



Memorandum

To: ISO Board of Governors
From: Steve Berberich, Vice President, Corporate Services
Date: March 18, 2009
Re: Decision on Payment Acceleration

This memorandum requires Board action.

EXECUTIVE SUMMARY

At the December 16-17, 2008 meeting, the ISO Board of Governors (the Board) approved the proposal for payment acceleration and directed Management to make all of the necessary and appropriate filings with the Federal Energy Regulatory Commission (FERC) on or before May 1, 2009. Following the December meeting, metrics were developed with stakeholders in workshops that currently target October 1, 2009 as the earliest date for implementing payment acceleration. In order to accommodate an October 1 implementation and to comply with FERC's filing and notice requirements, Management recommends that the Board modify its authorization for filing the proposed tariff changes by removing the requirement of a May 1, 2009 filing deadline and redirect Management to make the filing consistent with the metrics established to implemented payment acceleration.

Motion:

Moved, that the ISO Board of Governors modifies its resolution of December 17, 2008, regarding acceleration of the settlement schedule, such that Management is authorized to make the necessary and appropriate filings with the Federal Energy Regulatory Commission to implement the tariff changes within a timeline consistent with the metrics developed through stakeholder workshops, as detailed in the memorandum dated March 18, 2009.

DISCUSSION

At the December 2008 meeting, the Board approved Management's proposal to accelerate the settlement schedule under MRTU from 38 to 7 business days and decrease the average cash

clearing schedule from approximately 80 to 25 calendar days. The motion also directed Management to make all necessary and appropriate filings with FERC on or before May 1, 2009.

Since the December meeting, the California Independent System Operator Corporation (the ISO) continued the stakeholder initiative on payment acceleration to obtain input on the appropriate timing for implementing the new settlements schedule. This initiative has included two workshops and two rounds of comments by stakeholders.

As result of this process, the ISO and stakeholders developed the following metrics that are desirable before payment acceleration is deployed:

- Conduct and complete a three-month dry run period where the accelerated timeline is executed with the payment acceleration functionality. Statements and invoices will be published for market participant review and approval.
- For at least four weeks prior to deployment, freeze (*i.e.*, no changes to) interfaces that require updates due to payment acceleration and impact market participant systems.
- Attain production stability post MRTU go-live. Production stability is defined as no prolonged departure from publishing statements and invoices in a timely manner. This includes timely publication of three initial production (post MRTU) invoices and two re-calculation production (post MRTU) invoices.
- Defer deployment until the MRTU reversion period has expired.

Management recognizes that stakeholders strongly support the adoption a shortened cash clearing process and will endeavor to implement payment acceleration at the earliest date consistent with these metrics. Currently, the metrics project the earliest implementation date as October 1, 2009, with delay possible until the metrics are achieved. Use of these metrics as guidance for filing the proposed tariff changes will best align the filing process with the expected timing of implementation.

In addition, if the ISO submits the proposed tariff changes to FERC on May 1, 2009, with a requested effective date of October 1, 2009 or later, the filing would not be consistent with FERC's filing requirements. The Code of Federal Regulations, Title 18, Chapter 1, Section 35.3, requires that rate schedules be tendered for filing and posted not less than 60 days nor more than 120 days prior the tariff provisions taking effect. Replacing the May 1, 2009 filing deadline with use of the metrics to determine the timing of the ISO's filing will eliminate the need to request a waiver of these requirements and the attendant issues such a request would raise.

MANAGEMENT RECOMMENDATION

Management recommends that the Board modify Management's existing authorization to file the proposed tariff changes to implement payment acceleration as outlined above.