

Memorandum

To: ISO Board of Governors
From: William J. Regan, Jr., CFO & VP of Corporate Services
 Phil Leiber, Treasurer & Director of Financial Planning
Date: July 9, 2007
Re: Briefing on August 1, 2007 Grid Management Charge Rate Adjustment

This memorandum is provided for the Board's information and does not require Board action.

EXECUTIVE SUMMARY

The CAISO Grid Management Charge rate structure consists of six components and 15 Charge Types. The six components are Core Reliability Services, Energy Transmission Services, Forward Scheduling, Congestion Management and Settlements, Metering & Client Relations. Each fall, Finance develops the rate for each Charge Type based on a forecast of GMC billable quantities and budgeted revenue requirement for the following year. In developing the forecast, some data for the current year may be estimated due to the lag for which settlement data is available. A summary of revenue requirement by each of the six components is shown in Table 1.

Table 1 Comparison of Revenue Requirement by GMC Component for 2007 (in millions)		
GMC Component	Revenue Requirement	Percent of Total
Core Reliability Services	\$ 47.9	25.4%
Energy Transmission Services	\$ 83.1	44.2%
Forward Scheduling	\$ 8.8	4.7%
Congestion Management	\$ 13.4	7.1%
Market Usage	\$ 34.3	18.2%
Settlements, Metering & Client Relations	\$ 0.8	0.4%
Total	\$ 188.3	100.0%

Accounting, with assistance from Finance, tracks actual revenues against a monthly forecast to determine revenue adequacy. As reported in the monthly financial reports for 2007, estimated revenue collections have been below forecasted levels for each of the first five months of the year. Finance has reviewed actual settlement data through

April 2007. Of the six GMC components, two, Core Reliability Services and Market Usage, show negative variances of greater than 5 percent. (See Table 2) One, Congestion Management, shows a positive variance of 8 percent. Revenues are approximately \$3.3 million below forecast, with the majority of the shortfall due to lower-than-forecasted revenues for Market Usage, which are approximately \$2.2 million, or 21%, below forecast through April.

GMC Component	Forecast	Actual	Difference	Percent Difference
Core Reliability Services	\$ 14.6	\$ 13.4	\$ (1.2)	-8.4%
Energy Transmission Services	\$ 25.8	\$ 25.6	\$ (0.3)	-1.1%
Forward Scheduling	\$ 2.8	\$ 2.8	\$ 0.0	1.5%
Congestion Management	\$ 4.1	\$ 4.4	\$ 0.3	8.0%
Market Usage	\$ 10.4	\$ 8.3	\$ (2.2)	-20.7%
Settlements, Metering & Client Relations	\$ 0.3	\$ 0.3	\$ 0.0	4.8%
Total	\$ 58.0	\$ 54.7	\$ (3.3)	-5.7%

Given the magnitude of the shortfall in Market Usage revenues, and given observed historic trends, Management is unaware of any reason to expect a dramatic recovery over the remainder of the year that would mitigate the identified shortfall. Under Appendix F, Part B, of the CAISO Tariff, if actual collections for any of the GMC rate categories defined in the Tariff are predicted to be less than 95% or more than 105% of the forecasted levels, the CAISO is required to adjust those GMC rates for the remainder of the year. Accordingly, on August 1, 2007, the CAISO will adjust the Market Usage Charge Types upward by 26% in order to prevent further erosion of these revenues.

At this time, Management does not expect revenues for Core Reliability Services to be more than 5 percent below the forecast for the full year. The expectation is that increased demand for electricity in the summer will increase revenues to be within the prescribed limits by year end. Management also does not expect revenues for Congestion Management to exceed 105 percent of the forecast. Congestion Management volumes can be volatile. However, Management will review revenues monthly to determine if an adjustment in the rates for these two components is necessary later this year.

The CAISO last implemented a rate adjustment effective October 1, 2006, due to higher than expected volumes in eight of the 15 GMC Charge Types. The rates associated with the Charge Types for Core Reliability Services, Congestion Management and Market Usage were lowered.

DISCUSSION

During the year, Finance reviews actual monthly GMC revenue collections using settlement data. Based on the review of GMC revenues through April 2007, overall Market Usage volumes are about 24% lower than in 2006. (See Table 3.)

	2006	2007	Percent difference
January	4,567,224	3,512,410	-23.1%
February	4,081,415	2,995,491	-26.6%
March	4,167,680	3,552,961	-14.7%
April	4,749,421	3,337,623	-29.7%
4 month totals	17,567,746	13,400,492	-23.7%
Notes: Market Usage volumes are the sum of purchases and sales of Ancillary Services, Instructed Energy and Uninstructed Deviations netted over the settlement interval.			

In order to examine the source of the year to year decline, Finance reviewed the volumes associated with each component of Market Usage. The Market Usage component of the GMC is billed on volumes of purchases and sales of Ancillary Services, Instructed Energy and Uninstructed Deviations netted within the settlement interval. Each of the three services is assessed GMC through a separate Charge Type. Ancillary Services are assessed Charge Type 4534; Instructed Energy is assessed Charge Type 4535; and Uninstructed Deviations are assessed Charge Type 4536.

Finance's review revealed that the decline in Market Usage volumes is driven by reductions in purchases and sales of Ancillary Services and Instructed Energy. Ancillary Service volumes are down about 21% in the first four months of 2007 compared to the same months of 2006 (See Table 4). Based on data provided by the Department of Market Monitoring (DMM), much of this decline in Ancillary Services volumes can be attributed to an increase in self provision of Ancillary Services.

Table 4			
Comparison of Ancillary Services Volumes			
(A component of the Market Usage Billing Determinant Volume from Table 3)			
2006 and 2007			
(in MWhs)			
	2006	2007	Percent Difference
January	2,033,219	1,561,679	-23.2%
February	1,769,900	1,386,380	-21.7%
March	1,802,012	1,418,341	-21.3%
April	1,627,528	1,369,477	-15.9%
4 month totals	7,234,665	5,737,884	-20.7%

Instructed Energy volumes show an even more dramatic decline of 44% for the same months (see Table 5). Based on data provided by DMM, this is due, in part, to a reduction in decremental Instructed Energy volumes, possibly due to fewer hours of overgeneration given the poor hydroelectric conditions this year.

Table 5			
Comparison of Instructed Energy Volumes			
(A component of the Market Usage Billing Determinant Volume from Table 3)			
2006 and 2007			
(in MWhs)			
	2006	2007	Percent Difference
January	1,461,356	930,527	-36.3%
February	1,415,320	772,617	-45.4%
March	1,493,116	1,025,922	-31.3%
April	2,079,027	890,665	-57.2%
4 month totals	6,450,825	3,621,738	-43.9%

IMPACT ON REVENUE COLLECTIONS

This decline in Market Usage volumes impacts GMC revenue collections. (See Table 6.) Through April, Market Usage revenues are 21%, or \$2.1 million, below forecast. Projected for the full year, the revenue shortfall could amount to \$7.0 million. The projected shortfall of \$7.0 million represents less than 4 percent of this year's annual revenue requirement of \$189.9 million.

Table 6			
Comparison of 2007 YTD Forecast and Actual Market Usage Revenues			
(in MWhs)			
	Forecast	Actual	Percent difference
January	\$ 2,633,657	\$ 2,174,932	-17.4%
February	\$ 2,460,648	\$ 1,852,082	-24.7%
March	\$ 2,810,553	\$ 2,194,147	-21.9%
April	\$ 2,527,347	\$ 2,061,514	-18.4%
4 month totals	\$10,432,205	\$8,282,675	-20.6%

NEED FOR RATE ADJUSTMENT

Pursuant to Appendix F, Part B of the Tariff, a rate adjustment is required if the estimated billing determinant volumes for a component rate are less than 95% or greater than 105% of that used to set the rate in the annual posting on the ISO's website. With the reductions in Market Usage volumes seen so far this year, Management anticipates that volumes for the full year will be less than 95% of the fall 2006 forecast that was used to set the rate.

Looking forward to projected Market Usage volumes for the rest of the year, using historical patterns and actual data for the first four months of 2007, it is reasonable to conclude that full year Market Usage volumes will amount to 43.9 million MWhs, 21% lower than the fall forecast. This estimate assumes that the trend of self provision of Ancillary Services and lower Instructed Energy of the first four months continues for the entire year, but does not worsen.

With the adjustment, the current Market Usage rate of \$0.6177 per MWh will increase to \$0.7797, effective August 1, 2007. (See Table 7.)

Table 7 Calculation of Market Usage Rate Forecast and with Adjustment		
	Forecast	Adjusted
Revenue Requirement	\$ 34,265,302	\$ 34,265,302
Billing Determinant (MWhs)	55,473,658	43,947,029
Market Usage Rate	\$0.6177	\$0.7797

CONCLUSION

As required by its tariff, the CAISO will proceed with a rate adjustment to be effective August 1 to the Market Usage Charge Types: CT 4534 (Ancillary Services), CT 4535 (Instructed Energy), and CT 4536 (Uninstructed Deviations). A market notice will be issued in July prior to implementation.