



California ISO

**Grid Management Charge
Final Proposed 2015 Update**

May 12, 2014

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Executive Summary

Management of the California Independent System Operator Corporation (ISO) intends to take this proposal to its Board of Governors (ISO Board) for approval at its July 17-18 2014 meeting. Following discussions with stakeholders since the stakeholder meeting on April 17, this final proposal adopts the proposals put forward in the Grid Management Charge (GMC) documents. The ISO received comments requesting additional information on eligible intermittent resource (EIR) forecast fees and the revenue requirement maximum which we have responded below.

The GMC is the vehicle through which the ISO recovers its annual revenue requirement from entities that use ISO services. Funding the annual revenue requirement ensures that the ISO recovers its administrative, operating and capital costs. The current GMC rate design was vetted through a stakeholder process, approved by the ISO Board and the Federal Energy Regulatory Commission (FERC) in 2011, and became effective January 1, 2012 (“the 2012 GMC structure”).¹ As part of that order, the annual maximum revenue requirement (also referred to as the revenue cap) was capped at \$197 million for 2012 and \$199 million for 2013 and 2014. The current revenue requirement cap expires at the end of 2014; accordingly the ISO must seek a revised revenue requirement cap beginning in 2015.

The GMC is made up of three service categories and seven fees. The revenue requirement is allocated into the three service categories: market services, system operations and congestion revenue rights (CRR) services based on percentages developed in the 2012 cost of service study. There are two fees that are included in miscellaneous revenues that are included in the determination of the revenue requirement: the energy imbalance market (EIM) administrative charge and EIR

¹ *California Independent System Operator Corporation* 136 FERC ¶61,236 (September 30, 2011).

forecasting fees. The EIR forecast fee was previously called the participating intermittent resource program (PIRP) forecast fee but the name was changed in 2014. The fee was inadvertently described in the discussion papers as the PIRP forecast fee. There are 5 fees that are part of the rate structure and are deducted from the respective service categories: bid segment fees, inter-scheduling coordinator (SC) trade fees, SC Identification (ID) fees, transmission ownership right (TOR) charge and CRR auction bid fees. All the fees are fixed except for the EIM administrative charge and the TOR charge which were derived from the 2013 cost of service study. These two charges and the service category percentages remain fixed until the next cost of service study.

The methodology and analysis supporting the ISO proposal for the 2015 GMC cost category percentages, updated EIM and TOR charges are fully described in the previously distributed discussion papers at:

<http://www.caiso.com/Pages/documentsbygroup.aspx?GroupID=72f94714-e777-4666-96b5-2948f249f67c>

The ISO proposes to set the annual revenue requirement maximum at \$202 million. If the ISO determines that an increase in the revenue requirement maximum is necessary, it will first seek stakeholder input followed by a filing requesting FERC approval under Section 205 of the Federal Power Act.

However, the ISO will recalculate the cost categories percentages, EIM and TOR charges every three years and will review the updated information with stakeholders. If the percentages change, a filing will be made with FERC to modify the rates and/or percentages.

In light of this analysis the ISO proposes the following revisions to the GMC to be effective January 1, 2015.

Current and Proposed GMC Structure for 2015

	Charge Code	Current %, Rate or Maximum	Proposed %, Rate or Maximum	Change
Included in miscellaneous revenue				
EIM Administrative Charge	4564	\$ 0.19	\$ 0.19	-
EIR Forecast Fee	701	\$ 0.10	\$ 0.10	-
Rate structure items				
Service Category percentages				
Market Services	4560	27%	27%	-
System Operations	4561	69%	71%	2%
CRR Services	4562	4%	2%	(2%)
Fees and charges				
Bid Segment Fee	4515	\$ 0.005	\$ 0.005	-
Inter-SC Trade Transaction Fee	1512	\$ 1.00	\$ 1.00	-
SCID Charge	4575	\$ 1,000	\$ 1,000	-
TOR Charge	4563	\$ 0.27	\$ 0.24	\$ (0.03)
CRR Transaction Fee	4516	\$ 1.00	\$ 1.00	-
Revenue Requirement				
Maximum amount		\$199 million	\$202 million	\$3 million
Period		2015	No end date	
Update to cost service study			Every 3 years	

EIR Forecast Fee

The EIR forecast fee of 10 cents was set forth in the tariff in 2003 (Appendix F Schedule 4) to recover the costs paid by the ISO to third parties for forecasts of intermittent resources. EIR forecast fee revenues and forecasting costs included in the budget for the last two years are shown in the following table. The excess revenues that the ISO received offset some of the ISO's internal costs in managing the third-party forecast vendor.

	2013 budget	2014 budget
EIR forecasting fee revenues	\$1,600,000	\$2,100,000
EIR forecasting costs	\$1,494,987	\$1,974,175

Revenue Requirement Maximum

The ISO is proposing a long term revenue requirement maximum of \$202 million. The ISO proposes to retain the same process currently included in the tariff with respect

to the revenue requirement cap except that there will be no sunset date. As long as the ISO's annual budget for each year does not exceed that year's revenue requirement maximum, and no GMC rate design or billing determinant modifications are proposed for the next year, the ISO will not seek changes to the revenue requirement maximum or the GMC rate structure through a Section 205 filing. The current budget approval stakeholder process will remain in the tariff with each annual budget being presented to the ISO Board for approval at its December meeting and is subsequently posted on the ISO website.

In the table on page 36 of the April 17 Briefing on 2015 GMC Update, the ISO provided a table showing the major components of the actual revenue requirement from 2005 through 2014 and projected amounts of the revenue requirement for 2015 to 2019.

http://www.caiso.com/Documents/Briefing-2015_GridManagementChargeUpdate.pdf.

The following table is included to clarify the amounts shown in the graph (\$ amounts in millions):

Year	O&M Budget	All other costs (a)	Total revenue requirement	Bundled rate cents per MWh
Actual revenue requirement				
2005	\$147	\$62	\$209	85
2006	\$134	\$47	\$181	72
2007	\$144	\$46	\$190	76
2008	\$153	\$39	\$192	76
2009	\$157	\$36	\$193	78
2010	\$163	\$32	\$195	79
2011	\$163	\$27	\$190	79
2012	\$163	\$32	\$195	80
2013	\$163	\$33	\$196	80
2014	\$164	\$34	\$198	80
Projected revenue requirement				
2015	\$168	\$32	\$200	80
2016	\$170	\$30	\$200	80
2017	\$174	\$28	\$202	80
2018	\$178	\$23	\$201	80
2019	\$183	\$19	\$202	80

The category labeled "All other costs" includes all of the revenue requirement

categories except for the O&M budget, debt service including the 25% debt service reserve, cash funded capital, operating reserve credit from prior year and miscellaneous income.

The ISO plans to fund future capital projects from GMC funds and not through the issuance of debt. GMC funding for capital projects avoids interest costs, the 25% debt service reserve and issuance costs. Annual capital and project budgets are forecast to run from \$19 million to \$24 million. Cash funded capital takes the place of the 2008 debt service which was used primarily to fund the software related to the new market.

The ISO's current revenue requirement is \$198 million which is 99.5 percent of the revenue requirement maximum of \$199 million. The ISO believes that a long term commitment to a revenue cap is superior to a six year term. The ISO has learned that it is a greater challenge to manage costs in the out years rather than to seek an extension.

Over the last five years the increase in the consumer price index (CPI) has averaged 2.1% while the increase in the ISO revenue requirement has averaged only 0.5%. The increase in the proposed revenue requirement maximum from \$199 million to \$202 million is only 1.5% - which is in line with the CPI for 2013 of 1.5%. It should also be noted that although the revenue requirement increased 1.7% from \$195 million in 2012 to \$198 million in 2014 the combined GMC rates (market services, system operations and CRR services) only increased 0.08% from a combined 38.66 cents/MWh in 2012 to 38.69 cents/MWh in 2014. The difference in increases between the revenue requirement and the GMC rates is due to an increase in total MWh volume throughput. Under the assumption that MWh volumes will increase over time, a long term cap of \$202 million will keep rates flat or decreasing.

There is an extensive annual budget process where stakeholders can provide guidance and submit comments on the budget to the ISO Board. A three year cost of service update is being proposed which will provide input on the rate structure. The ISO

believes that there are sufficient opportunities for stakeholders to engage in the process, review the efficiency of the rate design and provide input into the resulting rates.

Next Steps

The stakeholder process for the 2015 GMC update will continue as follows:

- May 20, 2014 – Stakeholder call on final proposal
- July 17-18, 2014 – Seek Board approval of 2015 GMC update
- August 14, 2014 – Stakeholder meeting to review tariff amendments
- September 2014 – File 2015 GMC update with FERC.