

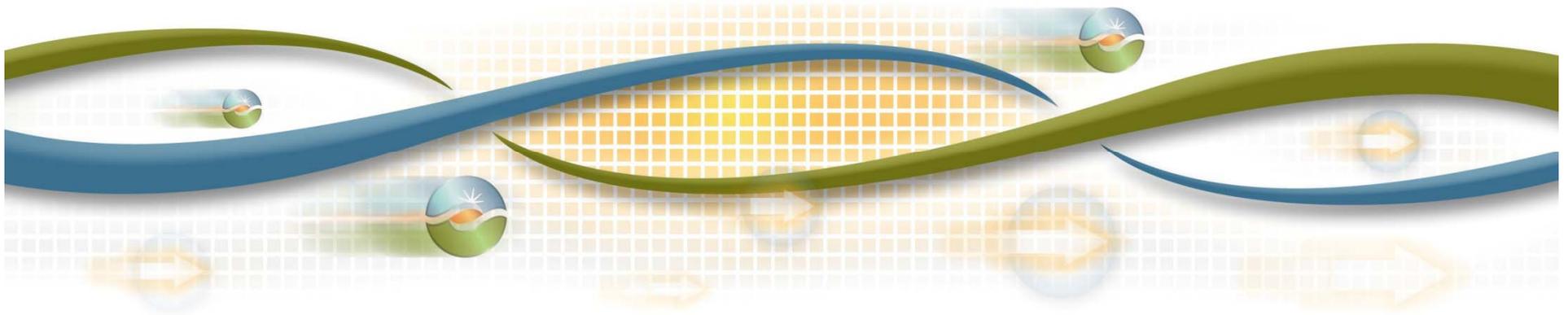


California ISO
Shaping a Renewed Future

Briefing on Status of 2012 GMC Rate Design

Ryan Seghesio
Chief Financial Officer & Treasurer

Board of Governors Meeting
General Session
February 3, 2011



The ISO will propose a substantial revision of the grid management charge design effective in 2012.

- The grid management charge (GMC) is the vehicle through which the ISO recovers all of its costs.
- Basic structure has remained the same since 2004 with limited changes around the new market design and other market enhancements.
- Management, with stakeholder support, intends to simplify the existing structure to a more transparent design similar to other ISO/RTOs with nodal markets.
 - Existing GMC: 17 charges across 7 cost categories
 - Proposed GMC: 7 charges across 3 cost categories

The following guiding principles were used to develop the framework for the new GMC structure:

- **Cost causation** – proper allocation of costs to users
- **Focus on use of services, not behavior** – let market shape behavior
- **Transparency** – clear, visible, and understandable
- **Predictability** – predict costs in advance of activity
- **Forecastability** – more accurate forecasts by ISO and market
- **Flexibility** – accommodate future market enhancements
- **Simplicity** – reduce current level of determinants and codes

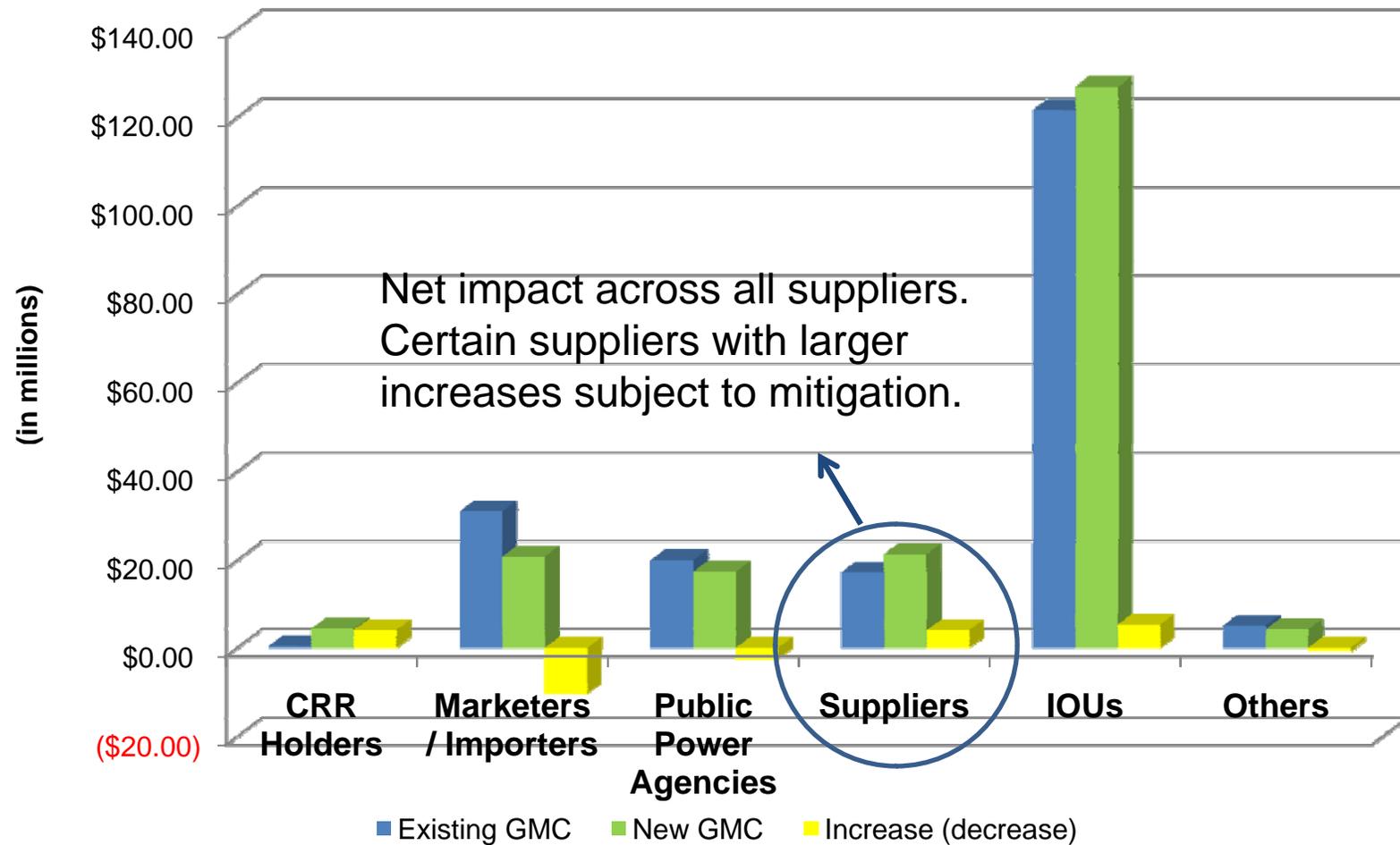
Activity based costing analysis led to the identification of cost categories and billing determinants.

- The ISO's ten core activities were categorized as either direct or indirect costs.
 - Direct: costs could be mapped directly to a market, grid service, or customer
 - Indirect: costs support the direct activities
- The customer activity process map revealed common activities across all customers that led to three cost categories being developed.
- The ISO activities were then mapped to these cost categories.

The new proposed cost categories are:

- **Market services**
 - Gross MWh of awarded energy and ancillary services in day-ahead and real-time markets.
 - Applies to generation, load, imports and exports.
 - 27% of 2010 revenue requirement
- **System operations**
 - Gross MWh of metered energy
 - Applies to generation, load, imports and exports.
 - 69% of 2010 revenue requirement
- **CRR services**
 - MWh of awarded CRRs
 - Applies to auction and allocated CRRs
 - 4% of 2010 revenue requirement

Current impact on customer classes of new GMC design (assuming no mitigation):



Reviewing options to mitigate impacts on base load generation.

- Largest transition increases occur at generators who serve primarily base load with no deviations.
 - In some cases, proposed GMC is resulting in two to three times their existing costs.
 - Some generators are locked into inflexible long term contracts
- ISO, in coordination with stakeholders, is reviewing two potential options:
 - 1) Three year phase-in of supply
 - 2) Grandfathering of certain contracts