ISO 2015 GMC Update
Held April 17, 2014
Stakeholder Comments and ISO Response

CDWR **1**

Please comment on the 2015 cost of service update, the use of ABC and the allocations into the 3 GMC service categories including the TOR and EIM Fees. 1

Please comment on the 2015 revenue requirement maximum and period to which is applies. 2

Modesto Irrigation District ("MID") and City of Santa Clara, California, doing business as Silicon Valley Power ("SVP") **4**

Please comment on the 2015 cost of service update, the use of ABC and the allocations into the 3 GMC service categories including the TOR and EIM Fees. 4

Please comment on the 2015 revenue requirement maximum and period to which is applies. 5

Company	Date	Submitted By
CDWR	April 24, 2014	Deane Burk Deane.burk@water.ca.gov Geoff Gong Geoff.gong@water.ca.gov

Please comment on the 2015 cost of service update, the use of ABC and the allocations into the 3 GMC service categories including the TOR and EIM Fees.

Current 2012 GMC structure was developed by CAISO based on the ABC cost of service study and became effective January 1, 2012. The 2012 GMC structure will expire on December 31, 2014. Therefore, CAISO has to develop a new GMC structure or adopt the 2012 GMC as the 2015 GMC structure. CAISO continues using the ABC methodology to map and allocate activity costs into three service categories. The percentage of allocation of the activity costs will be changed for System Operations and CRR Services. CAISO proposes to modify the allocation and reduce the TOR charge rate as an administrative fee in 2015 GMC structure. CDWR supports CAISO's effort for updating the current 2012 GMC to the 2015 GMC structure.

CAISO proposes to include EIM and PIRP charge rates as administrative fees into 2015 GMC structure. The PIRP charge rate doesn't include any explanation or calculation. CDWR requests CAISO to include a calculation of the PIRP charge rate in next proposal.

ISO Response

We appreciate CDWR's support for updating the current structure.

The table the ISO presented that included all of the fees and charges may have created some confusion. The energy imbalance market (EIM) administrative charge and the eligible intermittent resources (EIR) forecast fee are not part of the rate structure. The name of the participating intermittent resource project (PIRP) forecast fee was changed to the EIR fee in 2014. The two fees are included in miscellaneous revenues to determine the revenue requirement. The other fees: Bid Segment Fee, Inter-Scheduling Coordinator (SC) Trade Fee, SC Identification (ID) fee, Transmission Ownership Right (TOR) charge, and Congestion Revenue Rights (CRR) Auction Fee are components of the rate structure. These fees are deducted from the service categories after the service category percentages are applied to the revenue requirement.

The EIR Forecast fee of 10 cents was put in the tariff in 2003 to recover the costs paid by the ISO to third parties for forecasts of intermittent resources. Forecast fee revenues and forecasting costs included in the budget for the last two years are as follows. The excess revenues that the ISO received offset some of the ISO's internal costs in managing the third-party forecast vendor.

	2013	2014
EIR Forecasting Fee revenues	$1,600,000	$2,100,000
EIR forecasting costs	$1,494,987	$1,974,175

As described in the tariff section below changes to the EIR fee do not go through the GMC tariff process but are administered through the BPM change management process.

Appendix F Schedule 4
Eligible Intermittent Resources Forecast Fee

A charge up to $.10 per MWh shall be assessed on the metered Energy from Eligible Intermittent Resources as a Forecast Fee, provided that Eligible Intermittent Resources smaller than 10 MW that are not Participating Intermittent Resources and that sold power pursuant to a power purchase agreement entered into pursuant to PURPA prior to entering into a PGA or QF PGA shall be exempt from the Forecast Fee.

The rate of the Forecast Fee shall be determined so as to recover the projected annual costs related to developing Energy forecasting systems, generating forecast, validating forecasts, and monitoring forecast performance, that are incurred by the CAISO as a direct result of participation by Eligible Intermittent Resources in CAISO Markets, divided by the projected annual Energy production by all Eligible Intermittent Resources.

The initial Forecast Fee, and all subsequent changes as may be necessary from time to time to recover costs incurred by the CAISO for the forecasting conducted on behalf of Eligible Intermittent Resources pursuant to the foregoing rate formula, shall be set forth in a Business Practice Manual.

Please comment on the 2015 revenue requirement maximum and period to which it applies.

It would be helpful if CAISO would supply additional justification for this increase other than the statement that it is a minor increase

ISO Response

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.

To clarify the following is a table of the amounts from the graph (amounts in millions).

Year	O&M Budget	All Other costs including debt service	Total Revenue Require-ment	Bundled rate per MWh
Actual				
2005	$147	$62	$209	$0.85
2006	$134	$47	$181	$0.72
2007	$144	$46	$190	$0.76
2008	$153	$39	$192	$0.76
2009	$157	$36	$193	$0.78
2010	$163	$32	$195	$0.79
2011	$163	$27	$190	$0.79
2012	$163	$32	$195	$0.80
2013	$163	$33	$196	$0.80
2014	$164	$34	$198	$0.80
Projected				
2015	$168	$32	$200	$0.81
2016	$170	$30	$200	$0.80
2017	$174	$28	$202	$0.80
2018	$178	$23	$201	$0.80
2019	$183	$19	$202	$0.80

Details of the 2014 revenue requirement were provided and discussed with stakeholders at the October 2013 GMC budget stakeholder meeting. A budget book is posted at: http://www.caiso.com/Documents/2014PreliminaryBudget-GridManagementChargeRatesBook.pdf. The 2014 revenue requirement was $198 million which is 99.5 percent of the revenue requirement cap of $199 million.

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 cap from $199 million to $202 million is 1.5% which is in line with the CPI for 2013 of 1.5%. Also note 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 rate 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.

Company	Date	Submitted By
Modesto Irrigation District ("MID") and City of Santa Clara, California, doing business as Silicon Valley Power ("SVP")	April 24, 2014	Sean Neal (916) 498-0121 Greg Salyer, MID (209) 526-7550 Ken Kohtz, SVP (408) 615-6676

Please comment on the 2015 cost of service update, the use of ABC and the allocations into the 3 GMC service categories including the TOR and EIM Fees.

MID and SVP thank the ISO for the opportunity to comment on the ISO's proposed, 2015 Grid Management Charge ("GMC") Update.

The ISO is relying on its three-year Cost of Service studies to adjust the allocation to the three GMC rate components, Market Services, System Operations, and Congestion Revenue Right ("CRR") Services. Accordingly, the results of Cost of Service studies inform the output of the GMC rate formula. Particularly where the ISO would apply the results of current Cost of Service studies in future years to allocate the three rate components without a Federal Energy Regulatory Commission ("FERC") filing, it is critical that market participants be able to verify that adjustments to the rate component allocations are performed in a just and reasonable manner. Accordingly, it will be important to ensure that the Tariff language is sufficiently descriptive and meets the standards and protections of a formula rate. Further, the requirement that the ISO perform a Cost of Service study should be expressly set forth in the Tariff.

MID separately expresses its support for the ISO's continued use of the Transmission Ownership Right ("TOR") charge. The TOR charge, as set forth in the current and proposed GMC rate design, properly accounts for the lesser cost impact placed on the

ISO for TOR operations on the ISO system.

ISO Response
Appropriate tariff language will be included to cover the recurring cost of service updates. We appreciate MID and SVP's support for the TOR charge.

Please comment on the 2015 revenue requirement maximum and period to which is applies.

The ISO proposes a 2015 revenue requirement of $202 million with no requirement in the future for the ISO to file under Federal Power Act ("FPA") Section 205, unless the ISO seeks to change the GMC rate design or exceed a $202 million revenue requirement. While the ISO bases its proposed increase on expected increases in O&M costs (the ISO assumes a three percent escalator), some of this increase is should be offset by the ISO's anticipated reduction of debt service. The ISO has stated that it expects debt service to decrease steadily over the coming five years. *See* Slide 36 of the ISO Presentation from April 17, 2014. MID and SVP request more detail regarding the expected level of reduction in debt service, and where market participants can find support for this expected decrease in debt service. It is understood that some of the ISO's debt service is related to the bonds dedicated to paying for the new, headquarters building through 2039. However, slide 36 of the ISO's April 17 Presentation shows steady reductions in debt service from 2015 through 2019. In the last stakeholder process addressing GMC rate design, MID and SVP argued for a term for the current GMC rate through the end of 2014, based on the expectation that debt service would substantially decrease by 2014. Without further information, MID and SVP would support maintaining a $199 million revenue requirement for the GMC rate from 2015 forward.

In addition, at the April 17, 2014 stakeholder meeting, the ISO estimated $1.3 million in annual revenue for the Energy Imbalance Market ("EIM") administrative charges. MID and SVP request that the ISO provide a revised estimate, including the amount anticipated to be collected for the EIM administrative charge with the expected participation of NV Energy in the EIM.

Last, MID and SVP are concerned that the proposal to leave, as open-ended, the duration of the rate formula will not provide adequate incentive for the ISO to review the efficacy of the rate design and revenue requirement level. Accordingly, MID and SVP propose that the ISO file an FPA Section 205 filing six years after the beginning of the updated rate formula starting January 1, 2015. This term would allow the ISO to maintain rates through a Cost of Service cycle and not have to file until the subsequent Cost of Service study

ISO Response

The components of the graph on page 37 of the discussion paper are detailed in the response to CDWR above. The category labeled "Debt service, capital, operating credit, other inc" includes all of the revenue requirement categories except for the O&M budget:

1. Debt service including the 25% debt service reserve
2. Cash funded capital
3. Operating reserve credit from prior year and
4. Miscellaneous income.

The details of debt service are included in the annual budget book provided to stakeholders in October of every year. The 2014 preliminary budget book that was discussed with stakeholders on October 8, 2013 is posted at: http://www.caiso.com/Documents/2014PreliminaryBudget-GridManagementChargeRatesBook.pdf

The ISO is attempting 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 new market. The GMC funds provide the means to fund long term capital plans. The ISO's current revenue requirement is at $198 million or 99.5 percent of the current revenue requirement cap of $199 million.

The EIM revenues from PAC are estimated to be $300,000 for the last quarter of 2014 and $1.3 million annually beginning in 2015. NV Energy has indicated it desires to participate in the EIM and anticipates an October 1, 2015 start date. EIM revenues for NV Energy are estimated to be $200,000 for the last quarter of 2015 and $700,000 annually beginning in 2016. Although the implementation is going according to plan there is no guarantee the anticipated revenue will be realized.

The ISO believes that a long term commitment to a revenue cap is far superior to a six year term. It is a much tougher challenge to manage costs in the out years 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 cap from $199 million to $202 million is only 1.5% which is in line with the CPI for 2013 of 1.5%.

Additionally, 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.