136 FERC ¶ 61,236
UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Jon Wellinghoff, Chairman;
Marc Spitzer, Philip D. Moeller,
John R. Norris, and Cheryl A. LaFleur.

California Independent System Operator Corporation Docket No. ER11-4000-000

ORDER ACCEPTING 2012 GRID MANAGEMENT
CHARGE TARIFF AMENDMENT

(September 30, 2011)

1. On July 5, 2011, the California Independent System Operator Corporation (CAISO) filed its 2012 Grid Management Charge (GMC) proposal to align its cost allocation categories more closely to its nodal market. The Commission accepts the 2012 GMC to become effective on January 1, 2012, as requested by the CAISO.

I. Background

2. The GMC was designed as a monthly charge assessed to all Scheduling Coordinators to collect the costs of operating the CAISO. The current GMC design has seven service categories with seventeen charge codes that, according to the CAISO, do not align well with market activities. The CAISO states that market enhancements frequently require the addition of a new GMC service category and recovery methodology. The CAISO states that absent fundamental rate design changes, new market enhancements would continually increase the number of GMC service categories and charge codes, which would further contribute to the complexity of the rate structure. The CAISO states that as a consequence it re-evaluated the GMC rate design.

II. Grid Management Charge Proposal

3. In the instant filing, the CAISO proposes to simplify its GMC rate design to align the cost allocation categories more closely with the structure and operations of the Market Redesign and Technology Upgrade (MRTU) nodal market, which became operational in April 2009. The CAISO states that its GMC proposal is based on a cost-of-service study of its current administrative and market operations, its review of the rate designs used by other independent system operators (ISOs) and regional transmission organizations (RTOs) with nodal markets, and input from stakeholders.

4. In the instant filing, revisions to the GMC preserve the use of a formula rate with a revenue requirement cap.[1] However, the CAISO proposes to reduce the number of formula-rate charge categories from seven to three by allocating the revenue requirement into three cost categories as follows: twenty seven percent to Market Services, sixty nine percent to System Operations, and four percent to congestion revenue rights (CRR) services to recover administrative charges. The CAISO adds that the proposed GMC rate structure would add two new administrative transaction fees,[2] a fixed charge for transmission ownership rights (TOR),[3] and a narrowly targeted time-limited exemption for certain power supply contracts from the System Operations charge.[4]

---

[1] The CAISO proposes that the revenue requirement cap for 2012 would remain at $197 million, but would increase to $199 million for 2013 and 2014, due to increased overhead expenses and the impact of inflation on the cost of goods and services that the CAISO receives. Because the revenue requirement caps would sunset on December 31, 2014, CAISO would be required to make a 205 filing for the next year's revenue requirement.

[2] The new transaction fees are (1) a bid segment fee of $0.005 per bid segment and (2) a CRR transaction fee of $1.00 per accepted bid. The CAISO notes that an inter-scheduling coordinator transaction fee of $1.00 per trade, as well as a scheduling coordinator ID charge of $1,000 per month of market activity are and will continue to be included in the GMC structure going forward. The CAISO states that these transaction and administrative fees are generally similar to the administrative fees assessed by other ISOs and RTOs.

[3] The CAISO proposes to exempt TOR holders from the monthly GMC calculation of Market Services and System Operations charges. The TOR charge of $0.27 per megawatt hour of flow would be assessed on the minimum of their supply or demand megawatt hours.

[4] The CAISO explains that certain base load generation units are prohibited by the terms of their power purchase agreements from passing GMC increases through to the energy buyer. As a remedial measure the CAISO therefore proposes to provide those power supply contracts with a targeted exemption from the System Operations charge. To qualify for this exemption, the contract must have been executed before January 1, 2011 and must extend for at least three years after that date.

A. 2012 GMC Cost Categories

5. Below is a brief explanation of the three 2012 GMC formula-rate charge categories:

(1) Market Services: relate to the implementation and operation of the markets, including accepting and processing market participant bids, clearing the markets and issuing market schedules. This charge would be applied to each scheduling coordinator's gross absolute value of awarded megawatt hours of energy and megawatts per hour of ancillary services in the day-ahead and real-time markets.

(2) System Operations: relate to reliably operating the grid at all times by balancing supply and demand, and would be applied to the scheduling coordinator's gross absolute value of actual megawatt hours of real time energy flows on the grid for generation, load, imports, and exports. Generation units with verified long-term contracts would be exempted from the System Operations charge, if the contracts meet certain criteria.

(3) Congestion Revenue Rights: would be applied to each scheduling coordinator's total megawatt holdings of CRRs applicable to each hour.

B. Waiver Request

6. The CAISO requests waiver of section 35.3 of the Commission's regulations to permit the tariff sheets implementing the revised GMC to be effective on January 1, 2012, which is more than 120 days after the date of the instant filing. The CAISO explains that it intends to test the system changes with market participants well in advance of the effective date. The CAISO also asks the Commission to rule on its tariff changes by September 30, 2011, to allow sufficient time to test the new system with market participants in advance of the January 1, 2012 effective date.

III. Notice of Filing, Interventions, and Responsive Pleadings

7. Notice of the CAISO's filing was published in the *Federal Register* with comments due on or before July 26, 2011.[5] Timely motions to intervene were filed by the California Department of Water Resources State Water Project, the cities of Anaheim, Azusa, Banning, Colton, Pasadena and Riverside, California, the city of Sana Clara, California, the Cogeneration Association of California and the Energy Producers and Users Coalition, Constellation Energy Commodities Group, Inc. and Constellation

---

[5] 76 Fed. Reg. 41,782 (2011).

NewEnergy, Inc., Los Angeles Department of Water and Power, Modesto Irrigation District, Northern California Power Agency, NRG Companies, Pacific Gas and Electric Company, and Powerex Corporation. A motion to intervene out-of-time was filed by Southern California Edison Company. A timely motion to intervene with comments was filed by Calpine Corporation.

Calpine's Comments

8. Calpine asserts that the CAISO's proposed allocation of the cost of service has not been sufficiently justified and departs from cost causation principles. Specifically, Calpine argues that the CAISO's proposed billing determinants, which allocate the System Operations and Market Services charges to load and supply based on gross megawatt hour flows, are a departure from cost-causation principles. Calpine also argues that the CAISO relies on the expectation that the System Operations and Market Services charges imposed on supply resources will be passed through to load indirectly. Calpine believes that a direct load-based allocation of the cost of service would achieve a fairer, more efficient charge. Nonetheless, if the Commission accepts the tariff amendment, Calpine requests that the Commission also accept the proposed exemption from System Operations charges for the generation resources that are contractually precluded from passing through GMC increases. Calpine states that this exemption is fair, highly-targeted, of limited duration, and will have limited impact on other market participants. For these reasons, Calpine urges the Commission to accept this exemption.

IV. Discussion

A. Procedural Matters

9. Pursuant to Rule 214 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.214 (2011), the timely, unopposed motions to intervene serve to make the entities that filed them parties to this proceeding. Pursuant to Rule 214(d) of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.214(d)(2011), the Commission will grant Southern California Edison Company's late-filed motions to intervene given its interest in the proceeding, the early stage of the proceeding, and the absence of undue prejudice or delay.

B. Commission Determination

10. We accept the CAISO's proposed GMC revisions, which will simplify its rate design and provide greater clarity and predictability for its market participants. The proposal simplifies the rate design by reducing the number of formula rate charges from seven service categories to three. In addition, these three cost categories are very similar

to those already used in the rate designs of other ISOs and RTOs with nodal markets.[6] We find that this rate design maintains the principle of matching cost causation and cost responsibility by reasonably allocating costs based upon each market participant's use of the CAISO's core services or the benefits the market participants receive from the CAISO system.[7]

11. We also accept the CAISO's proposal to mitigate the impact of the System Operations Charge for a limited number of generation resources that are contractually precluded from passing the GMC increases through to their energy buyers. We find that this exemption provision, which is not opposed by stakeholders, is carefully delineated, of limited scope and duration, and reasonably addresses the disproportionate impact of System Operations charges on certain affected resources under the revised rate design.[8] In addition, we find this approach to be reasonable because the exemption will impose minimal cost impact on other participants and will be reduced or eliminated once the contracts are renegotiated or expire.

12. Finally, Calpine believes that a direct load-based allocation of the cost of service might achieve fairer, more efficient cost charges. However, because grid conditions are affected by changes in supply and demand, the GMC should be designed in a manner that results in a reasonable allocation of costs to both supply resources and to load.[9]

---

[6] *See* New York ISO Open Access Transmission Tariff, section 6, (New York ISO OATT); PJM Open Access Transmission Tariff, Schedule 9 (PJM OATT); ISO New England Transmission, Markets and Services Tariff, section IV.A (ISO New England Tariff).

[7] *See K N Energy, Inc. v. FERC*, 968 F.2d 1295, 1300 (D.C. Cir. 1992) (defining cost causation as "requiring that all approved rates reflect to some degree the costs actually caused by the customer who must pay them.")

[8] *See* MRTU Tariff, Appendix F, Schedule 1, Part E delineation of System Operations Charge Exemption for Certain Long-Term Power Supply Contracts. Qualifying generation suppliers will be exempt from the Systems Operation Charge only until the first opportunity to renegotiate the contract or until the contract expires.

[9] Moreover, we note that the instant order accepts the exemption that Calpine seeks regarding System Operations charges for those generation resources that are contractually precluded from passing through GMC increases.

Accordingly, we find that the CAISO's allocation of System Operations costs to both supply and demand is reasonable.[10]

13. In sum, we shall accept the subject tariff records as just and reasonable, and find good cause to grant the CAISO's request for waiver of section 35.3 of the Commission's regulations to allow testing of the GMC revisions in advance of the tariff effective date of January 1, 2012.

The Commission orders:

The CAISO's proposed tariff revisions are hereby accepted, and waiver of section 35.3 of the Commission's regulations is granted to permit the tariff sheets to be effective on January 1, 2012, as discussed in the body of this order.

By the Commission.

(S E A L)

Nathaniel J. Davis, Sr.,
Deputy Secretary.

---

[10] *See, e.g.*, *Cal. Indep. Sys. Operator Corp*., 128 FERC ¶ 61,265, at P 21 (2009); *accord Oxy USA, Inc. v. FERC*, 64 F.3d 679, 692 (D.C. Cir. 1995) (under the Federal Power Act, as long as the Commission finds a methodology to be just and reasonable, that methodology "need not be the only reasonable methodology, or even the most accurate one"); *c.f. City of Bethany v. FERC*, 727 F.2d 1131, 1136 (D.C. Cir. 1984), *cert. denied*, 469 U.S. 917 (1984) (agreeing with the Commission that "its authority to review rates under [the FPA is] limited to an inquiry into whether the rates proposed by a utility are reasonable -- and not to extend to determining whether a proposed rate schedule is more or less reasonable than alternative rate design.")

Document Content(s)