Responses to Stakeholder Comments on February 22 2011 call on the GMC Draft Final Proposal

Comments on general design		ISO comments
Powerex	Powerex believes the CAISO's GMC proposal meets with the Policy and Ratemaking Principles expressed by the CAISO at the start of this process. Powerex especially supports the cost causation principle used to set rates and believes the design process led to rates that are transparent, predictable, and simple.	Noted

Comments on proposal to grandfather certain generation units form system operations charges		ISO comments
Calpine	Calpine's comments throughout this GMC stakeholder process have been critical of the policy proposal of charging GMC costs indirectly to suppliers rather than charging them directly to load. The CAISO theory that all prices will rise – and therefore leave suppliers financially unaffected – is questionable and particularly flawed as it relates to certain pre-existing contracts. Calpine has, and continues to support the modification to the CAISO's proposal which addresses the pre-existing contract flaw. In comments submitted on February 11, Calpine highlighted and explained its support for grandfathering under the following headings: • The Proposed Criteria are Appropriately Narrow • The Rate Impacts of the Proposal are not Material on Others • The GMC Costs of Grandfathered Contracts Still Increase Substantially • The Impact of the GMC Change was Not Reasonably Foreseeable	Noted
Powerex	Furthermore, Powerex supports the grandfathering proposal as a useful transition for a certain number of limited generation contracts that mitigates the rate impact of the GMC re-design since parties could not have reasonably predicted the impact of this rate design on those contracts.	Noted
SCE	Southern California Edison ("SCE") submits these comments in response to the "2012 GMC Draft Final Proposal" dated February 22, 2011. SCE supports the proposed GMC rate structure as set forth in the proposal, with one exception. As SCE has stated in previous comments (see SCE's February 11 comments), SCE is opposed to the proposed grandfathering provision. If ISO management does decide to bring a grandfathering proposal to the Board for approval, SCE would urge the ISO to consider adding an additional limit: grandfathering should be limited to two years (2012 and 2013). An open-ended grandfathering provision (limited only by the contract expiration or "first opportunity for renegotiation") is in SCE's view unwarranted.	Noted - There have been no additional contracts submitted to date by generators.

Comments on proposal to exclude MSS load following instructed imbalance from Market services		ISO comments
NCPA	Northern California Power Agency ("NCPA") provides the following comments regarding CAISO's 2012 GMC Draft Final Proposal dated February 15, 2011. NCPA supports CAISO's determination that it is appropriate to exclude MSS Load Following instructed imbalance energy from the Market Services GMC charge. NCPA also supports CAISO's proposal to eliminate the three-year phase-in for the application of the System Operations charge to supply energy flows from the draft final proposal.	noted

Comments on CRR auction bid fee of $1		ISO comments
Mercuria	We are writing in response to the 2012 GMC Draft Final Proposal, specifically regarding the proposed CRR bid transaction fees. We have in the past twice submitted written comments objecting to the current proposed the scheme and would like to do so again.	The ISO believes that a bid/nomination fee is appropriate for the CRR cost category. Market participants that submit bids/nominations and are

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	First, we believe that during the stakeholder process, there were sufficient objections to the proposed CRR bid charges in the form of $1 flat rate CRR Bid Transaction Fees. However, we feel that the ISO didn't seem to take into sufficient consideration of the concerns raised by various stakeholders but rather chose to maintain the initial proposed scheme. We believe since it impacts the financials of all CRR market participants, especially the financial participants; it is prudent to take into consideration of all the concerns of and objections to the proposed fee structure, and not to rush to finalize the proposal. Also, as we emphasized in the previous correspondences with the ISO regarding this issue, we strongly feel that the current fee structure does not reflect the true cost burdens born by various CRR market participants proportionally and thus creates additional disincentives for financial players to actively participate in the CRR market and to provide necessary liquidity and price discovery. It therefore in the long run hurts the healthy development of the CRR market and all the market participants involved. Based on the abovementioned reasons, we strongly urge the ISO to reconsider the proposal before finalization and continue to balance the interests of different market participants to arrive at an equitable solution that is acceptable to all.	unsuccessful in clearing the market are participating in the CRR market and should cover a portion of the costs. The bid fee collects approximately 7% of the total cost category. Any decrease in the bid/nomination fee rate will result is an increase per MWh rate. The comparison to the bid fee rate for the market services cost category is not analogous. Energy bids are submitted on an hourly basis, whereas the lowest granularity for the CRR market is monthly. The bid/nomination fee and proposed rate is supported by the majority of CRR holders based upon MW.
EMTRI	Summary: The Draft Final Proposal for the 2012 Grid Management Charge (GMC) Stakeholder Process ignores the majority of stakeholders who commented at the different stages of the Process about the necessity to change or eliminate the proposed $1 CRR Bid Transaction Fees. In its current form, the Draft Final Proposal jeopardizes market efficiency and liquidity of the CAISO CRR market without bringing any predictable benefits. We continue to advocate the industry standard level of $0.005 CRR Bid Transaction Fee by the proper adoption of Bid Segment Transaction Fee for energy and convergence bids for CRR market. EMTRI continues to strongly believe that the proposed by CAISO arbitrary $1 CRR Bid Transaction Fee is excessive and unjustifiable. EMTRI also continues to recommend a $0.005 CRR Bid Transaction Fee by the proper adoption of Bid Segment Transaction Fee for energy and convergence bids instead. In its Draft Final Proposal on p. 17 CAISO provided the calculation that attempts to state the equivalence of the proposed $1 CRR Bid Transaction Fee and $0.005 Bid Segment Transaction Fee for energy and convergence bids. The problem with this argument comes from scaling $0.005 bid fees by the number of hours in a month for CRR Bid Transaction Fee. Such scaling is not appropriate for the following reasons. In the IFM, participants submit bids on an hourly granularity and CAISO needs to resolve each hour separately and then all hours together in order to come up with an hourly price as a part of unit commitment and dispatch process. The energy and convergence bids require the daily auction accompanied by RUC and then real-time process every day of the month / year. In contrast, there is no such variation across hours in the CRR market, just the two times-of-use (TOUs) which should be treated	See comments to Mercuria above and EMMT and DC Energy below. See also PG&E comments earlier that argued in favor of a $1 fee. EMTRI appears to attempt to draw similarities between the bidding and allocation structure proposed for CRRs and the per segment bid fee proposed for convergence bids or energy bids. The ISO has studied the two proposed fee structures and believes the differentiation is appropriate and justified as explained in the previous response to Mercuria and for the reason noted below. In addition, it should be highlighted that the energy bid fee is applied to both convergence bidding and physical bids. Using a $0.005 per bid segment fee will result in approximately $2,500 in revenue collection from CRR bid/nomination fees. $2,500 revenue

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	distinctly. One cannot bid each CRR hour separately and CAISO does not need to solve for each hour of a CRR. The CRR price does not vary across hours within each time of use and it is as easy to solve for an hour as it is for entire TOU as all hours within a time-of-use are identical. The proper application of bid fee is per bid block – per time-of-use in the CRR case which takes into account a very different reality of the CRR and energy markets. The hours-scaling argument, while trying to back-engineer the original CAISO-proposed $1 CRR Bid Transaction Fee, does not appear to be critically examined. The entire argument is copied essentially verbatim from the recent comments of the only market participant who specifically argued in support of $1 CRR Bid LST UPDT: 10/7/10 - Final Page 2 ISO/Created by FINANCE Transaction Fee. EMTRI continues to propose the true equalization of the IFM Bid Segment Transaction Fee and the CRR Bid Transaction Fee by charging $0.005 per bid segment per time-of-use. This would also bring the proposed CRR Bid Transaction Fee in line with industry standards. When CAISO designed its Bid Segment Transaction Fee of $0.005, it used the benchmarks of other ISOs and the outcome of the Convergence Bidding stakeholder process to set this Fee. It was a good and rational choice based on careful considerations. On p. 16 of Draft Final Proposal CAISO noted that the charge of $0.005 “does not represent a significant expense to market participants under typical scheduling practices, but is enough to deter the submission of excessive bid volumes.” The proposed CRR Bid Transaction Fee of $1 appears arbitrary by this measure and considerations. No other ISO levies such a high charge. Majority of stakeholders who spoke on the issue of CRR Bid Transaction Fee spoke against the proposed $1 CRR Bid Transaction Fee and in favor of the more equitable $0.005 or similar bid fee. Unfortunately, their opinions and suggestions on this particular issue appear to have been disregarded. The adoption of high $1 CRR Bid Transaction Fees will cause the market disruption by significantly reducing the volume of submitted bids and thus drastically reducing liquidity, price discovery, and market efficiency to adequately price transmission. FERC uses impact of tariff charges on liquidity, price discovery, and market efficiency when reviewing requests for tariff changes. These bid fees also reduce the predictability and stability of the collected fees due to the significant impact of high bid fees on submitted volumes. In fact, they will result in less total revenue collected from decreased participation, as a side effect of excessive “taxation” on the market-efficient activity. EMTRI urges CAISO and its Board of Directors to reject this $1 CRR Bid Transaction Fee. EMTRI also urges CAISO to use $0.005 CRR Bid Transaction Fee instead, which, when properly applied, reflects the industry standard and ensures the continuation of price discovery and liquidity in the CRR market, allowing it to remain an efficient market. At the same time such change will increase predictability and the forecastability of collected revenue, the very principles CAISO set out in the beginning of the GMC process.	collection is considered de minimis and is not economically viable from an administrative perspective. As previously noted, the ISO forecasts that the proposed $1 bid/nomination fee will collect approximately 7% of the costs associated with the CRR process.

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EMMT	Edison Mission Marketing & Trading, Inc. supports the CAISO 2012 GMC proposal to charge a CRR bid fee.	noted
DC Energy	DC Energy submits these very brief comments on the CAISO 2012 Grid Management Charge (GMC) final proposal. These comments simply supplement and support comments DC Energy provided in December 2010 and February 2011. DC Energy believes the CAISO staff has done an excellent job process wise to reach this conclusion and final proposal. Such process started well in advance of the proposed January 1, 2012 implementation date and staff provided participants detailed explanation throughout (i.e., in its meeting materials, during the scheduled meetings as well as off-line one-on-one). This, well in advance process, was especially important as the 2012 GMC includes a new charge for CRR participants. DC Energy has throughout supported the CAISO's Guiding Policy and Ratemaking Principles (i.e., Cost Causation, Focus on use of ISO services, not market behavior, Transparency, Predictability, Forecastability, Flexibility and Simplicity). DC Energy presently participates in both the convergence bidding and CRR markets and believes: (a) market participants should bear an appropriate share of the GMC costs applicable to the markets in which they participate (as they share in the benefits of these markets); and (b) the rates proposed, while significant, are not overly onerous.	noted
SVP	The City of Santa Clara, California, doing business as Silicon Valley Power ("SVP") thanks the CAISO for the opportunity to submit comments concerning the CAISO's 2012 GMC Draft Final Proposal, posted February 15, 2011. SVP's understanding is that the CAISO proposes to recover, through the CRR Services charge code, revenues via charging for the amounts of awarded CRRs (via allocation or successful bids). The CAISO is also proposing to recover CRR-based revenues via the CRR bid transaction fee—so these revenues will supplement the revenues received via CRR Services charge code. The bid transaction fee will be applied to bids, whether they are successful or unsuccessful. This means that if CRR Entities are, on average, more unsuccessful than successful in their bidding, the CAISO will make up for the lost revenue under CRR Services charge code via the CRR bid transaction fee. SVP also requests that the CAISO monitor what percentage of the CRR bid transaction fee comes from successful versus unsuccessful bids. If the amount of successful bids starts to dwarf the amount of unsuccessful bids, then it would appear that the bid transaction fee could result in an over-collection of revenues—when considering the CRR Services fee already collects revenues from successful bids. If the CAISO monitors the collection of the fee (and shares the resulting findings with Market Participants) to see what proportion successful bidders' payment of fees contributes to the total offset the CRR auction bid fee makes to the revenues collected via the CRR Services charge, both the CAISO and Market Participants will be able to evaluate the necessity of this fee (or its current level) in the future.	Noted. CAISO will attempt to gather CRR bid data as part of the annual budget process commencing in 2013

Comments on proposal regarding Transmission Ownership Rights		ISO comments
Powerex	Powerex also has no objections to the proposed treatment of Transmission Ownership Rights or the Treatment of Metered Sub System Load Following Energy since the CAISO believes their proposal follows cost causation principles and will not unreasonably shift costs to other market participants.	noted

Comments on proposal revenue requirement cap		ISO comments
Powerex	Finally, Powerex believes the CAISO's proposal for a 3 year Revenue Requirement Cap of $197M, $199M, and $199M for 2012, 2013, and 2014, respectively, is reasonable. However while Powerex believes the proposal is reasonable, Powerex continues to encourage the CAISO to pro-actively seek efficiencies and opportunities to simplify its operations and tariff to reduce its annual budget below the Cap	noted
CMUA	The California Municipal Utilities Association ("CMUA") is pleased to have the opportunity to provide these brief comments on the California Independent System Operator Corporation's ("CAISO") proposal for revisions to its Grid Management Charge ("GMC"). CMUA's comments are limited to the issue of the CAISO's proposed changes to its revenue requirement cap. CMUA takes no position on the other proposed changes to the CAISO's GMC. In the previous round of comments, CMUA raised concerns with the CAISO's proposed revenue requirement cap and fixed escalator. The CAISO had proposed a five year revenue requirement cap that would automatically increase one percent each year. CMUA expressed its concern that five years is too long and that the automatic increase to the revenue requirement is out of step with the current economic realities. On February 15, the CAISO released its Final Draft Proposal, which included key changes on these two issues. Instead of a five year revenue requirement cap, the CAISO now proposes a three year revenue requirement cap. The CAISO also eliminated an automatic one percent annual increase. Instead, the revenue requirement will be increased once in 2013. CMUA supports these modifications to the GMC proposal, and appreciates the continued vigilance of the CAISO Management to ensure prudent expenditure of ratepayer dollars.	noted