

Decision on Billing, Payment and Credit Enhancements Phase 1

Dan Shonkwiler

Assistant General Counsel – Corporate & Litigation

Joint ISO Board of Governors and WEIM Governing Body meeting

General Session

November 8, 2023

This initiative proposes enhancements to the rules governing the weekly cycle for paying market invoices.

- ISO market clears more than \$10 billion annually
- Any payment default poses risk to other participants
- On average, one insolvency or bankruptcy per year
- ISO collateral requirements mitigate risk to the market
- Considered ERCOT 2021 experience

Management reviewed and proposed two categories of improvement in this phase 1.

- **Category 1:** Reducing time to collect so that default does not become loss
- **Category 2:** Mitigate consequences of losses,
 - Reduce associated administrative costs
 - Ensure it is allocated in the right way

The first category of proposed changes would help the ISO collect more quickly to prevent defaults from becoming losses.

1. When a market participant has multiple agreements with ISO, specify one to govern all billing and payment
2. Adjust minimum participation requirement
 - Generally \$10 million total assets or \$1 million tangible net worth
 - Eliminate rule allowing some entities that do not meet requirement to participate by posting only \$100,000

The second category of proposed changes would mitigate the consequences of a loss.

1. Authorize more flexible use of reserve account funds
2. Rules for allocating default losses
 - Adjust timing to avoid allocation to new participants
 - Allow use of more current data to calculate
3. Use separate invoicing to allocate unique losses
 - Late payment penalties – allocate to penalty reserve
 - Black start services – allocate to transmission owner
4. After recalculating old trading days, authorize writing off small amounts and cover from CAISO Reserve Account

In addition, Management proposes to authorize new methods of electronic payment through the Business Practice Manual.

- Tariff currently requires payment by ACH or FedWire
- New payment options being developed
 - ISO Accounting is considering FedNow
- Propose to permit use of any payment means authorized in Business Practice Manual

The proposed tariff amendments also include clarifications that are consistent with current practice.

- Replenishment of funds drawn from reserve accounts
- How to distribute funds collected on a debt
- Using CAISO Reserve Account for small clearing imbalances
- Settlement statements as basis for billing and payment
- Terminology to distinguish settlement (accounting) from payment
- Delete erroneous language about monthly settlement

Stakeholders have not objected to these phase one proposals.

- Draft final proposal and issue paper: 9/26/23
- Presented to 49 stakeholder representatives: 10/3/2023
- Stakeholders submitted comments on the issue paper, but no comments on these phase one proposals
- Phase 2 issues will be taken up in 2024

Management recommends approval of the billing, payment and credit enhancements phase 1 initiative as a way to improve the ISO's ability to respond to a payment default.

- More easily collect amounts due to market
- Reduce the effects of a default loss
- Authorizes new use of new payment systems