



Memorandum

To: ISO Board of Governors

From: Ryan Seghesio, Chief Financial Officer

Date: September 23, 2020

Re: **Decision on 2021 ISO Rates and Fees Changes**

This memorandum requires Board action.

EXECUTIVE SUMMARY

The ISO completed its scheduled triennial cost of service study in accordance with its tariff. The study used activity based costing to analyze cost and time data from 2019 to determine how much time and effort staff uses to support varying cost categories and supplemental services. The ISO uses the study results to update the grid management charges revenue requirement percentage allocations to the market services, system operations, and congestion revenue rights (CRR) services cost categories (outlined in Table 1). The study results are also used to update the energy imbalance market cost category percentages (outlined in Table 2), and the recently developed reliability coordinator (RC) funding percentage (outlined in Table 3). In addition, as part of the cost of service study, the ISO analyzed its cost to support supplemental services (outlined in Table 4). The analysis of the supplemental services and its fees supports changes to some of the fees. Finally, as part of this effort, Management clarified tariff language regarding the treatment of the recently created self-insured healthcare reserve.

The cost category percentage changes and some of the fee changes are requirements of the cost of service study under the tariff and the current rate structure; as such, they do not require additional approval. However, the scheduling coordinator application fee and the congestion revenue rights application fee changes as well as the clarifying self-insured healthcare reserve tariff language do require Board approval.

Management recommends the following motion:

Moved, that the ISO Board of Governors approves the scheduling coordinator application fee and the congestion revenue rights application fee increases, as outlined in the memorandum dated September 23, 2020; and

Moved, that the ISO Board of Governors approves the clarifying tariff language related to the self-insured healthcare reserve, as outlined in the memorandum dated September 23, 2020; and

Moved, that the ISO Board of Governors authorizes Management to make all necessary and appropriate filings with the Federal Energy Regulatory Commission to implement the proposal described in the memorandum, including any filings that implement the overarching initiative policy but contain discrete revisions to incorporate Commission guidance in any initial ruling on the proposed tariff amendment.

DISCUSSION AND ANALYSIS

As way of background, the ISO used activity based costing (ABC) for the first cost of service study to restructure the grid management charge (GMC) rate design in 2011. The GMC design was vetted through a comprehensive stakeholder process. The design was approved by the ISO Board of Governors and the Federal Energy Regulatory Commission in 2011 and became effective on January 1, 2012.

The ISO continues to use activity based costing to analyze the cost to provide services using budget, processes and time data. The analysis provides a comprehensive understanding of how much effort (time and resources) are contributing to each of the service cost categories. This method guides the ISO to allocate the right portion of its annual revenue requirement to the GMC and other rates.

The GMC rate structure contains three cost categories: market services, system operations and CRR services. The market services category is designed to recover costs the ISO incurs for running the markets. The system operations category is designed to recover costs the ISO incurs for reliably operating the grid in real time. The CRR services category recovers costs the ISO incurs for running the CRR markets. The ISO uses the cost of service study to determine the share of the ISO's direct and indirect costs attributable to these three cost categories. The ISO applies the percentages calculated as part of the cost of service study to the annual GMC revenue requirement to determine the amount in the cost categories upon which rates are set.

Within the market services and system operations cost categories, activity based costing also allows for the further delineation of resources to determine the appropriate percentage of GMC that EIM entities pay. Market services is bifurcated between real time market resources and day ahead market resources. While system operations is split between real time dispatch resources and balancing area authority services. EIM entities pay the percentage of GMC associated with real time market and real time dispatch resources.

The cost of service study includes a new cost category, reliability coordinator, to calculate the RC funding percentage. The RC funding percentage represents the direct and indirect time and expense necessary for the ISO to perform its RC services and functions. The RC

funding percentage is used similarly to the GMC cost category percentages in that the RC funding percentage is multiplied against the revenue requirement to determine the RC funding requirement. This approach allows the RC funding requirement to leverage against the stability of the ISO’s annual revenue requirement, thus benefiting both the RC customers and the existing GMC customers.

Currently, the ABC analysis has disaggregated ISO functions into nine core processes (level 1 activities). Each of the core activities were further broken down into major processes (level 2 activities) which were then mapped back to the level one activity. There are 107 level 2 activities included in the cost of service study.

The ISO continually reviews and develops its processes to reflect its current state of operations and process flows. The level 2 processes discussed in this study were mapped and defined as of March 2020. The level 1 activities were categorized into two types: (1) direct operating costs — those that can be directly mapped to a market, grid service, customer, or reliability service; and (2) support or indirect costs — those that support the direct activity.

The latest cost of service study results as shown in Table 1 below indicate a 17% shift of resources (time and dollars) from the system operations cost category to the market services cost category; the CRR services cost category percentage remains the same. The shift from the system operations cost category to the market services cost category is primarily driven by process efficiencies, system improvements, the introduction of the RC services cost category, and automation of services. The shift indicates ISO staff is focused on supporting market services functions and system operations functions equally.

Table 1 – Summary of GMC Cost Category Percentage Changes

Cost Category	2016 Study Effective 2018 GMC	2019 Study Effective 2021 GMC	Change from Prior
Market Services	32%	49%	17%
System Operations	66%	49%	-17%
CRR Services	2%	2%	0%

The results indicate a shift of EIM related resources as well, shown highlighted in Table 2. The study shows that 16% of market services’ resources shifted from the real time market functions to day ahead market functions. In addition, 11% of system operations’ resources shifted from balancing authority functions to real time dispatch functions. The driver of the shifts is a balancing of efforts between the market services and system operations functions and responsibilities.

Table 2 – Summary of EIM Cost Category Percentage Changes

Cost Category	Sub-Category	2016 Study Effective 2018 GMC	2019 Study Effective 2021 GMC	Change from Prior
Market Services	Real Time Market	79%	63%	-16%
	Day Ahead Market	21%	37%	16%
System Operations	Real Time Dispatch	39%	50%	11%
	Balancing Authority	61%	50%	-11%

New to the triennial cost of service study is the analysis of RC services efforts. The ISO implemented its RC services in 2019. The study results indicate there is no change in the RC funding percentage from that of the initial calculation as part of the ISO’s Reliability Coordinator Rate Design, Terms and Conditions proposal; the funding percentage will remain at 9%.

Table 3 – Summary of RC Funding Percentage Changes

Cost Category	2016 Modified Study Effective 2019 GMC	2019 Study Effective 2021 GMC	Change from Prior
Reliability Coordinator Services	9%	9%	0%

The ISO also used the cost of service study to analyze efforts that support other supplemental services. The study results indicate resources to process applications and statements increased, whereas resources to support transmission ownership rights efforts decreased. The ISO proposes changes to the scheduling coordinator ID fee, transmission ownership rights fee, scheduling coordinator application fee, and CRR application fee based on the study. The revenue collected from the fees offset the costs recovered through either the GMC revenue requirement or the GMC rates. The ISO does not propose any other change in supplemental fees.

Table 4 – Summary of Supplemental Fee Changes

Fee	Billing Units	Current Fee	Updated Fee
Bid Segment Fee	per bid segment	\$ 0.0050	No Change
Inter SC Trade Fee	per Inter SC Trade	\$ 1.0000	No Change
Scheduling Coordinator ID Fee	per month	\$ 1,000	\$ 1,500
TOR Fees	minimum of supply or demand TOR MWh	\$ 0.2400	\$ 0.1800
CRR Bid Fee	number of nominations and bids	\$ 1.00	No Change
Intermittent Resource Forecasting Fee	per MWh	\$ 0.1000	No Change
Scheduling Coordinator Application Fee	per application	\$ 5,000	\$ 7,500
CRR Application Fee	per application	\$ 1,000	\$ 5,000
HANA Administrative Fee	annual fee	\$ 45,000	No Change
HANA Setup Fee	one time fee	\$ 35,000	No Change

Additionally, the ISO seeks to clarify in the tariff the administrative process around the self-insured healthcare reserve. In 2018, the ISO converted a portion of its healthcare benefit program to a self-insured model. The intent of the program was to help the ISO and its employees mitigate the effects of rising healthcare costs. A self-insured health insurance program shifts the financial risk of paying health insurance claims to the employer versus the health insurance company. The benefits to the employer include more control over the design of the health insurance plan and saving the profit margin that insurance companies add to their premiums.

The ISO works with a health benefit consultant annually to determine the appropriate amount of premiums to assess the users of the plan given expected claims data. The original intent of the self-insured program was to enable the ISO to be able to build a reserve in years in which actual claims were less than estimated and to use those reserves in years in which claims exceeded estimates. This would smooth out the volatility associated with healthcare claims.

Although the ISO originally believed that the healthcare reserve could be established using the existing budgeting processes, the effect on the tariff operating cost reserve adjustment process is not clear and therefore, the ISO will add specific language describing the annual healthcare reserve process.

POSITIONS OF THE PARTIES

Numerous stakeholders participated in the June and July stakeholder calls¹ to discuss the cost of service study results and impacts to the 2021 GMC and EIM rates. The

¹ The stakeholder comments can be found at <http://www.caiso.com/informed/Pages/StakeholderProcesses/Budget-GridManagementCharge.aspx>.

participants included (but were not limited to) Arizona Public Service, Pacific Gas & Electric, PacifiCorp, Puget Sound Energy, and San Diego Gas & Electric. There were no objections or concerns raised regarding the results, with the exception of the proposed monthly scheduling coordinator ID fee increase. Two market participants requested the calculation support behind the proposed fee increase and requested the ISO explore other monthly scheduling coordinator ID fee costing methodologies. The ISO considered their requests and provided the calculation, as well as other support behind the proposed fee increase. The EIM Governing Body was briefed on the proposed adjustment during the September 16, 2020 EIM Governing Body general session meeting.

MANAGEMENT RECOMMENDATION

Management seeks Board approval to increase the scheduling coordinator application fee and the CRR application fee, and to clarify the language related to the self-insured healthcare reserve in the tariff. All other percentage and fee adjustments as part of the cost of service study are requirements under the tariff and current rate structure. With approval, Management will file the necessary tariff amendments with FERC adjusting the relative percentage allocations and fee amounts, as well as clarifying language related to the self-insured healthcare reserve. The revised allocations will become effective with the 2021 GMC, EIM, and other rates and fees. The 2021 changes will remain in place until the next GMC update (planned for 2024).