

November 2, 2010

The Honorable Kimberly D. Bose  
Secretary  
Federal Energy Regulatory Commission  
888 First Street, NE  
Washington, DC 20426

**Re: California Independent System Operator Corporation  
Docket No. ER11-\_\_\_\_-000  
Amendment to Extend and Modify Grid Management Charge**

Dear Secretary Bose:

The California Independent System Operator Corporation (“ISO”) submits this filing to extend the current Grid Management Charge until December 31, 2011.<sup>1</sup> The ISO respectfully requests that the tariff changes contained in this filing become effective on January 1, 2011.

**I. Background**

**A. Grid Management Charge Prior to the ISO New Market Design**

The GMC is the rate through which the ISO recovers its administrative and operating costs. The GMC operates on a formula basis, subject to certain restrictions.

The basic design of the GMC formula rate derives from a settlement that established the GMC rate design from January 1, 2004, through December 31, 2006. The settlement was accepted by the Commission’s September 22, 2005, Order in Docket No. ER04-115.<sup>2</sup> Under the original rate design, the ISO was authorized to implement changes to the GMC charges by applying the GMC formula rate to the ISO’s budgeted revenue requirement, as long as the ISO’s annual budget does not exceed \$195 million. That GMC rate design reflected the costs incurred in operating the ISO’s

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<sup>1</sup> The ISO submits this filing pursuant to Section 205 of the Federal Power Act, 16 U.S.C. § 824d, and Section 35.13 of the Commission’s regulations, 18 C.F.R. § 35.13, and in compliance with Order No. 714 Electronic Tariff Filings, FERC Stats. & Regs. ¶ 31,276 (2009). Capitalized terms not otherwise defined herein have the meanings set forth in Appendix A to the ISO’s tariff, and except where otherwise noted herein, references to section numbers are references to sections of the tariff.

<sup>2</sup> *Cal. Indep. Sys. Operator Corp.*, 112 FERC ¶61,329 (2009).

markets as they existed prior to the implementation of the ISO's new market design (formerly known as the Market Redesign and Technology Upgrade) on April 1, 2009. The Commission has subsequently approved its use for calendar years 2007, 2008 and in 2009 through March 31, 2009.<sup>3</sup>

The Commission approved changes to the GMC needed to reflect the ISO's new market design on December 19, 2008, subject to a compliance filing in which, *inter alia*, the ISO clarified that the market usage-forward energy charge applied to both financial and physical inter-scheduling coordinator trades in the day ahead market.<sup>4</sup> As part of that compliance filing, the ISO agreed to consider, with its stakeholders, whether modifications should be made to the market usage-forward energy billing determinants applicable to inter-scheduling coordinator energy trades.<sup>5</sup> The revised GMC rates went into effect on April 1, 2009.

### **B. Modifications to the Market Usage-Forward Energy Charge**

In accordance with its commitment, the ISO during the second and third quarters of 2009 conducted a stakeholder process to address the market usage-forward energy charge billing determinants. Based on stakeholder input, the ISO proposed changes to this charge as part of its request to extend the GMC through calendar year 2010. In a December 30, 2009, Order, the Commission approved the ISO's request to extend the GMC until December 31, 2010 (effective on January 1, 2010) with the exception of the proposed market usage-forward energy charge billing structure. The ISO's proposed tariff modifications implementing changes to that charge were suspended until June 1, 2010, and issues related to the proposal were set for settlement discussions and possible evidentiary hearing.<sup>6</sup>

Following a settlement conference held on January 20, 2010, the ISO and other interested parties entered into an offer of settlement and stipulation that resolved all of the issues associated with the market usage-forward energy charge calculation as applied to inter-scheduling coordinator trades. The settlement provided that the revised calculation would be in effect on an interim basis from June 1, 2010 until December 31, 2011. Prior to filing rates that would go into effect on January 1, 2012, the ISO agreed to conduct a cost of service study that would revisit the appropriateness of the market usage-forward energy charge structure. The Commission approved the offer of settlement and stipulation by letter order dated August 4, 2010.<sup>7</sup>

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<sup>3</sup> See *Cal. Indep. Sys. Operator Corp. and Pacific Gas and Electric Co.*, Docket Nos. ER06-1281-000 and ER06-1282-000 (Sep. 6, 2006) (unpublished letter order); *Cal. Indep. Sys. Operator Corp. and Pacific Gas and Electric Co.*, Docket Nos. ER08-135-000 and ER08-136-000 (Dec. 19, 2007) (unpublished letter order); *Cal. Indep. Sys. Operator Corp. and Pacific Gas and Electric Co.*, Docket Nos. ER09-235-000 and ER08-236-000 (Dec. 2, 2008) (unpublished letter order).

<sup>4</sup> See *Cal. Indep. Sys. Operator Corp.*, 125 FERC ¶ 61,338 (2008)

<sup>5</sup> See ISO transmittal letter, ER08-585-000 submitted March 31, 2009.

<sup>6</sup> See *Cal. Indep. Sys. Operator Corp.*, 129 FERC ¶ 61,292 (2009).

<sup>7</sup> See *Cal. Indep. Sys. Operator Corp.*, 132 FERC ¶ 61,105 (2010). Note that the revised market usage-forward energy charge became effective, subject to refund, on June 1, 2010, in accordance with the terms of the December 30, 2009 Order. No refunds were necessary

### **C. Convergence Bidding Charges**

On June 25, 2010 the ISO submitted tariff changes to implement convergence bidding, including two new GMC categories applicable to convergence bidding participants. Specifically, the ISO proposed to implement a “virtual award” charge that will be assessed on dollars of cleared gross megawatt hours and a “virtual bid submission” transaction charge assessed on all bid segments that pass the ISO’s bid validation rules and pass on to the IFM. The ISO requested that all of the convergence bidding tariff changes, including the new GMC charges, become effective on February 1, 2011. The Commission accepted the ISO’s proposed tariff revisions, subject to a compliance filing, on October 15, 2010.<sup>8</sup>

### **D. 2012 Cost of Service Study**

Consistent with the terms of the settlement offer that implemented the market usage-forward energy billing determinant changes, the ISO has conducted a GMC cost of service study and has initiated a stakeholder process to consider possible changes to the GMC rate design that might be proposed for implementation on January 1, 2012.<sup>9</sup> The ISO anticipates that the 2012 GMC stakeholder process will be concluded during the second quarter of 2011 and a proposal presented to the ISO Board by third quarter 2011.

## **II. Amendment Extending GMC until January 1, 2012.**

As discussed above, all of the GMC categories, except for the market usage-forward energy charge and the convergence bidding charges, will expire as of December 31, 2010. On September 9, 2010, the ISO Board of Governors approved a management recommendation to maintain the current tariff revenue requirement cap at \$197 million and to extend the current grid management charge formula rate through calendar year 2011 until January 1, 2012 (See Attachment C). The tariff change needed to implement this extension is restricted to one paragraph of the tariff, in *Appendix F, Schedule 1, Part D*. The sole tariff modification consists of changing the reference of the year “2011” to “2012” in the paragraph entitled “Annual Filing.”

With the exception of the market usage-forward energy charge and the convergence bidding charges, are identical to the revenue requirement and GMC structure that the Commission approved as just and reasonable and not unduly discriminatory in Docket No. ER10-188-000. As noted, the market usage forward energy charge is set by settlement for 2011, and the Commission recently approved the convergence bidding charge. There have been no intervening events that could have rendered these previously approved tariff provisions unjust, unreasonable, or unduly discriminatory. Accordingly, this Commission should approve this amendment as filed.

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because the rate structure approved on August 4, 2010 was identical to the structure implemented on June 1, 2010.

<sup>8</sup> *Cal. Indep. Sys. Operator Corp*, Docket ER10-1559-000,133 FERC ¶ 61,039 (2010); the compliance filing will include additional details regarding development of the virtual award charge.

<sup>9</sup> See <http://www.caiso.com/281a/281ac7f165ad0.html>

### III. Effective Date

The ISO requests that the Commission make the tariff revision contained in the instant filing effective January 1, 2011.

### IV. Communications

Communications regarding this filing should be addressed to the following individuals, whose names should be put on the official service list established by the Commission with respect to this submittal:

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\* Individuals designated for service pursuant to Rule 203(b)(3),  
18 C.F.R. § 385.203(b)(3).

### V. Service

The ISO has served copies of this transmittal letter, and all attachments, on the California Public Utilities Commission, the California Energy Commission, and all parties with effective Scheduling Coordinator Service Agreements under the ISO Tariff. In addition, the ISO is posting this transmittal letter and all attachments on the ISO Website.

### VI. Attachments

The following attachments, in addition to this transmittal letter, support the instant filing:

Attachment A	Revised Tariff sheets that incorporate the proposed change described above
Attachment B	The proposed change to the Tariff shown in black-line format
Attachment C	Board memorandum.

**VIII. Conclusion**

For the foregoing reasons, the Commission should accept the proposed tariff changes contained in the instant filing to become effective on January 1, 2011. Please contact the undersigned if you have any questions regarding this matter.

Respectfully submitted,

**By: /s/ Judith B. Sanders**

Judith B. Sanders

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Counsel for the California Independent System Operator Corporation

**Attachment A – Clean Tariff**  
**2011 Grid Management Charge Amendment**  
**November 2, 2010**  
**California Independent System Operator Corporation**  
**Fifth Replacement FERC Electric Tariff**

# Appendix F Rate Schedules

## Schedule 1 Grid Management Charge

### Part D – Information Requirements

#### **Budget Schedule**

The CAISO will convene, prior to the commencement of the annual budget process, an initial meeting with stakeholders to: (a) receive ideas to control CAISO costs; (b) receive ideas for projects to be considered in the capital budget development process; and, (c) receive suggestions for reordering CAISO priorities in the coming year.

Within two (2) weeks of the initial meeting, the ideas presented by the stakeholders shall be communicated in writing to the CAISO's officers, directors and managers as part of the budget development process, and a copy of this communication shall be made available to stakeholders.

Subsequent to the initial submission of the draft budget to the finance committee of the CAISO Governing Board, the CAISO will provide stakeholders with the following information: (a) proposed capital budget with indicative projects for the next subsequent calendar year, a budget-to-actual review for capital expenditures for the previous calendar year, and a budget-to-actual review of current year capital costs; and, (b) expenditures and activities in detail for the next subsequent calendar year (in the form of a draft of the budget book for the CAISO Governing Board), budget-to-actual review of expenditures and activities for the previous calendar year, and a budget-to-actual review of expenditures for the current year. Certain of this detailed information which is deemed commercially sensitive will only be made available to parties that pay the CAISO's GMC (or regulators) who execute a confidentiality agreement.

The CAISO shall provide such materials on a timely basis to provide stakeholders at least one full committee meeting cycle to review and prepare comments on the draft annual budget to the finance committee of the CAISO Governing Board.

At least one month prior to the CAISO Governing Board meeting scheduled to consider approval of the proposed budget, the CAISO will hold a meeting open to all stakeholders to discuss the details of the CAISO's budget and revenue requirement for the forthcoming year. To the extent that such a meeting will deal with complex matters of budgetary and policy import, the CAISO will endeavor to host a workshop on the CAISO's budget preparation process in advance of the meeting to better prepare stakeholders.

Prior to a final recommendation by the finance committee of the CAISO Governing Board on the CAISO's draft annual budget, the CAISO shall respond in writing to all written comments on the draft annual budget submitted by stakeholders and/or the CAISO shall issue a revised draft budget indicating in detail the manner in which the stakeholders' comments have been taken into consideration.

The CAISO will provide no fewer than forty-five (45) days for stakeholder review of its annual budget between initial budget posting and final approval of the budget by the CAISO Governing Board.

#### **Budget Posting**

After the approval of the annual budget by the CAISO Governing Board, the CAISO will post on the CAISO Website the CAISO operating and capital budget to be effective during the subsequent fiscal year, and the billing determinant volumes used to develop the rate for each component of the Grid Management Charge, together with workpapers showing the calculation of such rates.

#### **Annual Filing**

If the Grid Management Charge revenue requirement for any Budget Year does not exceed \$197 million, the CAISO shall not be required to make a Section 205 filing to adjust the GMC charges calculated in

accordance with this Schedule 1 to collect such revenue requirement. In order for the CAISO to adjust the GMC charges to collect a Grid Management Charge revenue requirement for a Budget Year that exceeds \$197 million, the CAISO must submit an application to the FERC under FPA Section 205. In any event, the CAISO shall submit a filing under FPA Section 205 for approval of the Grid Management Charge to be effective no later than January 1, 2012. In such filing, the CAISO may revise the Grid Management Charge rates set forth in this Schedule 1, but shall not be required to do so.

### **Periodic Financial Reports**

The CAISO will create periodic financial reports consisting of an income statement, balance sheet, statement of operating reserves, and such other reports as are required by the CAISO Governing Board. The periodic financial reports will be posted on the CAISO Website not less than quarterly.

**Attachment B – Marked Tariff**  
**2011 Grid Management Charge Amendment**  
**November 2, 2010**  
**California Independent System Operator Corporation**  
**Fifth Replacement FERC Electric Tariff**

# Appendix F Rate Schedules

## Schedule 1 Grid Management Charge

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#### **Budget Schedule**

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Within two (2) weeks of the initial meeting, the ideas presented by the stakeholders shall be communicated in writing to the CAISO's officers, directors and managers as part of the budget development process, and a copy of this communication shall be made available to stakeholders.

Subsequent to the initial submission of the draft budget to the finance committee of the CAISO Governing Board, the CAISO will provide stakeholders with the following information: (a) proposed capital budget with indicative projects for the next subsequent calendar year, a budget-to-actual review for capital expenditures for the previous calendar year, and a budget-to-actual review of current year capital costs; and, (b) expenditures and activities in detail for the next subsequent calendar year (in the form of a draft of the budget book for the CAISO Governing Board), budget-to-actual review of expenditures and activities for the previous calendar year, and a budget-to-actual review of expenditures for the current year. Certain of this detailed information which is deemed commercially sensitive will only be made available to parties that pay the CAISO's GMC (or regulators) who execute a confidentiality agreement.

The CAISO shall provide such materials on a timely basis to provide stakeholders at least one full committee meeting cycle to review and prepare comments on the draft annual budget to the finance committee of the CAISO Governing Board.

At least one month prior to the CAISO Governing Board meeting scheduled to consider approval of the proposed budget, the CAISO will hold a meeting open to all stakeholders to discuss the details of the CAISO's budget and revenue requirement for the forthcoming year. To the extent that such a meeting will deal with complex matters of budgetary and policy import, the CAISO will endeavor to host a workshop on the CAISO's budget preparation process in advance of the meeting to better prepare stakeholders.

Prior to a final recommendation by the finance committee of the CAISO Governing Board on the CAISO's draft annual budget, the CAISO shall respond in writing to all written comments on the draft annual budget submitted by stakeholders and/or the CAISO shall issue a revised draft budget indicating in detail the manner in which the stakeholders' comments have been taken into consideration.

The CAISO will provide no fewer than forty-five (45) days for stakeholder review of its annual budget between initial budget posting and final approval of the budget by the CAISO Governing Board.

#### **Budget Posting**

After the approval of the annual budget by the CAISO Governing Board, the CAISO will post on the CAISO Website the CAISO operating and capital budget to be effective during the subsequent fiscal year, and the billing determinant volumes used to develop the rate for each component of the Grid Management Charge, together with workpapers showing the calculation of such rates.

#### **Annual Filing**

If the Grid Management Charge revenue requirement for any Budget Year does not exceed \$197 million, the CAISO shall not be required to make a Section 205 filing to adjust the GMC charges calculated in accordance with this Schedule 1 to collect such revenue requirement. In order for the CAISO to adjust the GMC charges to collect a Grid Management Charge revenue requirement for a Budget Year that exceeds \$197 million, the CAISO must submit an application to the FERC under FPA Section 205. In any event, the CAISO shall submit a filing under FPA Section 205 for approval of the Grid Management Charge to be effective no later than January 1, ~~2012~~2014. In such filing, the CAISO may revise the Grid Management Charge rates set forth in this Schedule 1, but shall not be required to do so.

### **Periodic Financial Reports**

The CAISO will create periodic financial reports consisting of an income statement, balance sheet, statement of operating reserves, and such other reports as are required by the CAISO Governing Board. The periodic financial reports will be posted on the CAISO Website not less than quarterly.

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**Attachment C – Board Memorandum**  
**“Decision on Extension of Current Grid Management Charges through 2011”**  
**2011 Grid Management Charge Amendment**  
**November 2, 2010**  
**California Independent System Operator Corporation**  
**Fifth Replacement FERC Electric Tariff**

# Memorandum

**To:** ISO Board of Governors  
**From:** Nancy Saracino, Vice President, General Counsel & Chief Administrative Officer  
**Date:** September 1, 2010  
**Re:** **Decision on Extension of Current Grid Management Charges through 2011**

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*This memorandum requires Board action.*

## EXECUTIVE SUMMARY

The California Independent System Operator Corporation's current grid management charge, with the exception of the current market usage-forward energy charge determinant, became effective with the new market implementation on April 1, 2009 and was extended through 2010. The current market usage-forward energy charge determinant was the subject of a settlement offer and became effective on June 1, 2010. Pursuant to the terms of the settlement offer, that charge will remain in effect until December 31, 2011, but the other grid management charge components will expire, in accordance with the tariff provisions, on December 31, 2010. Therefore, Management proposes to extend the grid management charge formula rate, the current rate design elements, and the \$197 million revenue requirement "trigger," without change, through December 31, 2011.

At the ISO's April 21, 2010, stakeholder budget meeting, the ISO proposed to extend the grid management charge rate elements and the current revenue requirement cap through 2011, similar to extensions requested in 2006, 2007, 2008 and 2009. The grid management charge extension will be reflected in proposed tariff language to be filed with the FERC prior to November 1, 2010.

*Moved, that the ISO Board of Governors approves the proposed tariff change regarding the extension of the grid management charge through December 31, 2011, as detailed in the memorandum dated September 1, 2010; 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 proposed tariff change.*

## **DISCUSSION AND ANALYSIS**

### ***Background***

The basic design of the grid management charge, which is the mechanism through which the ISO recovers its administrative costs, was established in a settlement agreement with stakeholders in 2004 and approved by FERC in 2005. That design consists of a rate formula that allocates costs to rate charge categories reflecting ISO services and an annual revenue requirement cap. As long as the ISO's revenue requirement remains below the cap, the ISO is not required to make a regulatory filing that reflects changes to the annual budget. The actual grid management charge, made up of a series of charge categories, is the product of the application of this rate design to the annual ISO revenue requirement. The settlement agreement provided that the grid management charge would expire upon the earlier of December 31, 2006 or the implementation of the new nodal market structure.

Due to delays in implementation of the new market, the ISO and its stakeholders agreed to extend the grid management charge formula rate and revenue requirement cap in 2006, 2007 and 2008. Concurrently with extending the grid management charge on these three occasions, the ISO worked with its stakeholders to develop the grid management charge rate design modifications that would be necessary to reflect service category changes brought about by the new market structure. Despite the need to make these modifications, however, the formula rate structure design and revenue requirement cap were retained in the proposed new grid management charge. The proposal was approved by FERC on December 18, 2008 and went into effect on April 1, 2009.

### ***Modifications to the Market Usage-Forward Energy Charge***

Following the implementation of the new grid management charge, the ISO held a stakeholder process during 2009 to address stakeholder concerns about the application of the market usage-forward energy charge to the inter-scheduling coordinator energy trades in the day-ahead market. This process culminated with a proposal to modify the billing determinants for the market usage-forward energy charge to: 1) eliminate inter-scheduling coordinator trades from the market energy forward usage charge code calculation; 2) eliminate "netting" forward energy from the calculation; and 3) implement a "greater of" mitigation solution in the market usage forward energy calculation. The ISO proposed that the "greater of" mitigation solution would remain in place on an interim basis until the ISO conducts a new cost of service study and considers, with its stakeholders, necessary changes to the grid management charge rate design that would be implemented in 2012.

The market usage-forward energy charge proposal, along with a proposal to extend the rest of the grid management charge until December 31, 2010, was approved by the Board at the October 2009 meeting and filed with FERC on October 30, 2009. On December 30, 2009, FERC approved the extension of the grid management charge but suspended the effective date of the market usage-forward energy charge proposal (subject to refund) until June 1, 2010 and scheduled a settlement conference.

Subsequent to the settlement conference, the ISO and participating parties came to an agreement that market usage-forward energy charge modifications, as proposed by the ISO, could be placed into effect on June 1, 2010 and remain in effect on an interim basis through December 31, 2011. The parties filed a settlement offer with FERC on March 23, 2010 that was approved on August 4, 2010. The market usage-forward energy charge proposal became effective on June 1, 2010.

### ***Proposed Charge for Convergence Bidding***

On June 25, 2010, the ISO submitted tariff changes to implement convergence bidding, including two new grid management charge categories applicable to convergence bidding participants. Specifically, the ISO proposed to implement a “virtual award” charge that will be assessed on dollars of cleared gross megawatt hours and a “virtual bid submission” transaction charge assessed on all bid segments that pass the ISO’s bid validation rules and are passed on to the integrated forward market software. The ISO has requested that all of the convergence bidding tariff changes, including the new grid management charges, become effective on February 1, 2011.

### ***Extending the Current Grid Management Charge***

As discussed above, all of the grid management charge categories, except for the market usage-forward energy charge and the convergence bidding charge, will expire as of December 31, 2010. Accordingly, Management proposes to maintain the revenue requirement cap at \$197 million (which includes ISO costs related to convergence bidding) and to extend the current grid management charge formula rate through calendar year 2011 until January 1, 2012.

## **MANAGEMENT RECOMMENDATION**

Management recommends that the Board approve the proposed extension of the grid management charge until January 1, 2012 as detailed above.