

Stakeholder Comments

Subject: Payment Acceleration Proposal

Submitted by	Company	Date Submitted
Edwin Tso (626) 302-9712 Michael Kramek (626) 302-7455	Southern California Edison	October 7, 2008

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. Submissions are requested by close of business on October 14th, 2008.

Please submit your comments to the following questions for each topic in the spaces indicated.

1. Bifurcation of DA/RT Settlements

During the Payment Acceleration Stakeholder meeting on August 19th, 2008, Calpine presented a proposal to bifurcate the DA/RT settlements (proposal was posted for MP review on 8/20/08). CAISO is conducting an impact analysis on this proposal and to date has concluded the following:

- No legal or policy issues exist that would prevent a DA/RT market settlement bifurcation.
- System and process impacts exist, however; CAISO feels they are manageable.
- Due to system/process impacts, implementation would occur post MRTU go-live.
- Complexity of Meter Estimation is eliminated.

Please provide comments on any impacts this proposal would have on your systems and/or processes.

SCE appreciates the CAISO's initial review of Calpine's proposal to bifurcate the DA/RT settlements. SCE urges the CAISO to continue its analysis and address some fundamental questions that cannot be answered without knowing more details about the bifurcation proposal. The CAISO's above conclusions make it appear as if there are no significant issues associated with the bifurcation proposal. As detailed below, SCE believes that there are many unanswered questions that make it premature to conclude that bifurcation is a desirable approach to payment acceleration.

The Calpine proposal has four main parts (a) Bifurcation of day-ahead and real-time settlements, (b) Invoice the day-ahead market on a weekly basis, (c) Implement proposal at the start of MRTU, and (d) Settle real-time markets on the current settlement schedule of 6-months after MRTU implementation. Without additional details from the CAISO regarding the Calpine proposal, SCE is unable to comment on the specifics of the

proposal at this time and feels that it is premature for the CAISO to request stakeholders to comment on internal system and process impacts. Below, SCE provides additional questions that will need to be addressed prior to submitting specific comments on the Calpine proposal.

(a) Bifurcate Day-Ahead and Real-Time Settlements

Under Calpine's proposal the CAISO would perform settlements on the day-ahead market results shortly after the close of the day-ahead market and perform real-time settlement calculation at a latter date when all real-time data is available. SCE has the following questions regarding bifurcating settlements between day-ahead and real-time:

- I. ***Adjustments for generators that trip off-line*** – *SCE understands that in a perfect world, with perfect information, generators will perform exactly to their day-ahead schedules. However, as history has shown, deviations from day-ahead schedules are a common occurrence and needs to be considered when proposing to initially settle generation only against day-ahead schedules and prices. In particular, SCE is concerned that under a market bifurcation approach, generators who trip off-line prior to or during the operating day will initially be paid for output that they knowingly did not produce. If payments are not adjusted for generators that trip off-line, the CAISO will be providing the generator an interest free loan for three months and actually increasing its credit exposure instead of decreasing it. Under the Calpine proposal, does the CAISO intend to adjust day-ahead payments for generators that trip off-line prior to or during the operating day?*

- II. ***Load which does not schedule in the day-ahead market*** – *The August 18th FERC order addressing underscheduling of load in the day-ahead market imposes hourly charges on SC's whose actual demand exceeds demand cleared in the day-ahead market by greater than 15 percent. In conjunction, FERC provided SC's an exemption from being assessed these charges with a LAP level load less than 500 MW's. As a result of the FERC order, there is the potential for a non-trivial amount of load being cleared in the real-time instead of the day-ahead market. In particular, SC's that are exempt from underscheduling charges have the ability to schedule their entire load (up to 500 MW per hour) in the real-time market. SCE is concerned that under Calpine's proposal to bifurcate day-ahead and real-time settlements, small SC's are able to purchase load from the CAISO on credit until T+50 business days. As with our prior concern with generators that trip off-line, this scenario actually increases the credit exposure to the market instead of decreasing it. Under the Calpine proposal, how does the CAISO intend to address the issue where SC's can move a sizable portion, if not all, of their load purchases to the real-time market and in essence purchase load on credit for 3 months? In addition, under the Calpine proposal, does the CAISO intend to perform some type of an Uninstructed Imbalanced Energy (UIE) calculation for the incremental amount of load that shows up in real-time?*

- III. ***RUC settlements*** – *The Calpine proposal states that all data is required to settle the day-ahead and RUC process is available at time T-1 and the RUC settlements*

should be considered a day-ahead settlement with respect to bifurcating day-ahead and real-time settlements. SCE agrees with Calpine that RUC prices are available for payments to generators at T-1 but do not see how loads can be charged for the total RUC costs in the same T-1 timeframe. RUC costs are assigned to loads using a 2 tier approach with the first tier being charged to incremental load (additional load not scheduled day-ahead) and the second tier being charged to all load (day-ahead and real-time). Given the need for real-time time load data, paying generators for RUC without charging load would initially create an inequity between RUC payment and charges. SCE request the CAISO to clarify if RUC settlements are to be included in the day-ahead or real-time market. If the CAISO intends to include RUC in the day-ahead settlement then SCE requests the CAISO provide additional details on how it intends to allocate RUC charges to loads.

- IV. Virtual Bidding** - CAISO is currently working on a proposal to allow stakeholders to perform virtual bidding, both load and supply, into the CAISO day-ahead market. While a timeline for implementation has not yet been finalized, FERC has ordered the CAISO to implement virtual bidding no later than 12 months after the start of MRTU. While participants can only bid virtual supply and load in the day-ahead market the settlement and uplift costs associated with virtual bids depends upon real-time prices and actual load data. Under the Calpine proposal how does the CAISO intend to settle virtual bids? If the CAISO intends to include virtual bids as part of the day-ahead settlement, then how will uplift costs be allocated to virtual bidders given the need for real-time load data?

(b) Invoice the Day-Ahead Market on a Weekly Basis

- I. Invoice Cycle**- Calpine's proposal calls for the CAISO to produce weekly invoices containing day-ahead market results. In order to better assess the impacts on internal systems and processes, SCE request the CAISO to provide additional information on the overall timeline it envisions for settling the day-ahead market. In particular, SCE requests the CAISO to provide further details to the number of day-ahead invoices the CAISO will issue per month, the invoice dates the CAISO envisions, the due dates of payments and charges under a multi-invoice approach, and details on the make-up of a weekly invoice (how are trade dates assigned to an invoice). Additionally, SCE request the CAISO to provide a combined time line that integrates both the day-ahead and real-time market settlements.
- II. Impact from day-ahead price corrections** – Section 35.2 of the MRTU tariff describes the CAISO's timing of price correction process. The price correction process for each trading day shall end on the eighth calendar day following the trade day. SCE would like the CAISO to provide further details on how the CAISO plans to address day-ahead price corrections particularly on trade days that have already been invoiced. Depending upon the magnitude of the price correction being made, credit exposure could actually increase due to the fact that both generation and load have been settled against incorrect day-ahead prices.

(c) Implement Settlement Bifurcation with MRTU Go-Live

SCE does not support the implementation of Calpine's or any other proposal for payment acceleration coinciding with the start of MRTU. Adding additional scope to the MRTU design will almost certainly delay the start of the market well past the February 1st 2009 target date. In general, SCE is supportive of the CAISO's efforts to accelerate the market payment cycle under MRTU but urges the CAISO to conduct a complete and thorough stakeholder process to develop a payment acceleration program that addresses all stakeholder concerns and not to implement a program which does not meet stakeholder needs to meet an arbitrarily developed timeline.

(d) Settlement of the Real-Time Market on the CAISO's Payment Acceleration Time Line

***Bid cost recovery payment and charges** – SCE would like the CAISO to clarify that under Calpine's bifurcation proposal, bid cost recovery payments to generators and charges to loads, will both be treated as real-time settlements. SCE also request the CAISO to provide stakeholders with an analysis of the credit implications of waiting T+50 business days to charge uplift costs to loads since the uplift cost allocation formula is based on actual load data.*

Overall, SCE strongly urges the CAISO to conduct a stakeholder process to address the critical issues listed above. Until all issues are resolved, SCE will not be able to provide CAISO any specific impacts to its settlement systems and/or processes.

2. Methodology for Estimating Meter Data

CAISO held a conference call on September 18th, 2008 to discuss potential methodologies for estimating Meter Data at T+5B absent polled or SC submitted data availability. Options discussed are listed below:

- Using DA IFM Schedules Only
- Using DA IFM + adjustment based on CAISO Actual Load
- Use current Credit Liability Meter Data estimation (uses the IFM DA schedule and adder of +/- 10% factor (or other % Factor).

SCE opposes the estimation options presented by the CAISO on the September 18th payment acceleration conference call. The three options presented by the CAISO use day-ahead schedules as the basis for the estimation process. SCE views the approach of

using day-ahead schedules, with or without a 10 percent adder, as being fundamentally flawed and imposes additional costs and risks to large LSE's who are, for all practical purposes, required to purchase a minimum of 85% of their load in the day-ahead market.

Under the CAISO's proposals, incremental load that show up in real-time will be classified as UIE and allocated to LSE's using a load ratio share methodology based solely on day-ahead schedules. Additionally, because small LSE's (less than 500 MW's) are exempt from underscheduling charges, the potential for these LSE to not schedule any of their load in the day-ahead market and purchase all of their load in real-time will exist. Therefore, under the CAISO proposal, LSE's who do not schedule load in the day-ahead market will not get charged for their real-time purchases until the T+50B true-up. Instead, the CAISO's proposal treats the small LSE's load as UIE and will initially pass on the cost of that load to all LSE's who schedule load in the day-ahead market. The end result of this approach is that large LSE's in effect will be subsidizing the purchases of the small LSE's until the T+50B true-up. SCE strongly opposes any estimation methodology that adds additional costs and risks to its customers.

SCE suggests the CAISO to seek additional alternatives to the three estimation options presented on September 18th. In particular, SCE recommends the CAISO to investigate the meter estimation methodology used by the New York ISO. It is to SCE's understanding that the NYISO methodology is based upon hourly load forecast data which is used for all real-time load settlement calculations prior to receiving actual meter data. NYISO has been using this methodology since its market inception in 1999 and may provide the CAISO with a fair and viable alternative to the estimation approaches currently being proposed.

3. Guidelines for SC submitted T+5B Meter Data

- “measurement file” guideline vs. SQMD requirement
- Determining accuracy for SC submitted “measurement file” or SQMD
- Responsibilities for compliance for SC submitted “measurement file” or SQMD

The CAISO's proposal of having an Initial settlements based upon estimated meter data at T+5B timeframe is not in today's settlement system. Moreover, there are number of SCs who use different types of guidelines for its estimation process. Given the challenges for market participants to weigh-in on the pros/cons for each guideline, SCE strongly recommends the CAISO not to dictate SCs to apply any specific guideline for its estimation. Overall, SCE understands that the CAISO's intent to evaluate various guidelines is to ensure SCs to submit just and reasonable estimated meter data. As previously stated above, SCE urges the CAISO to apply interest provision on deviations between Initial and True-up statements. Further, the CAISO needs to consider whether the Rules of conduct under existing MRTU Tariff are sufficient to discourage SCs from reporting unreasonable estimated meter data.

In regards to CAISO's proposed compliance program for late measurement file, SCE recommends the CAISO to discuss the requirements with the stakeholders before the CAISO implements the program.

4. In cases where Meter Data estimation is used, do you support applying interest charges on the variation between initial & true-up statements?

Having settlements based upon estimated metered data will introduce several issues that do not exist in today's settlement system or in the settlement under the current MRTU Tariff. Any proposal to base settlements upon estimated meter data must ensure that there are no financial incentives to submit unreasonable estimates of load or generation. Therefore, SCE strongly believes that the interest provision is a "must" for the implementation of Payment Acceleration. SCE supports that the interest to be applied on the variation between Initial and True-up invoices. First, the interest applied between Initial and 1st True-up statements will serve as a deterrent for any SCs obtaining interest free loans. Second, interest applied between Initial and all other subsequent True-up statements, beyond its 1st True-ups, will provide just and reasonable credits to market participants who receive the disputed amounts through the dispute resolution process.

SCE believes that utilizing interest alone to apply for estimated meter data might not be a sufficient incentive for SCs to use its best efforts to submit reasonable estimated meter data. SCE encourages the CAISO to consider whether the Rules of Conduct in Section 37 of its MRTU Tariff is sufficient to discourage SCs from reporting unreasonable estimated meter data. If the CAISO determines the conduct rules are not sufficient, then the CAISO should discuss with stakeholders on what appropriate changes are necessary.

5. Implementation Schedule

Would you support a manual invoicing process to accelerate payments and cash clearing on an interim basis until the final Payment Acceleration solution can be implemented post MRTU go-live? The manual process would not require any SaMC external interface changes. It would be based on pre-payment of DA charge codes and be reflected on the SaMC invoice.

SCE does not support an interim manual invoicing process to accelerate payments and cash clearing. Manually invoicing market settlements is prone to introduce settlement errors and add additional complexities to an already complex settlement process. As stated previously, SCE is supportive of the CAISO's efforts to accelerate the market payment cycle under MRTU but urges the CAISO to conduct a complete and thorough stakeholder process. It is SCE's position that it is more important to develop a sound and well thought-out payment acceleration program that addresses all stakeholder's concerns rather than rush to implement a program that falls short of meeting stakeholder's needs because of an arbitrarily developed timeline.

6. Invoicing Options

Please comment on the following invoice preference:

- Monthly on a fixed date - i.e.) 20th of every month
- Proposed – 3rd Tuesday of each month
- Semi-Annual or Weekly

For a more manageable and organized process, SCE prefers invoicing on a “fixed” date of the 20th day of every month rather than the proposed 3rd Tuesday of each month where the dates will constantly change. The CAISO’s monthly invoices should include trade dates that encompass a full months of Initial settlement statement and a full months of subsequent True-up settlement statements on separate monthly invoices. True-up months will be monthly settlement deltas between the prior and current true-up versions and should have interest applied for deviations between Initial and True-up invoices. The combination of invoicing an entire month and the CAISO’s enhanced settlement timeline will provide stakeholders with a structured schedule needed to properly prepare for and administer invoices issued by the CAISO.

7. Other Comments?

(Submit Comments Here)