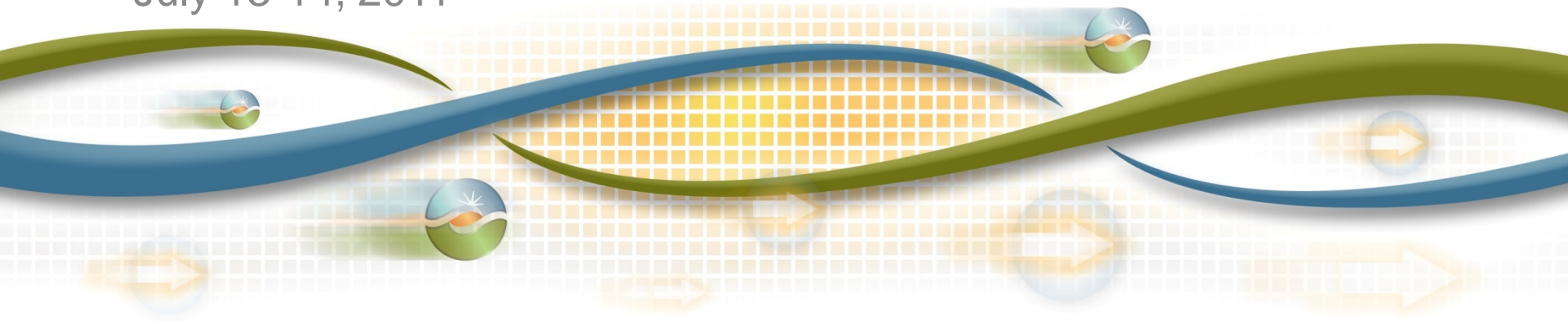


Decision on Settlement Process Timeline Change

Nancy Traweck
Director – Market Services

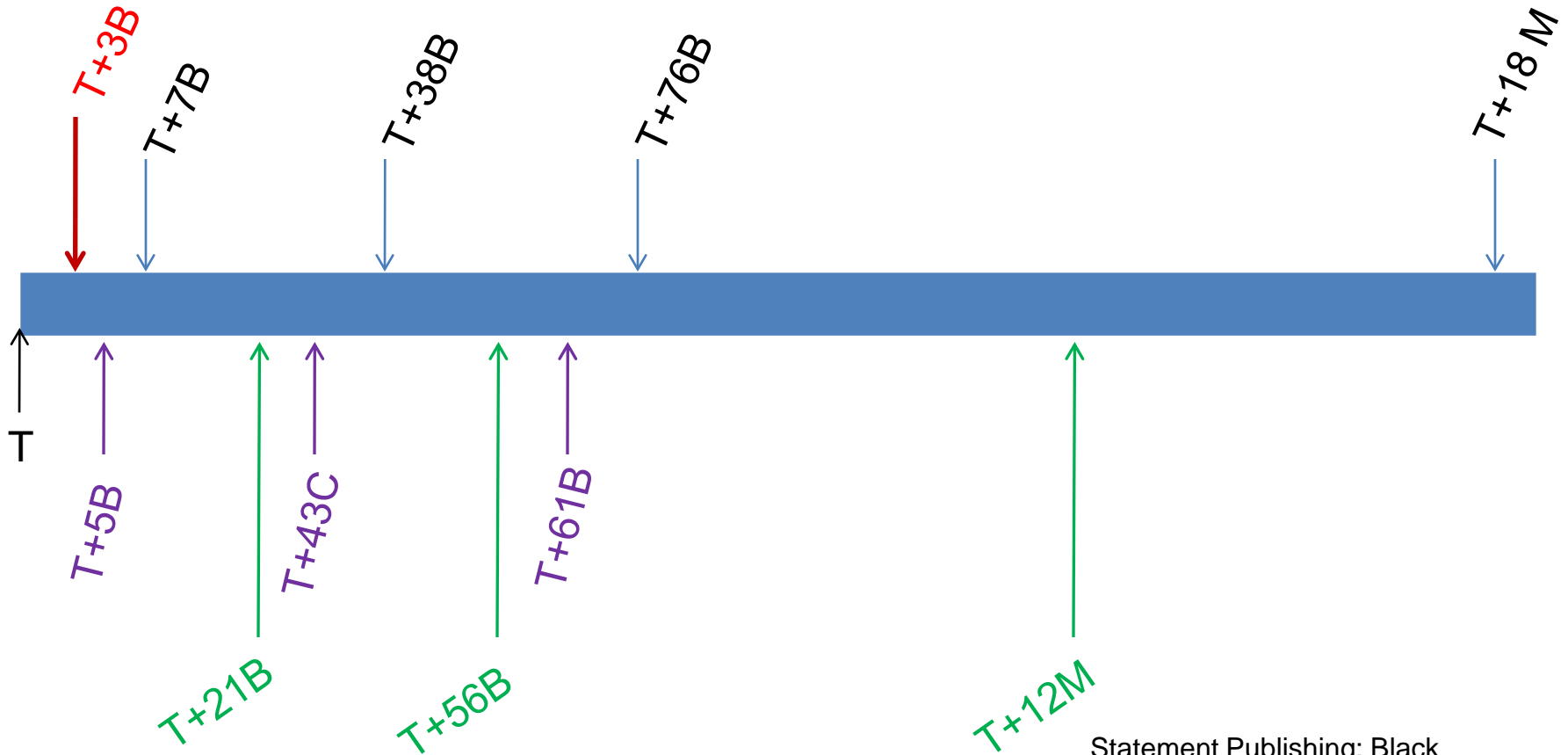
Board of Governors Meeting
General Session
July 13-14, 2011



Settlement Process Timeline Change – Background.

- Current settlements timeline implemented on November 1, 2009.
 - Initial and true-up statements at : T+7B, T+38B & T+76B
 - Optional statements at: T+18M, T+35M & T+36M
- FERC Order 741 – Credit Reform
 - Required new T+3B statement and weekly invoicing
- Improvement to settlement, metering and dispute timelines unrelated to credit reform desired

Current Settlement timeline with T+3B for Credit Reform Initiative.



Statement Publishing: Black
Meter Data Submittal: Purple
Dispute Period: Green
New Statement for FERC Order 741: Red

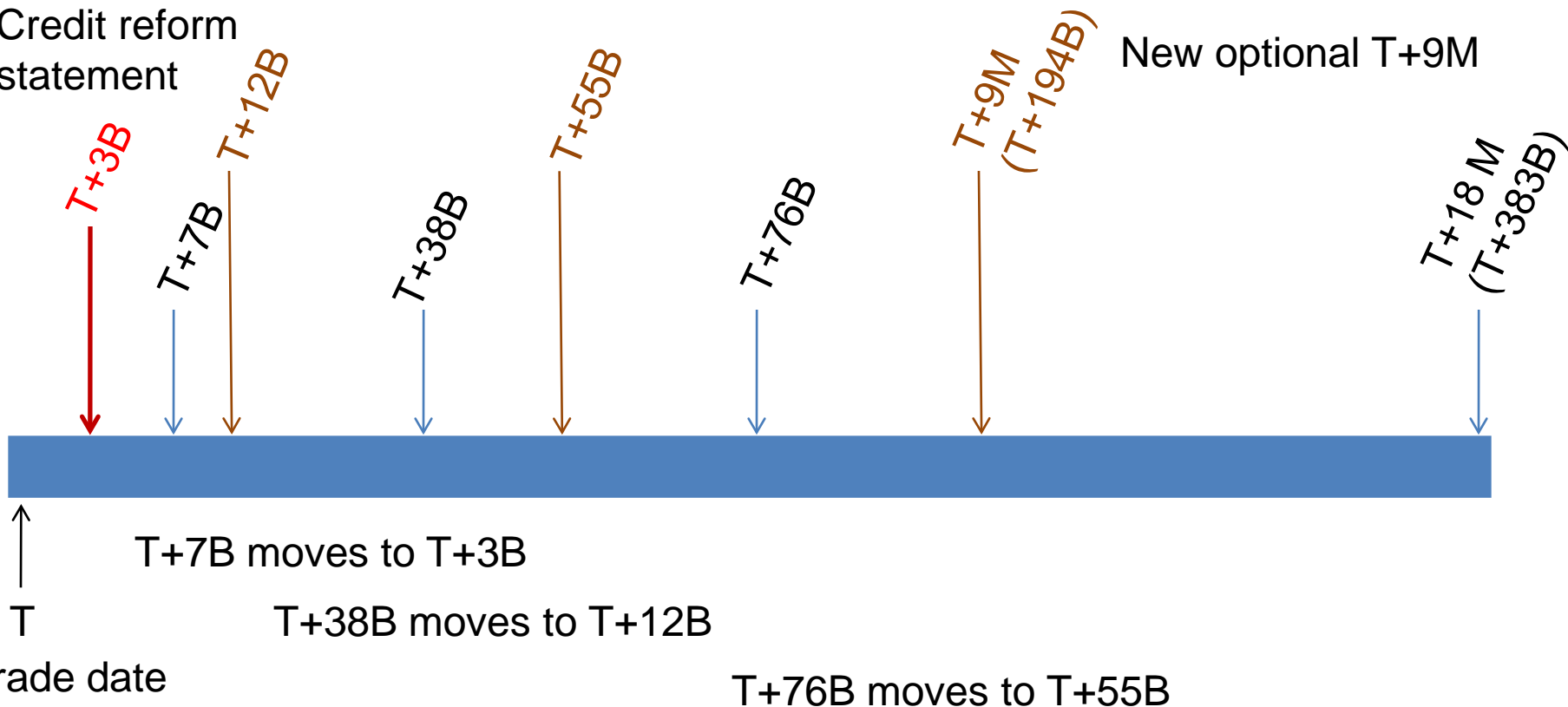
Proposed settlement reforms address the following limitations

- New T+3B statement and current T+7B statement too close together
- Current T+76B statement and T+18M statement too far apart
- No authority without Board or FERC approval to re-issue a statement
- Metering deadlines are too tight for participants resulting in Rules of Conduct penalties unnecessarily
- Rules of Conduct metering penalties inconsistent based on submitted volume rather than meeting deadline
- Inability to correct a software error for the T+76B settlement run therefore requiring T+18M runs

Settlement timeline

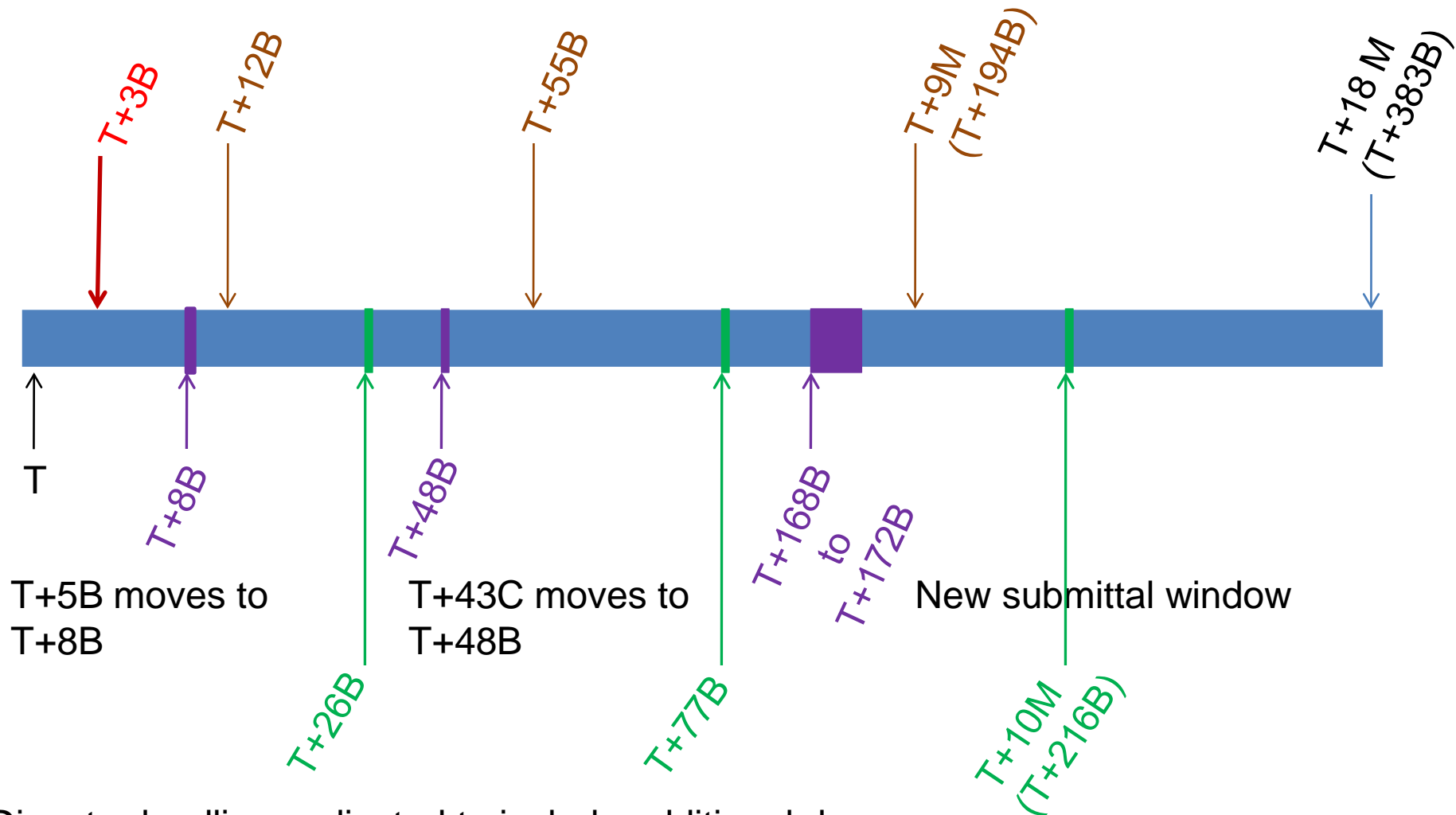
Credit reform
statement

New optional T+9M



Current Statement Publishing: Black
New Statement for FERC Order 741: Red
Proposal: Orange

Settlement timeline – meter and dispute deadlines



Dispute deadlines adjusted to include additional days

New correction Statement Resettlement Process.

- Tariff language to allow a re-issue of previously published settlement statement to resolve ISO processing error causing significant market impact
 - Only eligible for T+9M or T+18M statements
 - At least \$1,000,000 fiscal impact to the market as a whole
 - 30 days notification to market participants before the statement publication
- Expected to occur very infrequently

Changes to the Rules of Conduct - Inaccurate Meter Data Sanction.

- Actual settlement quality meter data due at T+48B
 - Providing at least (2) full retail billing cycles to capture and process meter data.
- Revisions to the Rules of Conduct provides incentives to submit actual settlement quality meter data timely and completely:
 - Failure to provide at T+48B will result in violation and \$1,000 sanction per trade date.
 - If not submitted for use in the T+9M statement an additional sanction of \$3,000 per trade date will be issued.

Stakeholder Process -

- Apr-26 - Posted issue paper
- May-3 - Conducted stakeholder conference call
- May-9 - Receive issue paper comments
- May-12 - Posted straw proposal
- May-19 - Conducted stakeholder conference call,
- May-26 - Receive straw proposal comments
- Jun-10 - Posted draft final proposal
- Jun-16 - Conducted stakeholder conference call
- Jun-23 – Received draft final proposal comments

Stakeholder Feedback -

- General agreement on:
 - New statement dates including a T+9M optional statement
 - Meter data submittal deadlines
 - Settlement dispute submittal deadlines.
 - Re-issue correction settlement statements when needed.
 - Altering the Rules of Conduct sanction for inaccurate meter data
- Some concern over alignment of invoicing periods and meter penalties
 - Committed to monitor invoicing and penalties impact post implementation
 - Believe extension of meter deadline sufficient to submit meter data timely
 - Working with CPUC to establish consistent timeline for meter data management agents

Management recommends Board approval of proposed settlement reforms

- Aligns spacing between various settlement statements
- Bridges distance to the T+18M statement by including T+9M statement
- Provides opportunity to complete settlement process sooner
- Provides ability to re-issue materially erroneous statement
- Aligns meter data submittal penalties with desired practice