



California ISO

**PEAK RELIABILITY COORDINATOR
FUNDING**

Draft Final Proposal

May 28, 2015

**Assessment of
Peak Reliability Coordinator Charges
Draft Final Proposal**
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1 Introduction

This draft final proposal addresses changes to the ISO's settlement and payment processes necessary to pass on to scheduling coordinators the reliability coordinator charges the ISO will be receiving from Peak Reliability ("Peak"). As a result of the recent bifurcation of the Western Electricity Coordinating Council ("WECC"), Peak Reliability was formed as a separate independent company to perform the reliability coordinator services previously performed by WECC. Beginning in November 2015, the ISO expects to start receiving an annual direct bill from Peak for reliability coordinator services, rather than continuing to be charged the reliability coordination costs as part of the NERC/WECC fees.

The ISO's proposed settlement and payment processes for the Peak reliability charges are similar to those for the NERC/WECC fees. The ISO will allocate the charges to scheduling coordinators using the NERC/WECC metered demand and will collect the charges through a separate annual invoice. However, because the Peak alternative funding agreement imposes the obligation to pay for reliability coordinator charges on balancing authorities and transmission operators, rather than on each load serving entity as is done today, the ISO proposal includes financial security measures and an optional invoice that would allow the ISO to collect unpaid charges in the event a scheduling coordinator defaults on its payment of the charges.

2 Background

On June 20, 2013, FERC issued a declaratory order approving the bifurcation of WECC and the plan to establish a separate independent company to perform the reliability coordinator function for the Western Interconnection. In the Order, FERC conditionally approved continuing to fund the reliability coordinator function as a statutory activity under Section 215 of the Federal Power Act, provided that Peak develops and presents to its members a plan for alternative funding within two years after bifurcation.

As long as section 215 funding is in place, Peak's charges will continue to be rolled into WECC's budget as a line item, and WECC will provide a consolidated annual bill to the ISO and other funding parties to cover Peak's reliability coordinator charges. Under this existing arrangement, the ISO has authority to pass these charges along to scheduling coordinators pursuant to tariff section 11.20, which establishes the billing process for NERC/WECC charges.

Once section 215 funding ends, Peak will move to a direct billing arrangement whereby the ISO and other balancing authorities and transmission operators in the Western Interconnection will receive a bill directly from Peak for their respective share of Peak's annual reliability coordinator charges. Peak has finalized the funding agreement that will take the place of section 215 funding. At its May 11, 2015 meeting, the Peak Board unanimously approved the draft alternative funding agreement. Peak's plans to present the alternative funding agreement to its membership for an approval vote in June 2015 and require funding parties, including the ISO, to execute the agreement shortly thereafter. Peak would then implement the new funding approach for the 2016 budget by issuing annual invoices to the funding parties in November 2015 for payment in early January 2016.

The ISO is actively participating in Peak's proceedings related to the alternative funding agreement. Peak has made significant progress toward meeting its proposed schedule for approving and executing the new funding agreement. In order to prepare for the changes that

will result from the new funding agreement once it becomes effective, the ISO is initiating this stakeholder process to change its billing and collection practices to accommodate direct bills from Peak and revise tariff section 11.20 to give the ISO authority to bill and collect for the annual assessment of Peak charges for the reliability coordinator function. This tariff change is necessary because the ISO's existing provision allowing the pass through of NERC/WECC charges to market participants does not cover a separate, stand-alone invoice from Peak for reliability coordinator services.

3 Plan for Stakeholder Engagement

The proposed changes to the billing and collection processes and the proposed tariff modifications address how the ISO will settle Peak's reliability coordinator service charges under a direct bill, rather than as part of the NERC/WECC charges.

Table 1 below lists the planned schedule for this stakeholder initiative. This timeline will allow the ISO to have the proposed tariff modifications in effect by November 1 in order to process the anticipated separate direct bill cycle from Peak under the alternative funding agreement.

The ISO is committed to provide ample opportunity for stakeholder input into policy development and implementation activities.

The Draft Final Proposal and the draft tariff language may be found using this link:

<http://www.caiso.com/informed/Pages/StakeholderProcesses/PeakReliabilityCoordinatorFunding.aspx>

Table 1 –Peak Reliability Coordinator Funding Stakeholder Schedule

Item	Date
Post Market Notice for SH call to Straw Proposal and Draft Tariff Language	May 8, 2015
Stakeholder call	May 15, 2015
Deadline to receive SH comments	May 22, 2015
Post Market Notice with Draft Final Proposal	May 28, 2015
Stakeholder call to review and comment on the Draft Final Proposal	June 2, 2015
Board of Governors Call	June 30, 2015
FERC Filing	July 1, 2015

4 Issue

The bifurcation of WECC affects the ISO and all load serving entities in the ISO balancing authority area. For 2015, the ISO's share of Peak's total budget for the reliability coordinator function was approximately \$12.2 million. That amount was assessed to, and collected from, load serving entities as part of their NERC/WECC charges, which the ISO allocated to

scheduling coordinators according to their load serving entities' respective loads. Assuming that Peak begins separate billing for 2016, the ISO will receive a bill for an amount that reflects Peak's annual budget, which the ISO will need to assess and collect from load serving entities. The NERC/WECC charges for 2016 will no longer include reliability coordinator service charges and will decrease accordingly.

Under the existing mechanism, WECC allocates costs to the ISO for collection from the load serving entities. The payment obligation is on each load serving entity, and the ISO does not have an obligation to pay WECC to the extent a load serving entity fails to pay its allocation. However, under Peak's proposed alternative funding mechanism, Peak will allocate costs to each balancing authority or transmission operator for payment, and the balancing authority or transmission operator, including the ISO, will have the payment obligation in the event a load serving entity defaults. The ISO's proposed collection process and tariff provisions address the potential circumstance in which a scheduling coordinator defaults on payment of its reliability coordinator charges to the ISO. In that circumstance, the ISO would be allowed to enforce the financial security provided by the defaulting scheduling coordinator, and recover any remaining unpaid charges from the other scheduling coordinators that received an invoice for the reliability coordinator charges.

5 Dependencies and Constraints

If the alternative funding agreement approval process currently underway at Peak is not completed and the agreements are not executed in time to serve as the funding mechanism for Peak for 2016, the Peak charges presumably will continue to be included in the invoice from WECC and will be processed by the ISO under existing settlement procedures and tariff provisions. The ISO believes, however, that it is more likely that the alternative funding agreement will be completed and executed in time to fund 2016, thus necessitating development of the provisions discussed in this proposal.

In the event that an alternative funding agreement is not approved, a stakeholder submitted comments in support of the continued application of settlement procedures and tariff provisions currently in force and requests that the ISO issue a Market Notice informing market participants of its decision. Given the recent approval of the alternative funding agreement by Peak's Board, the ISO expects that the agreement will be executed prior to the time for Peak to invoice its charges 2016. However, if that does not occur, the ISO will issue a market notice regarding the invoicing process to fund 2016.

6 Proposed Settlements Process

The ISO's proposed settlements process is generally similar to the process used for NERC/WECC charges. After receiving the invoice from Peak, the ISO will issue a market notice to advise market participants of the invoice and the charge rate the ISO will use for the assessment year. The ISO will calculate the charge rate using the total dollar amount of reliability coordinator charges invoiced to the ISO divided by the most recent total NERC/WECC metered demand. The ISO proposes to allocate the reliability coordinator charges to each scheduling coordinator for load serving entities in the ISO balancing authority area using the most recent NERC/WECC metered demand for that scheduling coordinator. This is the same methodology that the ISO currently uses to allocate NERC/WECC charges, based on the MWhs of net energy for load. By using a consistent allocation methodology, the ISO will ensure that load serving entities' current respective allocations of NERC/WECC charges and reliability coordinator charges do not change as a result of the direct billing by Peak. Rather than

receiving one invoice, scheduling coordinators will receive two invoices (one for NERC/WECC and another for reliability coordinator charges), but their payment obligation will effectively remain the same.

A stakeholder submitted comments requesting that the ISO consider modifying the proposed allocation of the Peak assessment to include scheduling coordinators for resources as well as scheduling coordinators for load. The comment suggests that both resources and load benefit from the reliability coordinator services and should share in the cost of the reliability coordinator. The comment also suggests that it would be worthwhile to consider how reliability coordinator activities are funded in other RTO/ISOs. If such a review is infeasible at this time, the stakeholder requests that the ISO commit to performing one and considering a change in the Peak funding allocations in the future. Because the ISO's proposed methodology for allocating the Peak charges to scheduling coordinators based on net energy for load is consistent with the FERC approved methodology under which the Peak charges and NERC/WECC charges are allocated to the ISO, the ISO believes that its methodology reflects cost responsibility.

The ISO initially proposed that the calculation of collateral requirements and other credit requirements will include an adjustment for the scheduling coordinator's allocable share of the reliability coordinator charges, if applicable; except that the estimated aggregated liability will not include the reliability coordinator charges. In response to a stakeholder comment inquiring why the charges will not be included in the estimated aggregated liability, the ISO will clarify the draft tariff language to indicate that the charges will be included in the estimated aggregated liability calculated but not in the extrapolation amounts, which are calculated for trading days for which settlement statements have not been issued.

The proposed confirmation and validation requirements for the reliability coordinator charge invoice will be the same as for a NERC/WECC invoice. It will be the responsibility of the scheduling coordinator to notify the ISO if it does not receive the invoice, and absent such notice, the scheduling coordinator will be deemed to have received its invoice. Each scheduling coordinator will have the opportunity to review the invoice and will be deemed to have validated the invoice unless it raises a dispute within seven days of the date of issuance. Once validated, the invoice is binding on the scheduling coordinator.

The ISO also proposes to have the same dispute process for the reliability coordinator charge invoice as currently applied to NERC/WECC invoices. Scheduling coordinators will be prohibited from disputing any of the reliability coordinator charges, unless there is a typographical or other ministerial error by the ISO. The invoiced charges will be based on the ISO's allocated share of the reliability coordinator's budgeted expenses for the following calendar year and on the NERC/WECC metered demand. Consistent with current practice, Peak's proposed alternative funding agreement provides Peak members with an opportunity to comment on Peak's proposed annual expenditures for the reliability coordinator function in advance of the funding year. To the extent Peak members have concerns about the total magnitude of Peak's proposed reliability coordinator budget, that commenting process is the forum in which to raise those matters. Any questions about the ISO's or the individual market participant's MWs of NERC/WECC meter demand will be considered as part of the settlement process for NERC/WECC charges under Section 11.20.4, and will be resolved before the ISO invoices the reliability coordinator charges. Accordingly, the basis to dispute the reliability coordinator charges will be limited to a typographical or ministerial error. If the ISO determines that a typographical or other ministerial error has occurred, and the resolution of the dispute makes correction necessary, the ISO will issue a corrected invoice.

Scheduling coordinators will be required to make timely payment of the reliability coordinator charge invoice within 20 days of the date the invoices were issued. If a scheduling coordinator defaults on payment of all or part of the reliability coordinator charge invoice, the ISO proposes to follow existing tariff authority applicable to payment defaults. The ISO may exercise its rights under Section 11.29.13.3 to enforce the financial security provided by the defaulting scheduling coordinator, or take other action under Sections 11.29.12 or 11.29.13 to obtain payment from the defaulting scheduling coordinator for the amount owed.

To the extent that all or part of the default amount remains unpaid, the ISO proposes that it have the discretion to issue an invoice to collect the unpaid reliability coordinator charges. This is a departure from the default provisions for the NERC/WECC charges. The reason for the difference is that the ISO's payment obligations to WECC for NERC/WECC charges and to Peak for reliability coordinator charges will differ. The ISO is currently required to forward to WECC only the NERC/WECC charges it collects from scheduling coordinators and a list of any scheduling coordinators that did not make full payment of the amount owed, with no further payment obligation. However, under Peak's alternative funding agreement, the ISO will now be required to pay the Peak invoice for the reliability coordinator charges in its entirety, regardless of any payment defaults. Because of this payment obligation, it is necessary that the ISO have the ability to issue an invoice for a default amount in order to avoid incurring a potential shortfall for any unpaid charges.

The ISO proposes that issuance of an invoice for a payment default be discretionary. This would allow the ISO to avoid billing for a nominal amount of unpaid charges. If the ISO determines that an invoice for the payment default is necessary, it would allocate responsibility for the default amount to scheduling coordinators with NERC/WECC metered demand, excluding the defaulting scheduling coordinator, based on the most recent NERC/WECC metered demand for each scheduling coordinator. This methodology will pass on any unpaid reliability coordinator charges to the other scheduling coordinators who directly benefited from the reliability coordinator services and were responsible for their payment in the first instance, rather than treating the default amount as a shortfall to be spread across the entire market. The latter approach would include scheduling coordinators for market participants that do not have NERC/WECC metered demand, such as resources, and would be inconsistent with the methodology under which the charges were originally allocated.

The ISO's proposal also includes a provision from the NERC/WECC invoice process that allows the ISO to temporarily modify the billing and payment schedule. This provision would be used as a fall back to address limited circumstances that would otherwise impact the billing and payment schedule, such as a delay in receiving the invoice from the reliability coordinator.

The following table provides an example of the proposed billing and payment schedule.

TABLE 1
SCHEDULE FOR BILLING AND PAYMENT OF PEAK CHARGES

Peak Invoice		
Peak issues invoice		Nov 1
ISO publishes market notice	5 BDs after Peak invoice	Nov 9
ISO issues invoice	10 BDs after Peak invoice	Nov 16
SC payment of invoice due	20 days after ISO invoice	Dec 6
Corrected Invoice (if needed)		
SC dispute due	7 days after ISO invoice	Nov 23
ISO issues corrected invoice	15 days after ISO invoice	Nov 30
SC payment of corrected invoice due	15 days after corrected invoice	Dec 15
Default Invoice (if needed)		
ISO invoice for default payment	as needed	after Dec 6
SC payment of default invoice	20 days after default invoice	after Dec 26

A stakeholder submitted comments requesting that the ISO issue a second market notice to advise market participants when a scheduled or unscheduled invoice for Peak charges is issued to scheduling coordinators. The ISO proposes to include in the first market notice the schedule for invoicing and payment of an invoice for Peak charges so a second market notice will not be necessary.

The ISO's draft tariff language to provide for the billing and collection of the reliability coordinator charges are posted with this Draft Final Proposal, and may be found using the link included above.

7 Next Steps

The ISO will discuss this Draft Final Proposal and the draft tariff language with stakeholders during a stakeholder call to be held on June 2, 2015.