



California Independent
System Operator Corporation

July 8, 2010

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

Re: California Independent System Operator Corporation,
Docket No. ER10-____
New Markets Recalculation Window

Dear Secretary Bose:

The California Independent System Operator Corporation (“ISO”) electronically submits for filing this proposed amendment to its Fifth Replacement FERC Electric Tariff to adopt additional settlement provisions for the bridge period from April 1, 2009 through October 31, 2009.¹ The purpose of the proposed amendment is to establish an additional process and timeline for settling true-up adjustments related to the trading days from April 1 through October 31. The ISO has already completed the recalculation settlement statements specified in the ISO Tariff provisions for this bridge period. The proposed amendment will apply recently implemented payment acceleration provisions to this period that will provide a definite process and timeline for settling the remaining true-up adjustments, beginning with the publication of a recalculation settlement statement 18 months after the trading day (“T+18M”). There are over 50 true-up adjustments in the settlement queue that are awaiting reruns for those trading days.

The ISO proposes an effective date of October 6, 2010 for the proposed settlement provisions for the bridge period. This date coincides with the date that the ISO will publish recalculation settlement statement T+18M for trading day April 1, 2009, if necessary. The ISO will thereafter publish a recalculation settlement statement T+18M as necessary for subsequent trading days in the bridge period.

The ISO also requests that the Commission issue an order approving the proposed amendment on or about September 7, 2010, and no later than September 20, 2010. Receiving an order in this timeframe is important to the ISO so that it has

¹ The ISO submits this filing pursuant to Section 205 of the Federal Power Act, 16 U.S.C. § 824d and Part 35 of the Commission’s regulations, 18 C.F.R. § 35, and in compliance with Order No. 714, *Electronic Tariff Filings*, FERC Stats. & Regs. ¶ 31,276 (2009).

adequate time to (i) ensure that the necessary changes to its systems and software are in place, (ii) engage in testing with market participants, and (iii) undertake approximately two weeks of internal work calculating and preparing settlement statements in advance of issuance, in order to implement and comply with the proposed amendment on the requested October 6, 2010 effective date. This will also afford the ISO adequate time to follow the Business Practice Manual change management process and revise the affected manuals prior to the implementation date.

I. EXECUTIVE SUMMARY

The bridge period consists of the seven months from trading day April 1, 2009, which was start-up date of the ISO's new markets, through trading day October 31, 2009, which was the last trading day prior to the implementation of the ISO's payment acceleration program on November 1, 2009. ISO Tariff provisions applicable to the April 1 through October 31 timeframe do not contain a defined timeline for publishing settlement statements to make true-up adjustments for this period beyond recalculation settlement statements issued 76 business days after the trading day ("T+76B"), which already have been invoiced and have completed the dispute cycle. Market Participants have requested that the ISO establish an additional process and timeline for making true-up adjustments for this period. There are over 50 items pending in the settlement queue awaiting reruns for those trading days

The proposed amendment will, in effect, apply the same extended settlement process and timeline to the April 1 through October 31 period, as the ISO implemented through the payment acceleration program on trading day November 1, 2009. More specifically, the proposed amendment adds new Tariff Section 11.29.7.1.3 that will:

- Extend the settlement timeline for this period to include issuance of a recalculation settlement statement T+18M if necessary, a recalculation settlement statement 35 months after the trading day ("T+35M") if necessary, and a recalculation settlement statement 36 months after the trading day ("T+36M") if necessary;
- Apply all other applicable tariff provisions to any recalculation settlement statement issued under the section, except that interest under Section 11.29.10.2 will not apply;
- Include on the ISO payments calendar the publication dates of the recalculation settlements statements and related invoice dates for trading days during the bridge period;
- Require the ISO to issue a market notice if the a recalculation settlement statement is necessary for any trading during this period; and

- Take precedence to the extent that any provision in the section is inconsistent or conflicts with ISO Tariff, Appendix H (Grandfathered Metering and Settlement Provisions for Trading Days Prior to November 1, 2009).

The proposed amendment is necessary and appropriate in order to establish a defined process and definitive timeline for settling the true-up adjustments related to the bridge period. Adding this structure to the settlement process will enable the ISO to publish settlement statements and close out the true-up adjustments in an efficient and orderly manner, and will provide certainty in the timing of settlement statements and invoices for market participants.

II. BACKGROUND

A. History

On March 31, 2009, the ISO successfully launched its Market Redesign and Technology Upgrade to implement major design improvements to the ISO's wholesale markets. The Conformed 4th Replacement ISO Tariff for the new markets applied to trading day April 1, 2009 and trading days thereafter. Beginning with that trading day, the ISO followed the billing and payment process for the new markets set forth in ISO Tariff Section 11.29. Under that process, the ISO issued to each scheduling coordinator for each trading day an initial settlement statement 38 business days after the trading day ("T+38B"), an initial settlement statement reissue, a recalculation settlement statement, and a recalculation settlement statement T+76B. The ISO assessed the charges on these statements through two invoices for each calendar month. The first invoice was based on the initial settlement statement T+38B and the second invoice covered the initial settlement statement reissue or recalculation settlement statement(s). Under Section 11.29.7.3.4, any reruns, post-final adjustments, or financial resolution of disputes could be invoiced separately from monthly market activities but no timeline was specified for the adjustments to be reflected on a settlement statement.

On November 1, 2009, the ISO implemented the payment acceleration program to shorten the time period in which the ISO invoices and settles market transactions.² A key feature of payment acceleration was advancing issuance of the initial settlement statement to the 7th business day after the trading day ("T+7B") rather than 38 business days after that date. By shortening the settlement timeline, the payment acceleration measures reduced the average cash clearing schedule from approximately 80 calendar days to approximately 29 calendar days. This reduction in the length of time that market charges and payments are outstanding in turn lowered the overall market's credit exposure and enabled the ISO to reduce the maximum unsecured credit limit for market participants from \$150 million to \$50 million under ISO Tariff Section 12.1.1.

The payment acceleration program also provided greater structure to the settlement process by specifying the timing required for each of the settlement statements to be issued and adding settlement statements beyond recalculation

² *California Indep. Sys. Operator Corp.*, 128 FERC ¶ 61,265 (2009)("September 17 Order").

settlement statement T+76B. Under Section 11.29.7.1, the ISO publishes for each trading day: (i) an initial settlement statement T+7B; (ii) a recalculation settlement statement T+38B; (iii) a recalculation settlement statement T+76B; (iv) a recalculation settlement statement T+18M if necessary; (v) a recalculation settlement statement T+35M if necessary; (vi) a recalculation settlement statement T+36M if necessary, and (vii) any other recalculation settlement statement authorized under Section 11.29.7.3.

In addition, the payment acceleration program afforded longer validation and dispute windows for market participants, and increased certainty in final payments by implementing a sunset provision that will permit adjustments to settlement statements for 36 months after the trading day, and thereafter only by direction of the ISO Board of Governors or order of the Commission.

Following the implementation of payment acceleration, the ISO identified the gap in the settlements process for the April 1 through October 31 trading period. The ISO has settlements adjustments queued for trading days during this period, but has already issued and invoiced recalculation settlement statements T+76B for those trading days and has gap in its process where there is no defined timeline in the existing applicable tariff provisions for publishing any settlement statements after T+76B.

B. Stakeholder Process

To address the gap in the settlements process, the ISO undertook a stakeholder initiative to develop and add a defined settlement publication routine for the bridge period, create ample validation and dispute opportunities, and put into place a sunset provision, consistent with the principles of payment acceleration already in place. The stakeholder initiative involved conference calls with stakeholders, issuance of several white papers discussing proposed settlements provisions for the bridge period, and multiple opportunities for stakeholders to provide input into the development of the proposal.³

The ISO began the stakeholder process on March 11, 2010 by publishing an issue paper and straw proposal that described the issues associated with the gap in the settlements process during the bridge period and proposed to resolve the situation by adding a billing process to this timeframe that parallels the existing payment acceleration provisions. The ISO conducted a conference call on the issue paper and straw proposal on March 18, 2010. One stakeholder filed written comments on March 23, 2010. The Northern California Power Agency (“NCPA”) expressed general support for the straw proposal, but opposed the application of interest to trading days during the bridge period.

³ The record for the initiative can be found at <http://www.caiso.com/2755/2755eb2670a00.html>.

This record includes the ISO’s white papers, initial as well as revised, all comments submitted by stakeholders during the stakeholder process, all stakeholder meeting presentations, and the draft tariff language.

On March 26, 2010, the ISO published a revised issue paper and straw proposal that opted to retain the interest provision to be consistent with the Commission's September 17 Order on the ISO's payment acceleration filing. In that order, the Commission rejected the ISO's proposal to end the application of interest after recalculation settlement statement T+76B and directed the ISO to include in its compliance filing revisions to applicable tariff sections to allow interest to accrue on incremental changes throughout the full 36 months of the settlement process.⁴

Stakeholders had the opportunity to provide input on the revised issue paper and straw proposal during a stakeholder conference call on April 1, 2010 and through submission of written comments. All of the comments expressed support for the ISO's proposal to adopt a settlement process and timeline for the bridge period consistent with payment acceleration. The only disagreement in the comments was over the interest provision. While Southern California Edison Company supported the application of interest to invoice deviations after recalculation settlement statement T+76B, NCPA, Pacific Gas & Electric Company, and Western Area Power Authority, opposed assessing interest on the grounds that it would introduce unanticipated financial impacts for historical market activities or would constitute retro-active ratemaking.

On April 13, 2010, the ISO posted its draft final issue paper and straw proposal.⁵ Based on stakeholder input, this final paper proposed to exclude the application of interest to any deviations contained in recalculation settlement statements after recalculation settlement statement T+76B. The ISO obtained input from stakeholders on the final paper during a conference call on April 21, 2010. In addition, in written comments submitted on April 22, 2010, San Diego Gas & Electric Company supported the ISO's proposal to provide a defined statement publication routine for the bridge period and agreed with the exclusion of the interest to be consistent with treatment of the payments and charges for that period and to simplify the implementation process.

The proposal was presented to the ISO Governing Board on May 18, 2010 and the Board authorized this filing.⁶

The ISO posted draft tariff language on June 23, 2010 to extend settlement provisions to the bridge period. Two stakeholders provided comments on the draft language. The draft language and comments were discussed during a stakeholder conference call on July 2, 2010.

⁴ September 17 Order at P 53.

⁵ The draft final issue paper and straw proposal is provided in Attachment C to this filing.

⁶ The Memorandum presented to the ISO Board of Governors regarding the Decision on Market Recalculation Window is provided as Attachment D to this filing.

III. NEW MARKETS RECALCULATION WINDOW

A. Settlement Process and Timeline

Before payment acceleration was implemented, the ISO settled true-up adjustments in priority order, starting with FERC-mandated settlement reruns, followed by the outcomes of disputes, and finally processing the remaining items in the settlement queue from oldest to newest. In implementing payment acceleration, the ISO deployed a more definitive timeline for making settlement adjustments with nearly unanimous support from market participants. Earlier this year, market participants began contacting the ISO to inquire how the ISO would handle adjustments arising between the launch of the new markets on trading day April 1, 2009 and the implementation of payment acceleration on November 1, 2009. Market participants made clear that they preferred the certainty of the payment acceleration settlement timeline over the previous adjustment process.

The ISO developed the proposed settlement provisions in response to these market participant concerns. The proposal will apply the process adopted with payment acceleration to the trading days from April 1 through October 31 in order to schedule adjustments and close out settlement issues related to this period. These provisions address the gaps in the previous process by providing a definitive schedule for any remaining true-up adjustments. They also establish a sunset date. After recalculation settlement statement T+36M has been published, if necessary, ISO settlements are final and not subject to dispute or further adjustment unless otherwise directed by the ISO Board or the Commission. The proposal will apply to more than 50 issues, based on more than 180 valid disputes, currently in the queue awaiting reruns for the bridge period.

Under proposed Section 11.29.7.1.3, the remaining settlement schedule⁷ for the bridge period will include issuance of a recalculation settlement statement T+18M if necessary, a recalculation settlement statement T+35M if necessary, a recalculation settlement statement T+36M if necessary, and any other recalculation settlement statement authorized under Section 11.29.7.3. This provision adds these recalculation settlement statements to the process and timeline for making settlement true-up adjustments beyond recalculation settlement statement T+76B. It does not, however, change the way in which the charges will be calculated. Under the proposal, the ISO will continue to calculate the adjustment amounts for each charge type payable to, and the amounts owed by, each scheduling coordinator for each settlement period of the trading day in order to arrive at a net amount payable for each charge type by that entity per trading day. Each of these adjustment amounts will appear on the recalculation settlement statement.

⁷ The settlement process for the bridge period has already been completed through publication of recalculation settlement statement T+76B.

Proposed Section 11.29.7.1.3 further provides that any recalculation settlement statement issued under that provision will be subject to the same ISO Tariff provisions as are otherwise applicable to recalculation settlement statements T+18M, T+35M, T+36M, or any other recalculation settlement statement authorized under Section 11.29.7.3. The purpose of this provision is to ensure that recalculation settlement statements issued under Section 11.29.7.1.3 are consistent with the payment acceleration provisions, and subject to the same terms and conditions as, other recalculation settlement statements issued under the tariff for the period beginning on November 1, 2009 and thereafter. The applicable provisions include, but are not limited to Section 11.29.7.2, Basis for Billing and Payment, Section 11.29.8, Confirmation and Validation, and Section 11.29.9 Payment Procedures. The only exception to application of the other tariff provisions to the bridge period is that Section 11.29.10.2, Interest, will not apply, for the reasons discussed below.

Proposed Section 11.29.7.1.3 includes two requirements that will provide transparency into this settlement process for market participants. It requires that the ISO include the potential recalculation settlement statements for the bridge period on the ISO payments calendar prepared in accordance with Section 11.29.24. It also requires the ISO to issue a notice to the market in the event that a recalculation settlement statement will be necessary for a trading day within the bridge period. For purposes of complying with this requirement, the ISO will issue market notices that identify multiple trading days impacted by an adjustment or adjustments, not an individual market notice for each trading day. One market participant's comments were concerned that this provision could produce daily notices that would too difficult to track. That is not the ISO's intent.

Proposed Section 11.29.7.1.3 also contains a provision that addresses potential conflicts with ISO Tariff, Appendix H. Appendix H was added to the currently effective tariff through the ISO's payment acceleration filing in order to preserve the metering and settlement provisions in effect prior to November 1, 2009 so they would continue to apply to the trading days prior to that date. Since this proposal covers the period April 1 through October 1, and not all dates prior to November 1, the ISO is not proposing to delete Appendix H. However, to address the timeframe in Appendix H that overlaps with the bridge period, Section 11.29.7.1.3 makes it clear that, to the extent any provision of that section is inconsistent or conflicts with Appendix H, the provision in Section 11.29.7.1.3 will prevail.

The ISO submits that establishing the proposed additional process and timeline for settling true-up adjustments beyond the recalculation settlement statement T+76B for trading days April 1 through October 31 is a fair and reasonable procedural enhancement to the remaining settlement process for the period. Adding this structure to the settlement process will enable the ISO to publish settlement statements and close out the pending true-up adjustments in an efficient and orderly manner, and will provide certainty in the timing of settlement statements and invoices for market participants. Significantly, this portion of the proposal received unanimous support from stakeholders during the stakeholder initiative.

B. Interest

The issue on which stakeholders disagreed during the stakeholder initiative was whether interest should apply to incremental changes from statement to statement for the remainder of the settlement process for the bridge period. The ISO's initial and revised draft proposals included the application of interest. The ISO included the interest provision to be consistent with the Commission's September 17 Order on the ISO's payment acceleration filing. In that order, the Commission rejected the ISO's proposal to end the application of interest after recalculation settlement statement T+76B and directed the ISO to include in its compliance filing revisions to applicable tariff sections to allow interest to accrue on incremental changes throughout the full 36 months of the settlement process.⁸

Based on further stakeholder input during the initiative, the ISO in its final paper excluded the application of interest to any deviations contained in recalculation settlement statements after recalculation settlement statement T+76B. The ISO decided to exclude interest to be consistent with the treatment of the payments and charges for that period that occurred on settlement statements up to and including recalculation settlement statement T+76B. The tariff in effect when the prior settlement statements were issued for the bridge period did not include an interest provision, therefore, those prior statements did not include any interest charges. In view of this, the ISO eliminated the interest proposal. The ISO agrees with stakeholder comments that the application of interest to any remaining adjustments in the settlements cycle would result in inconsistent treatment of the charges and payments for those trading days.

IV. EFFECTIVE DATE

The ISO proposes an effective date of October 6, 2010 for the proposed settlements provisions for the bridge period. This date coincides with the date that the ISO will publish recalculation settlement statement T+18M for trading day April 1, 2009, if necessary, and will thereafter publish recalculation settlement statement T+18M if necessary for subsequent trading days in the bridge period.

In addition, the ISO requests that the Commission issue an order approving the proposed amendment on or about September 7, 2010, and no later than September 20, 2010. Receiving an order in this timeframe is important to the ISO so that it has adequate time to (i) ensure that the necessary changes to its systems and software are in place, (ii) engage in testing with market participants, and (iii) undertake approximately two weeks of work preparing settlement statements in advance of issuance, in order to implement and comply with the proposed amendment on the requested October 6, 2010 effective date. This will also afford the ISO adequate time to follow the Business Practice Manual change management process and revise the affected manuals prior to the implementation date.

⁸ September 17 Order at P 53.

V. EXPENSES

No expense or cost associated with this filing has been alleged or judged in any judicial proceeding to be illegal, duplicative, unnecessary, or demonstratively the product of discriminatory employment practices.

VI. COMMUNICATIONS

Correspondence and other communications regarding this filing should be directed to:

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VII. SERVICE

The ISO has served copies of this filing on the Public Utilities Commission of the State of California, the California Energy Commission, and all parties with Scheduling Coordinator Agreements under the ISO Tariff. In addition, the ISO has posted a copy of the filing on the ISO Website.

VIII. CONTENTS OF THIS FILING

This filing comprises:

This Transmittal Letter

Attachment A: Clean Tariff Sheets from the Tariff

Attachment B: Backline Tariff Sheets showing changes from the Tariff

Attachment C: ISO's Draft Final Issue Paper & Straw Proposal, Settlement Timeline Bridge

Attachment D: Memorandum to the ISO Board of Governors Re Decision on Market Recalculation Window

IX. CONCLUSION

The ISO respectfully requests that the Commission approve the proposed settlement provisions for the bridge period, without modification, suspension, or hearing on or about September 7, 2010 so they can be implemented to become effective on October 6, 2010, as requested herein.

Respectfully submitted,

//s//Beth Ann Burns

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July 8, 2010

Attachment A – Clean Sheets

Settlements Recalculation Window Tariff Amendment

**California Independent System Operator Corporation
Fifth Replacement FERC Electric Tariff**

11.29.7.1.3 Recalculation Settlement Statement – Bridge Period

For Trading Days April 1, 2009 through October 31, 2009, the settlement timeline shall include: (i) issuance of Recalculation Settlement Statement T+18M if necessary, Recalculation Settlement Statement T+35M if necessary, and Recalculation Settlement Statement T+36M, if necessary to adjust any charge set forth in a previously published Settlement Statement for any Trading Day within this period; and (ii) any other Recalculation Settlement Statement authorized under Section 11.29.7.3.

Any Recalculation Settlement Statement issued pursuant to this Section shall be subject to the same provisions in the CAISO Tariff as are applicable to a Recalculation Settlement Statement T+18M, Recalculation Settlement Statement T+35M, Recalculation Settlement Statement T+36M, or any other Recalculation Settlement Statement authorized under Section 11.29.7.3, including, but not limited to, Section 11.29.7.2 (Basis for Billing and Payment), Section 11.29.8 (Confirmation and Validation), and Section 11.29.9 (Payment Procedures), except that Section 11.29.10.2 (Interest) shall not apply.

The CAISO will include the publication dates and related invoice dates for the Recalculation Settlement Statements for Trading Days within the period April 1, 2009 through October 31, 2009 on the CAISO Payments Calendar prepared in accordance with Section 11.29.24.

The CAISO will issue a notice to the market if a Recalculation Settlement Statement T+18M, Recalculation Settlement Statement T+35M, Recalculation Settlement Statement T+36M, or any additional Recalculation Settlement Statement is required for a Trading Day within the period April 1, 2009 through October 31, 2009.

To the extent that any provision in this Section is in conflict or inconsistent with CAISO Tariff Appendix H (Grandfathered Metering and Settlement Provisions for Trading Days Prior to November 1, 2009), the provision in this Section shall prevail.

Attachment B – Blacklines

Settlements Recalculation Window Tariff Amendment

**California Independent System Operator Corporation
Fifth Replacement FERC Electric Tariff**

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11.29.7.1.3 Recalculation Settlement Statement – Bridge Period

For Trading Days April 1, 2009 through October 31, 2009, the settlement timeline shall include: (i) issuance of Recalculation Settlement Statement T+18M if necessary, Recalculation Settlement Statement T+35M if necessary, and Recalculation Settlement Statement T+36M, if necessary to adjust any charge set forth in a previously published Settlement Statement for any Trading Day within this period; and (ii) any other Recalculation Settlement Statement authorized under Section 11.29.7.3.

Any Recalculation Settlement Statement issued pursuant to this Section shall be subject to the same provisions in the CAISO Tariff as are applicable to a Recalculation Settlement Statement T+18M, Recalculation Settlement Statement T+35M, Recalculation Settlement Statement T+36M, or any other Recalculation Settlement Statement authorized under Section 11.29.7.3, including, but not limited to, Section 11.29.7.2 (Basis for Billing and Payment), Section 11.29.8 (Confirmation and Validation), and Section 11.29.9 (Payment Procedures), except that Section 11.29.10.2 (Interest) shall not apply.

The CAISO will include the publication dates and related invoice dates for the Recalculation Settlement Statements for Trading Days within the period April 1, 2009 through October 31, 2009 on the CAISO Payments Calendar prepared in accordance with Section 11.29.24.

The CAISO will issue a notice to the market if a Recalculation Settlement Statement T+18M, Recalculation Settlement Statement T+35M, Recalculation Settlement Statement T+36M, or any additional Recalculation Settlement Statement is required for a Trading Day within the period April 1, 2009 through October 31, 2009.

To the extent that any provision in this Section is in conflict or inconsistent with CAISO Tariff Appendix H (Grandfathered Metering and Settlement Provisions for Trading Days Prior to November 1, 2009), the provision in this Section shall prevail.

* * *

Attachment C – Draft Final Issue Paper & Straw Proposal, Settlement Timeline Bridge

Settlements Recalculation Window Tariff Amendment

**California Independent System Operator Corporation
Fifth Replacement FERC Electric Tariff**



California ISO
Your Link to Power

Draft Final Issue Paper & Straw Proposal

Settlement Timeline Bridge

April 13, 2010

Settlement Timeline Bridge

1 Introduction

The CAISO has settlement reruns queued for issues impacting pre-MRTU trading days. The CAISO also has defined true-up statements scheduled for trading days beginning with the implementation of payment acceleration on 11/1/09 and going-forward.

However, a gap exists from MRTU start-up on trading day 4/1/2009 through the 11/1/2009 implementation of payment acceleration where no defined settlement statement publishing timeline exists in the applicable CAISO Tariff provisions beyond the T+76 Recalculation Settlement Statement; all of which statements for the intervening trading days were published and invoiced as of February 24, 2010.

To the benefit of both internal and external stakeholders, the CAISO is spearheading an initiative to “bridge” the gap between trading days 4/1/2009 and 11/1/2009 with a defined settlement publication routine, ample validation and dispute opportunities, and a sunset provision that are consistent with the principles of payment acceleration already in place. This timetable will allow issues related to the early months of new market operation to be resolved and reduce the need for significant data storage and expenditure resources by coordinating analysis and rerunning settlements.

2 Description of the Issue

Participants have requested a predictable plan and timeline for recalculating and publishing revised settlement statements for this “bridge period” (trading days between 4/1/2009 MRTU start-up and the 11/1/2009 implementation of Payment Acceleration) as no defined publishing timeline exists beyond the Recalculation Settlement Statement T+76.

This issue has the following high-level implications to both internal and external stakeholders:

- No recalculation publishing predictability.
- No data or issue close-out plan.
- No sunset provision to close the review window.

All of these factors increase uncertainty for market participants and their overall credit exposure.

2.1 Current CAISO Practices

The CAISO currently has a formal calculation and data presentation timeline that enables predictable review of data, and associated changes, through 35 months, with formal data presentation windows at T+7B, T+38B and T+76B. Optional data presentation windows also exist at T+18 months (M) and T+35M. Finally, one optional correction-only window exists at T+36M, which coincides with an approved sunset provision.

2.2 Current Practices at Other ISOs

The practices at other ISOs vary, but each ISO has a specific data presentation timeline, including multiple review and data presentation windows. Other ISOs also have some type of closure on data review periods, similar to CAISO's sunset provision. All of these were referenced to establish the CAISO's existing payment acceleration model.

3 Key Criteria for Evaluating Initial Proposal

The CAISO believes criteria for evaluating the initial proposal includes:

- Vendor design and testing costs
- System data and storage costs for information retrieval
- Time and resource implications of solution implementation
- Timing of when a solution can be implemented
- Predictability of when data will be presented

Participants are invited to consider the implications for both the existing issue and the proposed changes beyond the criteria suggested above.

4 Initial Straw Proposal

The CAISO proposes to apply settlement principles similar to the existing payment acceleration provisions to the April 1, 2009 to October 31, 2009 trading days ("bridge period").

This proposal has no impact on any statement generation, validation or dispute allowance protocols or business practices for the bridge period up to and including the Recalculation Settlement Statements T+76 and associated invoicing as this trading period completed the statement and invoice process as of February 24, 2010.

4.1 Applicable Payment Acceleration Principles

As the statement dispute and publication cycle for these trading days has already completed the Recalculation Settlement Statements T+76 and associated invoicing, the remaining payment acceleration process that would apply to the bridge period include the following:

- Generating and publishing T+18M statements, T+35M statements (if needed), and T+36M statements (if needed)
- Validation and dispute timelines:
 - Disputes against incremental changes between the Recalculation Settlement Statement T+76B and Recalculation Settlement Statement T+18M submitted no later than nineteen months from the relevant trading day, or, in other words, no later than 1 month from the publication date of the Recalculation Settlement Statement T+18M
 - Disputes against incremental changes between the Recalculation Settlement Statement T+18M and Recalculation Settlement Statement T+35M (if necessary) submitted no later than seven calendar days from the publication date of the Recalculation Settlement Statement T+35M

- No disputes permitted for Recalculation Settlement Statement T+36M under a sunset provision that requires completion of the settlements process at 36 months from the trading day.
- Assessment of submitted disputes:
 - Recalculation Settlement Statement T+18M – CAISO determination to approve or deny the dispute will be made no later than twenty business days after the end of the dispute period with the exception of complex disputes or unless otherwise agreed to by the disputing scheduling coordinator.
 - Recalculation Settlement Statement T+35M – CAISO determination to approve or deny the dispute will be made no later than fourteen business days after the end of the dispute period.
 - CAISO declaration of a complex dispute will be made within twenty business days after the end of the dispute period
- Invoicing of a billing period corresponding to any T+18M, T+35M or T+36M Recalculation Settlement Statement will be reflected on the next scheduled semi-monthly invoice or payment advice for the end of the month.
- Charges for and allocation of invoice deviation interest via Charge Codes 7989 and 7999 based on any incremental changes between the Recalculation Settlement Statement T+76 through the Recalculation Settlement Statement T+36M (if applicable)

Stakeholder Comments & ISO Position:

Market participants that have voiced their position either verbally or in writing have indicated overall support for the proposal. The only proposal item that did not receive unanimous support was the provision for including the calculation of invoice deviation interest.

Written comments submitted by SCE indicate support for all aspects of the proposal including the calculation of invoice deviation interest resulting from settlement reruns.

Written comments submitted by NCPA, PG&E, and WAPA indicate support for all aspects of the proposal with the exception of the interest provision –

- In the second round of comments, NCPA re-affirmed its position as stated in written comments submitted during the initial round. NCPA claims that the assessment of charges or allocation of payments to market participants for interest based on historical market activities, without prior knowledge that such interest would be charged, is retroactive ratemaking. NCPA asserts that “the main objective of this initiative is to provide market participants certainty regarding settlement timing, and the application of interest is not necessary or beneficial; therefore should be removed from the proposal”
- PG&E agrees with the CAISO that scheduling coordinators should be compensated for the time value of money. PG&E however claims that this principle cannot be applied consistently in this case since Recalculation Settlement Statements through the T+76B for the bridge period have already been invoiced. According to PG&E, introducing the interest provision for this historical period at this point in the settlements cycle will have unanticipated financial impacts on market participants.

- WAPA also does not support the calculation of interest on the rerun period and it claims that including it is in effect ‘retro-active ratemaking’.

Upon further consideration, the CAISO has revised its proposal to **exclude** the application of interest to any deviations contained in recalculation settlement statements after Recalculation Settlement Statement T+76B. Since the trading days in the bridge period have already been partially settled and invoiced through Recalculation Settlement Statement T+76B, the ISO agrees with comments that the application of interest to any remaining adjustments in the settlements cycle would result in inconsistent treatment of the payments and charges related to those trading days.

4.2 Proposal Benefits

The CAISO believes the main benefits of the proposal as outlined above are:

- Utilization of the existing payment acceleration timelines and business processes will minimize new design requirements both internal and external participants.
- Application of consistent settlement principles and predictable issue close-out plan to all MRTU trading days
- Increase certainty and lower overall credit exposure for market participants via sunset provision

4.3 Tariff Implications

As part of established tariff stakeholder process, the CAISO along with stakeholder input and review will provide revised draft tariff language impacted by this proposal.

A preliminary assessment of current language indicates that the following tariff sections may be subject to review and possible edits to accommodate the proposed settlement of trading days in the bridge period:

11.29.7.1 Timing of the Settlement Process

11.29.7.3 Additional Recalculation Settlement Statements

11.29.8.3 Validation of Additional Recalculation Settlement Statements

11.29.8.4.4 Dispute of Recalculation Settlement Statement T+18M

11.29.8.4.5 Dispute of Recalculation Settlement Statement T+35M

11.29.8.4.6 Dispute of Recalculation Settlement Statement T+36M

11.29.8.5 CAISO Timeline for Determining Settlement Statement Disputes

11.29.10.2 Interest

11.29.24.1 Preparation (payment calendar)

Appendix H

5 Proposed Stakeholder Process & Project Timetable

The schedules below outline the expected timelines for both the stakeholder process as well as overall project activities. These schedules are preliminary and may be revised and communicated to stakeholders as the need arises.

As a result of a definitive T+18M Recalculation Settlement Statement publication for 4/1/2009, the required go-live date for the proposal will be 10/1/2010.

5.1 Stakeholder Processes

Due Date	Event
March 12	Post issue paper & initial draft straw proposal
March 18 1:00 – 3:00	Stakeholder web conference and call
March 23	Stakeholder comments due on issue paper & initial draft straw proposal
March 26	Post revised straw proposal
April 1 1:00 – 3:00	2 nd Stakeholder web conference and call
April 7	Stakeholder comments due on revised straw proposal
April 13	Post draft final proposal
April 21 1:00 – 3:00	Stakeholder web conference and call
April 22	Stakeholder comments due on draft final proposal

5.2 Project Activities

Activity	Expected Time Frame
Stakeholder Processes	March – April 2010
Board Presentation	May 2010
Tariff Amendment Process	Late May – June 2010
FERC Filing	Early July 2010
Testing	July - August 2010
BPM PRRs	August 2010
FERC Order	Early September 2010
Revised Draft Payment Calendar Posted	After FERC Order received – September 2010
Production Implementation - publish 4/1/2009 Recalculation Settlement Statement T+18M	October 1, 2010

6 Conclusion

The CAISO will conduct the third and final conference call to review this *Draft Final Issue Paper & Straw Proposal* on April 21, 2010 from 1-3PM, PST.

The CAISO appreciates stakeholder comments and discussion on the issues raised within this paper as well as other issues that should be examined. Please send your comments by close of business on April 22, 2010 to Recalc@caiso.com.

**Attachment D – Memorandum to the Board of Governors Re: Decision on Market
Recalculation Window**

Settlements Recalculation Window Tariff Amendment

**California Independent System Operator Corporation
Fifth Replacement FERC Electric Tariff**

Memorandum

To: ISO Board of Governors

From: Steve Berberich, Vice President, Technology and Corporate Services
and Chief Financial Officer

Date: May 10, 2010

Re: Decision on Market Recalculation Window

This memorandum requires Board action.

EXECUTIVE SUMMARY

Following the new market launch last April, the California Independent System Operator Corporation implemented the payment acceleration program, which substantially shortened the time period in which the ISO invoices and settles market transactions. Doing so also reduced credit risk. The effective date of the payment acceleration program was November 1, 2009. For the period between the new market implementation in April and payment acceleration implementation in November, no defined settlement statement publishing timeline exists for the ISO to make necessary settlement true-up adjustments.

The ISO initiated a stakeholder initiative to bridge this processing gap with a proposal that applies principles similar to those adopted for payment acceleration. The final proposal allows for true-up adjustments to be made for the April 1, through October 31, 2009 period, as follows:

- A defined settlement publication routine beyond the trade date plus 76 business days (“T+76B”) schedule rather than an ad hoc timeline;
- Ample validation and dispute opportunities for the additional statements; and
- A sunset provision to cap the timeline for adjustments at 36 months beyond the trade date.

This process for settling the true-up adjustments will reduce the need for significant data storage and resource expenditures associated with coordinating analysis and re-running settlements both internally for the ISO and externally for market participants. As an additional benefit, settling the true-up adjustments, rather than having them stay in a queue for an indefinite period of time until a subsequent market re-run is undertaken, will reduce the credit risk associated with possible market participant default and non-payment during the interim period.

Management recommends approval of the proposal to process and settle true-up adjustments for the trading period from April 1 through October 31, 2009, and make the associated tariff changes to support timely implementation.

Management recommends the following motion:

Moved, that the ISO Board of Governors approves the proposal to process and settle true-up adjustments for the trading period from April 1 through October 31, 2009, as detailed in the memorandum dated May 10, 2010; and

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

DISCUSSION AND ANALYSIS

The ISO implemented the new markets effective on trading day April 1, 2009. Effective on trading day November 1, 2009, the ISO implemented a payment acceleration program which decreased the average cash clearing schedule from approximately 80 to 25 calendar days. The payment acceleration program also afforded longer validation and dispute windows for participants, a sunset provision and a provision for charging and allocating interest associated with deviations between invoice cycles.

Before payment acceleration was implemented we settled in priority order the true-up adjustments, starting with FERC-mandated settlement re-runs, then moving on to the remaining items in the queue from oldest to newest. There are currently approximately 90 items in that queue awaiting re-runs. The same provisions would apply for the interim period between new market go live and payment acceleration implementation. Market participants expressed concern that they did not want the interim period settlements to follow the same regime as re-runs before market go live and wanted a more definitive settlement timeline. For context, we have received approximately 170 disputes since the market went live and before payment acceleration and, since there is no firm timelines or sunset provision, new disputes could continue to be received into perpetuity with no predictable timing.

To address the ambiguity in the settlement timeframe for the interim period, and respond to market participant concerns, the ISO proposed applying the principles adopted with payment acceleration to schedule and close out the settlement issues for the trading period April 1, 2009 to October 31, 2009. Application of the payment acceleration timeline enables market issues to be addressed, reviewed and closed within 36 months of each trade date. The proposed timeline resolves multiple gaps that exist with the previous market timeline previously outlined. Toward addressing the schedule gap in the new market calendar, the ISO developed and presented to stakeholders the proposal summarized below.

- Settlements will publish a defined settlement publication routine beyond the T+76B currently presented to participants as follows.

- Publication of a new true-up (or recalculation) settlement statement eighteen months after the trading day (T+18M).
 - Optional publication of an additional recalculation settlement statement thirty-five months after the trading day (T+35M), based on any data changes.
 - Optional publication of an additional recalculation settlement statement thirty-six months after the trading day (T+36M).
- The new timeline includes formal participant validation and dispute opportunities for the additional statements.
 - Disputes relating to incremental changes between the T+76B statement and the recalculation settlement statement published on T+18M may be submitted up to nineteen months from the relevant trading day, or, in other words, no later than 1 month from the publication date of the T+18M recalculation settlement statement.
 - If a T+35M recalculation settlement statement is published, disputes against the incremental changes between the T+18M recalculation settlement statement and the T+35M recalculation settlement statement may be submitted up to seven calendar days from the publication date of the T+35M recalculation settlement statement.
 - After the sunset period, or publication of a T+36M recalculation settlement statement, settlement is considered final and is not subject to dispute unless otherwise directed by the Board or FERC.
- The proposal also accommodates defined ISO assessment timelines for submitted disputes.
 - ISO determination to approve or deny the disputes submitted against the T+18M recalculation settlement statement will be made no later than twenty business days after the end of the dispute period, with the exception of complex disputes or, unless otherwise agreed to by the disputing scheduling coordinator.
 - ISO determination to approve or deny the disputes submitted against the T+35M recalculation settlement statement will be made no later than fourteen business days after the end of the participant dispute period.
 - ISO declaration of a complex dispute will be made within twenty business days after the end of the dispute period, in time to ensure adjustment prior to publication of the subsequent statement.
- Invoicing of billing periods corresponding to any T+18M, T+35M or T+36M recalculation settlement statement will be reflected on the next scheduled semi-monthly invoice or payment advice for the end of the month.
- Invoice deviation interest was initially proposed to be assessed on any incremental change following the T+76B recalculation settlement statement, but eliminated based on stakeholder feedback.

POSITIONS OF THE PARTIES

The ISO conducted a stakeholder process on this proposal that included three rounds of conference calls and opportunities to submit related written comments. Throughout the

initiative, stakeholder comments supported all aspects of the initial proposal with the exception of three entities that opposed the ISO's position to assess interest on the incremental changes reflected in the true-up adjustments for the trading period. One entity expressed support for the interest component.

Based on stakeholder feedback received during the first and second comment periods, the ISO revised its position to *exclude* the application of interest to any deviations contained in recalculation statements after the T+76B settlement. After revision, an additional market participant expressed support for excluding interest as well.

In view of the fact that the trading days in the bridge period had already been settled and invoiced through the T+76B statement, the ISO agreed with submitted comments that the application of interest to any remaining adjustments in the settlements cycle would result in inconsistent treatment of the payments and charges related to those trading days. The ISO reaffirmed this position during the last stakeholder conference call.

MANAGEMENT RECOMMENDATION

Management recommends that the Board approve the proposal outlined in this memo for settling the true-up adjustments beyond T+76 business days for the trading period April 1 through October 31, 2009.