay filing that tariff amendment in favor of further necessary analysis. The CAISO anticipates completing its review and taking action as necessary so that the appropriate maximum Unsecured Credit Limit amount is in effective coincident with the November 1, 2009 implementation date for payment acceleration.

Given this on-going review, the CAISO objects to the suggestion of the Joint Parties and Powerex that the Commission should direct the CAISO to submit a filing to implement the \$50 million Unsecured Credit Limit. It is reasonable and prudent for the CAISO to undertake and complete its analysis of

¹⁹ The Joint Parties' comments claim that the amount of unsecured credit or a guarantees rose from \$67 million in March 2009 to \$148 million in April 2009. Joint Parties at 7. This claim is misleading. More precisely, the amounts represent the portion of Market Participants' total Estimated Aggregate Liability for those months that was backed by the unsecured credit (including Unsecured Credit Limits and Guarantees) rather than posted security, which includes letters of credit, surety bonds, cash deposits held in escrow, certificates of deposit, payment bonds, and prepayments to the CAISO.

the new market results in order to ensure that the appropriate maximum Unsecured Credit Limit is in place. Further, the Joint Parties and Powerex have offered no justification for the Commission to compel the CAISO to end its analysis and make such filing. The implementation date for payment acceleration is nearly four months away. There is sufficient time for the CAISO to complete its review of the intended \$50 million maximum Unsecured Credit Limit and take follow-up action as necessary.

IV. CONCLUSION

For the foregoing reasons, the CAISO respectfully requests that the Commission approve the Payment Acceleration Filing as discussed herein, without suspension or hearing.

Respectfully submitted,

/s/ Anthony Ivancovich

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CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon each person designated on the official service list compiled by the Secretary in the above-captioned docket.

Dated at Folsom, California on this 10th day of July, 2009.

/s/ Anna Pascuzzo
Anna Pascuzzo