

# Stakeholder Comments Template

## Subject: Payment Acceleration Straw Proposal

This template has been created for submission of stakeholder comments on the following topics in regards to Payment Acceleration. Upon completion of this template please submit (in MS Word) to [pacceleration@caiso.com](mailto:pacceleration@caiso.com). Submissions are requested by close of business on Thursday, November 13th, 2008.

Submitted by	Company	Date Submitted
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Please submit your comments to the following questions for each topic in the spaces indicated.

### 1. Settlement Timeline

Which of the following two options do you prefer for publication of Settlement statements?

	Timeline
Option #1	T+7B - Initial T+38B - 1 <sup>st</sup> true-up T+76B - 2 <sup>nd</sup> true-up T+18M - 3 <sup>rd</sup> true-up T+35M - 4 <sup>th</sup> true-up
Option #2	T+7B - Initial T+38B - 1 <sup>st</sup> true-up T+51B - 2 <sup>nd</sup> true-up T+18M - 3 <sup>rd</sup> true-up T+35M - 4 <sup>th</sup> true-up

Please provide comments on these options:

SCE prefers the CAISO's Option #2 of the settlement timeline because it is equivalent to today's timeline in performing the second true-up settlements at T+51B after settling the actual settlement quality meter data with market participants at T+38B. Moreover, Option #2 demonstrates settlement acceleration by speeding up the second true-up statements by 25B (between T+76B and T+51B) in comparison to Option #1. However, to mitigate credit risk exposures, Option #2 will provide advance awareness of financial liabilities to stakeholders.

## 2. Interest Payments

Do you support CAISO's proposal of applying interest on deviations between the Initial and first true-up statements?

Do you prefer applying interest to subsequent true-ups?

SCE strongly believes that interest provision is a must for payment acceleration. Moreover, SCE feels that it is just and reasonable to apply interest between the Initial and all subsequent True-up statements to eliminate the opportunity for SCs to obtain interest free loans after the first true-up statement. The following is an example of SCE's proposal for applying interest between Initial and subsequent True-up statements:

- Initial Invoice requires SC to pay \$40M (T+7B)
- 1<sup>st</sup> True-up settlement statement required SC to pay additional \$4M (T+38B) – interest would be charged to the SC on the additional \$4M at the tariff defined interest rate. The interest should be applied between Initial and 1st True-up settlement statement.
- 2<sup>ND</sup> True-up settlement statement required SC to pay additional \$8M (T+51B) – Interest would be charged to the SC on the additional \$8M at the tariff defined interest rate. The interest should be applied between Initial and 2<sup>nd</sup> True-up settlement statement.
  - \*SC disagreed with the CAISO's resolution of its billing inquiry on the 2<sup>nd</sup> True-up Settlement and filed a Good Faith Negotiation (GFN) with the CAISO.
- At T+100B, the CAISO identified its mistake with the 2<sup>nd</sup> True-up Settlement and should award the SC with \$8M plus interest between the Initial and 3<sup>rd</sup> True-up settlement statements.
  - \* Note it is assumed the 3<sup>rd</sup> true-up statement is when the GFN settlement will be invoiced.

## 3. Invoicing

Please provide detailed examples of your preferred invoicing solution.

SCE supports the CAISO's invoicing process to be performed on a bi-monthly basis for Initial Settlement only with subsequent True-up Settlements to be invoiced on a monthly basis. However, SCE prefers the CAISO to produce separate invoices within each bi-monthly cycle to better distinguish between different types of settlements (e.g. Initial, 1<sup>st</sup> true-up, 2<sup>nd</sup> true-up, etc.) for validation and auditing purposes. SCE provides the following example utilizing the CAISO's sample payment schedule to further illustrate our invoicing proposal which we feel better organizes and manages invoices:

- August 11, 2008 invoices:
  - 1<sup>st</sup> invoice includes Initial settlement statements between the period 7/16/2008 to 7/31/2008.

- August 26, 2008 invoices:
  - 1<sup>st</sup> invoice includes Initial settlement statements between the period 8/1/2008 to 8/15/2008.
  - 2<sup>nd</sup> invoice includes 1<sup>st</sup> True-up settlement statements between the period 6/01/2008 to 6/30/2008, which interest will also be included in the invoice.
  - Other invoices to distinguish other True-up settlement statements

#### 4. Meter Data Substitution

For meter estimation process, when adjusting DA Scheduled Demand by an incremental amount to reflect Actual Load, the amount of adjustment will not exceed 15% of the DA Scheduled Demand. For example, if SC1's DA Scheduled Demand = 100 MW, the maximum estimation adjustment would be 15 MW. Therefore, SC1's Estimated Metered Demand used in the T+7B Settlement = 115MW (maximum).

*Note: The proposed meter estimation methodology will never negatively adjust the DA Scheduled Demand. So in this example minimum estimation value = 100 MW, maximum estimation value = 115MW.*

SCE views the CAISO's latest meter data estimation proposal as a step in the right direction, but can not support the proposal as written, in large part, because it fails to sufficiently address market gaming opportunities. SCE is not convinced that the addition of interest (which SCE views as a requirement of PA) is a strong enough deterrent to prevent SC's from gaming the market. To prevent an increase in gaming opportunities the CAISO's proposal needs to include rules to (1) require SC's to submit estimated meter data at T+5B and (2) require SC's to submit estimated meter data that is within reason to what they consumed in real-time. In addition to market gaming opportunities, without the adoption of such rules, the CAISO's proposal will create scenarios where some SC's would initially subsidize the load consumption of other SC's resulting in increased risk of a market default to CAISO stakeholders.

To prevent these market gaming opportunities and to reduce the potential for additional credit risk, SCE proposes the following modifications to the CAISO's proposal:

##### 1. Requirement to Submit Estimated Meter Data

As a first step to prevent SC's from gaming the market through the submission of estimated meter data, SCE proposes that the CAISO requires all SC's submit estimated meter data to the CAISO by T+5B. By requiring the submission of estimated meter data, the opportunity for SC's to delay payment for real-time load consumption until the 1<sup>st</sup> true-up will be significantly reduced. As a backstop mechanism in rare cases when a SC fails to submit estimated meter data (software connectivity issues) by the T+5B deadline, SCE would support the CAISO defaulting to the SC's historical actual consumption. That being said, the SC has 5 business days after the trade date to submit estimated meter data to the CAISO and SCE believes instances where the CAISO would need to default

to the historical actual consumption are few and far between. Moreover, SCE recommends the CAISO to work with the stakeholders on developing a methodology based on the historical actual consumption when SC fails to submit estimated meter data.

## **2. Requirement that SC's Submit Estimated meter Data using Good Utility Practice**

In conjunction to requiring SCs to submit meter data estimation, the CAISO needs to adopt a rule, based on good utility practice that will require each SCs estimated meter data be a reasonable estimation of what they consumed in real-time. Requiring SCs to submit reasonable meter data further reduces a SC's opportunity to delay payment of its real-time load consumption until the 1<sup>st</sup> true-up invoice and also prevents SC's from temporarily benefiting from day-ahead and real-time price differences. SC's that fail to use good utility practice when submitting estimated meter data should be subject to rules specified in tariff section 37.5 "Provide Factually Accurate Information" and subject to sanctions described in section 37.5.1.2.

## **3. Requirement for Using Estimated Meter Data in the Determination of EAL**

To prevent the possibility of a market default resulting from a SC purposely delaying payment of load until the 1<sup>st</sup> true-up statement, the estimated meter data submitted by each SC must be used in the determination of a SC's Estimated Aggregated Liability (EAL). While SCE assumes this to be the case, we request the CAISO to include a section in its draft final proposal confirming that estimated meter data will be used in calculating a SC's EAL.

## **4. Modification to Unaccounted for Energy (UFE) allocation**

To reduce the likelihood of SCs subsidizing the load purchases of SCs who fail to submit reasonable estimated meter data; SCE proposes modifying the CAISO's proposal in allocating UFE. In particular, instead of allocating the first tier of UFE to SCs who fail to submit estimated meter data (required under SCE's proposal meter estimation), SCE feels that the CAISO should allocate the first tier of UFE to SCs whose meter data estimates are lower than their historical actual consumption. Using historical settlement quality meter data, the CAISO can determine each SC's historical load ratio share and adjust the estimates upward (SCE is not recommending downward adjustments) to reflect historical levels. SCE agrees with the CAISO that the second tier of UFE allocation should be distributed to all SCs based on load ratio share.

ISO proposal does not include tariff language to A) require SC's to submit estimated load data at T+5B and B) require SC;s to submit data that is within reason to what they knowingly consumed in real-time. As a result of not having strict rules for submission SC's, I see at least two games SC's can play to either postpone payment (at the expense of other stakeholders) or benefit, at least temporarily, on the spread between DA and RT prices. Both scenarios are described below.

## 5. Other Comments?

### Deployment Schedule:

The CAISO is proposing to implement Payment Acceleration one to six months after MRTU go-live. SCE believes that the CAISO needs to demonstrate stability and accuracy across all of the Payment Acceleration functionalities before they consider implementation, which will require quality settlement results through the simulation testing. SCE strongly urges the CAISO to demonstrate six months of accurately published MRTU settlement invoices to stakeholders before they implement the Payment Acceleration module, which translates to at least nine months or beyond the MRTU go-live date.

## 6. Conclusion:

SCE feels that the CAISO's latest payment acceleration proposal is a step in the right direction. However, SCE believes that the proposal still lacks in certain areas in addressing market gaming opportunities and quality solutions with implementation. Therefore, SCE strongly recommends the CAISO to adopt the following modifications to mitigate issues identified in the sections above:

### **1. Meter Data Substitution:**

- a. The CAISO requires all SCs to submit estimated meter data to the CAISO by T+5B.
- b. For those SC who fails to submit estimated meter data to the CAISO at T+5B, the CAISO shall default to the SC's historical actual consumptions.
- c. The CAISO shall adopt a rule based on good utility practice that will require each SC's estimated meter data to be a reasonable estimate. SCs who fail to conduct good utility practice should be subject to rules specified in tariff section 37.5 "Provide Factually Accurate Information" and to sanctions described in section 37.5.1.2.
- d. The CAISO shall use the estimated meter data in the calculation for determining SC's EAL.
- e. The CAISO shall modify its allocations for UFEs based on: 1) Tier 1 - UFEs to SCs whose meter data estimates are lower than their historical actual consumptions; and 2) Tier 2 – Remaining UFEs to be allocated to all SCs based on load ratio shares.

2. **Interest provision:** The Interest Provision is a must for the Payment Acceleration initiative and shall be applied between Initial and all subsequent true-up statements.
3. **Deployment Schedule:** The CAISO needs to demonstrate six months of accurately published MRTU settlement invoices to stakeholders before they implement the Payment Acceleration module, which translates to at least nine months or beyond the MRTU go-live date.