May 22, 2026

The Honorable Debbie-Anne A. Reese
Secretary
Federal Energy Regulatory Commission
888 First Street, NE
Washington, DC 20426

Re: California Independent System Operator Corporation
Docket No. ER 26-____-000

Cost-of-Service Study Deferral and Cost Cap Update

Dear Secretary Bose:

The California Independent System Operator Corporation (CAISO) submits this tariff amendment to align its triennial cost-of-service study and administrative revenue cost cap with the launch of the Extended Day-Ahead Market (EDAM).[1] The amendment (1) defers the 2026 cost-of-service study by two years, and (2) updates the CAISO's Grid Management Charge (GMC) revenue requirement cap for 2027 and 2028.[2] These proposals are intended to ensure that the CAISO's cost recovery framework remains aligned with evolving market conditions, including the implementation of the EDAM. They also ensure the CAISO will maintain financial stability during this critical period for the CAISO and the West. Although the CAISO could have petitioned the Commission to waive the relevant tariff provisions for a limited period, the CAISO conducted a stakeholder initiative and received Governing Body approval to submit these changes as tariff revisions under Section 205 of the Federal Power Act.[3] Stakeholders broadly supported the proposed revisions. The Commission should approve them as just and reasonable.

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[1] The CAISO submits this filing pursuant to section 205 of the Federal Power Act (FPA), 16 U.S.C. § 824d, and Part 35 of the Commission's Regulations, 18 C.F.R. Part 35. Capitalized terms not otherwise defined herein have the meanings set forth in Appendix A to the CAISO tariff, and references herein to specific tariff sections are references to sections of the CAISO tariff unless otherwise specified.

[2] The GMC and the instant filing only pertain to the CAISO's own administrative costs. They should not be confused with the CAISO's Transmission Access Charges (TAC), which recover transmission owner costs for the CAISO Controlled Grid.

[3] https://stakeholdercenter.caiso.com/StakeholderInitiatives/financial-planning-initiatives-and-regional-organization-start-up-funding. The CAISO conducted this stakeholder initiative simultaneously with an examination of how to financially establish and allocate costs for the new regional organization for western energy; however, the tariff revisions in the instant filing are unrelated and independent.

I. Deferral of Cost-of-Service Study

The CAISO tariff currently requires the CAISO to perform its cost-of-service study every three years to recalibrate the service charge percentages and update the rates for the various fees and charges that make up the GMC.[4] The cost-of-service study examines the prior financial year to project future costs and reset allocation structures as needed. Under the current tariff schedule, the next cost-of-service study would be conducted in 2026, examining 2025 data. However, with the recent launch of EDAM, a study conducted now would rely on pre-EDAM data, inaccurately reflecting operational conditions and cost drivers. This "bad data in" would likely result in improper changes to GMC structures, unnecessarily changing the *status quo* at the wrong time. Moreover, the cost-of-service study is a significant yearlong effort for the CAISO, requiring thousands of man-hours across every department. The time and costs would likely be for no gain because the CAISO needs to conduct the next cost-of-service study once a full year of financial data with EDAM is available. Only then will the CAISO have an accurate data set to project any necessary changes to its current cost allocation structures. The CAISO therefore proposes to extend the timing of the next study to 2028, when a full year of EDAM operational data will be available.[5] Conducting the study on this timeline will improve the accuracy of cost allocation outcomes and reduce the likelihood that subsequent adjustments would be required. Extending the study to 2028 allows the CAISO to incorporate a full year of EDAM operations from 2027, resulting in more representative cost allocation outcomes. The CAISO will rely on its existing, Commission-approved cost allocation structures in the meantime.

II. GMC Revenue Requirement Increase

Although the CAISO is a 501(c)(3) non-profit entity and utilizes a formula rate, it also maintains a firm cap on its revenue requirement to promote transparency and ensure year-over-year consistency.[6] Currently, the CAISO has a revenue requirement cap of $250 million. Although the existing cap is sufficient for 2026, inflation, forecasted increases in operations and maintenance costs, the re-inclusion of cash-funded capital beginning in 2027, reduced revenue offsets, and evolving market participation necessitate increases in the cap before the next cost-of-service study. The CAISO has included a specific breakdown of how these cost increases affect the CAISO's budget over the next two years in Attachment C.

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4 Appendix F, Part A of the CAISO tariff. For a detailed explanation of the cost-of-service study, *see* CAISO, 2023 Grid Management Charge – Cost-of-Service Study Update, Docket No. ER23-2974-000 (Sep. 29, 2023), *available at* https://www.caiso.com/documents/sep29-2023-tariffamendment-gridmanagementcost-costofservicestudy-er23-2974.pdf.

5 Proposed revision to Appendix F, Part A of the CAISO tariff.

6 Section 11.22.2.5 of the CAISO tariff.

To avoid revenue deficiencies, the CAISO proposes to revise its tariff to increase the revenue requirement cap to $305 million in 2027, and $320.3 million in 2028 and thereafter.[7] These increases will avoid the need to exhaust reserves or risk losses. The increase in 2027—approximately 20 percent relative to 2026—is primarily driven by the re-inclusion of capital costs that were funded through reserves in 2026, and therefore reflects a timing shift rather than a structural increase in ongoing costs. The CAISO's proposed adjustments are intended solely to ensure that the CAISO's tariff provides sufficient flexibility to recover its approved annual revenue requirement during the interim period before the next cost-of-service study. Following this transition, revenue requirement growth is expected to return to levels more consistent with historical trends. Although the total revenue requirement is projected to increase, this does not necessarily translate to higher rates or costs for market participants. As EDAM participation expands and billing determinants increase, costs are expected to be spread across a broader base, which may mitigate or offset any rate impacts.

III. Effective Date

The CAISO respectfully requests that the Commission approve these tariff revisions as just and reasonable effective July 22, 2026, 61 days from today.

IV. Communications

In accordance with Rule 203(b) of the Commission's Rules of Practice and Procedure,[8] 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:

William H. Weaver
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California Independent System Operator Corporation
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V. Service

The CAISO 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 CAISO

[7] Proposed revisions to Section 11.22.2.5 of the CAISO tariff.

[8] 18 C.F.R. § 385.203(b).

Tariff. In addition, the CAISO is posting this transmittal letter and all attachments on the CAISO website.

VI. Attachments

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

Attachment A	Clean CAISO tariff incorporating the proposed tariff changes
Attachment B	Marked red-lined document showing the revisions containing the proposed tariff changes[9]
Attachment C	Draft Final Proposal
Attachment D	Memorandum to Western Energy Markets Governing Body

VII. Conclusion

For the foregoing reasons, the Commission should accept the proposed tariff changes contained in the instant filing. Please contact the undersigned if you have any questions regarding this matter.

Respectfully submitted,

/s/ William H. Weaver

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[9] The baseline language for the tariff record for Appendix F in this filing was accepted in docket number ER24-2687-000 (v. 30.0.0) and includes the reconciliation of overlapping changes accepted by FERC in docket numbers ER23-2686-000 (v. 26.0.0) and ER23-2974-000 (v. 28.0.0).

Attachment A – Clean Tariff

Tariff Amendment – Cost-of-Service Study Deferral and Cost Cap Update

California Independent System Operator Corporation

May 22, 2026

11.22 Grid Management Charge

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11.22.2.5 Allocation of the GMC Among Scheduling Coordinators

The costs will be allocated to the service charges that comprise the Grid Management Charge according to the formula in Appendix F, Schedule 1, Part A. The costs recovered through the Grid Management Charge shall not exceed $250 million for 2026, $305 million in 2027, and $320.3 million in 2028 and thereafter unless the CAISO submits a tariff amendment increasing this amount pursuant to Section 205 of the FPA and FERC accepts such amendment. The service charges, as described in more detail in Appendix F, Schedule 1, Part A, are as follows:

(a) Market Services Charge;

(b) System Operations Charge (for 2024 and 2025);

(c) System Operations Real-Time Dispatch Charge (for 2026 and thereafter);

(d) System Operations Balancing Authority Area Services Charge (for 2026 and thereafter); and

(e) CRR Services Charge.

As described in the Business Practice Manual, the CAISO assesses these charges separately on all Scheduling Coordinators based on their demand, energy, or ancillary services, as applicable, consistent with the formulae set out in Appendix F, Schedule 1, Part A.

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Appendix F Rate Schedules

Schedule 1

Grid Management Charge

Part A – Calculation of Grid Management Charge (GMC)

The GMC consists of the following separate service charges for 2024 and 2025: (1) the Market Services Charge; (2) the System Operations Charge; and (3) the CRR Services Charge. The GMC revenue requirement, determined in accordance with Part C of this Schedule 1, will be allocated to the service charges specified in Part A of this Schedule 1 as follows: forty-nine (49) percent to Market Services; forty-nine (49) percent to System Operations; and two (2) percent to CRR Services. Beginning in 2026, the GMC will consist of the following separate service charges: (1) the Market Services Charge; (2) the System Operations Real-Time Dispatch Charge; (3) the System Operations Balancing Authority Area Services Charge; and (4) the CRR Services Charge. The GMC revenue requirement, determined in accordance with Part C of this Schedule 1, will be allocated to the service charges specified in Part A of this Schedule 1 as follows: forty-nine (49) percent to Market Services; twenty-three (23) percent to System Operations Real-Time Dispatch Charge; twenty-six (26) percent to System Operations Balancing Authority Area Services Charge; and two (2) percent to CRR Services.

Every three (3) years, the CAISO will conduct an updated cost of service study, in consultation with stakeholders and using costs from the previous year. Notwithstanding the foregoing, the CAISO will not conduct a cost-of-service study in 2026 or 2027. The CAISO will resume cost-of-service studies every three (3) years beginning with a cost-of-service study in 2028. In conducting each cost-of-service study, the CAISO will recalculate the service charge percentages and the rates for the fees and charges that constitute the Grid Management Charge as set forth in Section 11.22. In addition, the cost-of-service study results will be used to update the RC Funding Percentage used to calculate the annual RC Funding Requirement, as well as the real-time percentages of the Market Services Charge. The cost-of-service study results will also be used to update the real-time market percentage used to calculate the EDAM System Operations charge. If, based on the cost-of-service study results, the service category revenue requirement allocation percentages or the level of fees and charges have changed, the CAISO will submit tariff amendments to reflect such changes pursuant to Section 205 of the FPA.

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Attachment B – Marked Tariff

Tariff Amendment – Cost-of-Service Study Deferral and Cost Cap Update

California Independent System Operator Corporation

May 22, 2026

11.22 Grid Management Charge

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11.22.2.5 Allocation of the GMC Among Scheduling Coordinators

The costs will be allocated to the service charges that comprise the Grid Management Charge according to the formula in Appendix F, Schedule 1, Part A. The costs recovered through the Grid Management Charge shall not exceed ~~$202 million for 2024, $245 million for 2025, and~~ $250 million for 2026, $305 million in 2027, and $320.3 million in 2028 and thereafter unless the CAISO submits a tariff amendment increasing this amount pursuant to Section 205 of the FPA and FERC accepts such amendment. The service charges, as described in more detail in Appendix F, Schedule 1, Part A, are as follows:

(a) Market Services Charge;

(b) System Operations Charge (for 2024 and 2025);

(c) System Operations Real-Time Dispatch Charge (for 2026 and thereafter);

(d) System Operations Balancing Authority Area Services Charge (for 2026 and thereafter); and

(e) CRR Services Charge.

As described in the Business Practice Manual, the CAISO assesses these charges separately on all Scheduling Coordinators based on their demand, energy, or ancillary services, as applicable, consistent with the formulae set out in Appendix F, Schedule 1, Part A.

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Appendix F Rate Schedules

Schedule 1

Grid Management Charge

Part A – Calculation of Grid Management Charge (GMC)

The GMC consists of the following separate service charges for 2024 and 2025: (1) the Market Services Charge; (2) the System Operations Charge; and (3) the CRR Services Charge. The GMC revenue requirement, determined in accordance with Part C of this Schedule 1, will be allocated to the service charges specified in Part A of this Schedule 1 as follows: forty-nine (49) percent to Market Services; forty-nine (49) percent to System Operations; and two (2) percent to CRR Services. Beginning in 2026, the GMC will consist of the following separate service charges: (1) the Market Services Charge; (2) the System Operations Real-Time Dispatch Charge; (3) the System Operations Balancing Authority Area Services Charge; and (4) the CRR Services Charge. The GMC revenue requirement, determined in accordance with Part C of this Schedule 1, will be allocated to the service charges specified in Part A of this Schedule 1 as follows: forty-nine (49) percent to Market Services; twenty-three (23) percent to System Operations Real-Time Dispatch Charge; twenty-six (26) percent to System Operations Balancing Authority Area Services Charge; and two (2) percent to CRR Services.

Every three (3) years, the CAISO will conduct an updated cost of service study, in consultation with stakeholders and using costs from the previous year. Notwithstanding the foregoing, the CAISO will not conduct a cost-of-service study in 2026 or 2027. The CAISO will resume cost-of-service studies every three (3) years beginning with a cost-of-service study in 2028. In conducting each cost-of-service study, the CAISO will recalculate the service charge percentages and the rates for the fees and charges that constitute the Grid Management Charge as set forth in Section 11.22. In addition, the cost-of-service study results will be used to update the RC Funding Percentage used to calculate the annual RC Funding Requirement, as well as the real-time percentages of the Market Services Charge. The cost-of-service study results will also be used to update the real-time market percentage used to calculate the EDAM System Operations charge. If, based on the cost-of-service study results, the service category revenue requirement allocation percentages or the level of fees and charges have changed, the CAISO will submit tariff amendments to reflect such changes pursuant to Section 205 of the FPA.

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Attachment C – Draft Final Proposal

Tariff Amendment – Cost-of-Service Study Deferral and Cost Cap Update

California Independent System Operator Corporation

May 22, 2026

Financial Planning Initiative and Start-up Funding for the Regional Organization for Western Energy

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Draft Final Proposal

March 12, 2026

NOTE TO READERS: This document includes two distinct matters: the Financial Planning Initiative and Start-up Funding for the Regional Organization for Western Energy. The two matters will be presented separately for decision by the Western Energy Markets Governing Body and the ISO Board of Governors. They have been consolidated into a single stakeholder proceeding for purposes of efficiency, because they happen to be on the same schedule, and because we believe that for many stakeholders, the same personnel would be involved in considering these financial issues. For additional information about how each initiative will be presented for decision, see the papers below.

2026 Financial Planning Initiative
Draft Final Proposal

Table of Contents

Executive Summary

The ISO proposes targeted updates to its GMC cost recovery framework to ensure continued rate accuracy, stability, and administrative efficiency as the ISO's markets expand and operational responsibilities evolve beginning in 2026. These updates are intended to maintain alignment between the ISO's administrative cost recovery mechanisms and the changing market environment, including the implementation of the Extended Day-Ahead Market (EDAM) and evolving regional market participation.

First, the ISO proposes to extend the schedule for the next Cost-of-Service Study from 2026 to 2028. Under the current tariff schedule, the next study would occur in 2026; however, a study conducted this year would rely primarily on 2025 data and therefore would not reflect the implementation and early operational impacts of EDAM, which is expected to begin operations in May 2026. Extending the study to 2028 will allow the ISO to incorporate both the EDAM transition period and a full year of EDAM operations in 2027. Conducting the study on this timeline will produce more representative results and better support accurate cost allocation across GMC services and billing determinants. During the interim period, the ISO proposes to maintain the cost allocation framework established in the 2023 Cost-of-Service Study.

Second, the ISO proposes to increase the annual GMC revenue requirement cap for 2027 and 2028 to ensure that the tariff provides sufficient flexibility to recover the ISO's authorized revenue requirement as projected costs increase and certain historical revenue offsets decrease. Key drivers of the projected increase include inflationary growth in operations and maintenance expenditures, the re-inclusion of cash-funded capital beginning in 2027, normalization of prior-year adjustments that previously reduced the revenue requirement, and changes in revenue offsets associated with evolving market participation and the transition of certain services into EDAM.

Based on current projections, the ISO's net GMC revenue requirement is expected to increase from approximately $249.9 million in 2026 to $298.8 million in 2027 and $313.4 million in 2028. To ensure adequate recovery under the tariff, the ISO proposes to increase the annual GMC revenue requirement cap from $250.0 million in 2026 to $305.0 million in 2027 and $320.3 million in 2028. These proposed cap levels provide modest headroom—approximately $6.2 million in 2027 and $6.9 million in 2028—to accommodate forecast uncertainty and potential variability in cost recovery.

Importantly, while the overall GMC revenue requirement is projected to increase, certain GMC rates are expected to decline. Increased participation in EDAM is expected to expand the billing determinants over which GMC costs are recovered, resulting in lower Market Services and System Operations Real-Time Dispatch rates beginning in 2026. This outcome illustrates the distinction between changes in the overall revenue requirement and the rates paid by individual market participants.

Stakeholder Feedback

During the February 12, 2026 stakeholder call and through subsequent written comments, stakeholders generally acknowledged the rationale for extending the timing of the Cost-of-Service Study and updating the GMC revenue requirement cap to reflect evolving market conditions. Commenters recognized that a study conducted in 2026 would rely largely on pre-EDAM data and therefore may not fully reflect the cost drivers associated with EDAM implementation and broader regional market participation.

Stakeholders also requested additional transparency regarding the drivers of the projected increases in the GMC revenue requirement for 2027 and 2028. In particular, commenters sought further explanation of factors such as inflationary growth in operations and maintenance expenditures, the re-inclusion of cash-funded capital beginning in 2027, and changes in revenue offsets associated with evolving market participation. Stakeholders also requested clarification regarding how the transition of entities from the Western Energy Imbalance Market (WEIM) to participation in EDAM may affect both the overall revenue requirement and the billing determinants used to recover GMC costs. The updates reflected in this proposal provide additional explanation and clarification in response to these stakeholder comments.

During the stakeholder process, one stakeholder suggested that the financial planning initiatives be addressed separately from the ROWE start-up funding proposal. The ISO recognizes that the financial planning initiatives and the ROWE start-up funding proposal address distinct issues. However, both proposals require action on a similar timeline. The financial planning initiatives were scheduled to proceed through the stakeholder process in the first quarter of 2026, as discussed during the 2026 revenue requirement development stakeholder process held in 2025, with FERC approval targeted for July 2026 so that the revenue cap is clear when the ISO begins to develop the 2027 budget. In addition, unless the schedule for the Cost-of-Service Study is extended soon, the ISO will need to begin work on it. Similarly, the timing of the ROWE start-up funding proposal also requires FERC approval by July 2026 so that the ISO can back a loan to ROWE before the anticipated depletion of its start-up funds. Presenting these tariff amendments within a single initiative allows for coordinated consideration of the proposals and helps ensure the necessary approvals for both matters can be obtained within the required timeframe.

Together, the proposals described in this Draft Final Proposal are intended to maintain a transparent, stable, and forward-looking GMC framework that supports predictable cost recovery while remaining aligned with the evolving regional market structure.

1. Next Cost-of-Service Study Extension

The ISO conducts a triennial Cost-of-Service Study to evaluate the allocation of administrative costs across the services supported by the GMC. The ISO proposes to reschedule the next Cost-of-Service Study from 2026 to 2028 to ensure that the analysis reflects the operational impacts of EDAM and evolving regional market participation.

EDAM operations will begin in 2026, with the first full year of EDAM operations occurring in 2027. Conducting the Cost-of-Service Study in 2026 would therefore rely primarily on historical data that predates EDAM implementation and may not fully capture the operational, participation, and administrative cost drivers associated with the post-EDAM market environment. Because the Cost-of-Service Study plays a central role in determining the functionalization and allocation of administrative costs across ISO services, conducting the study prior to the availability of meaningful EDAM operational data could produce allocations that do not fully reflect the evolving market structure.

By conducting the study in 2028, the ISO will be able to incorporate a full year of EDAM operational experience and better evaluate how administrative costs should be allocated across market services. This timing will improve the accuracy and durability of the resulting cost allocations while maintaining alignment with cost-causation principles.

Stakeholders generally expressed conditional support for the ISO's proposal to extend the timing of the next Cost-of-Service Study from 2026 to 2028. Commenters recognized that conducting the study in 2026 would rely largely on pre-EDAM data and therefore may not fully reflect the cost drivers associated with the transition to EDAM and evolving regional market participation.

At the same time, several stakeholders requested additional clarity regarding how the ISO will maintain transparency during the interim period prior to the next study. In particular, stakeholders requested confirmation that the study will be completed in 2028 without further delay, greater visibility into how EDAM-related cost drivers will be monitored prior to the study, and additional information regarding the Cost-of-Service Study process and governing body approvals associated with the proposed extension.

Some stakeholders also emphasized the importance of maintaining alignment between GMC cost allocation and cost-causation principles, noting that extensions beyond 2028 could risk misalignment between evolving market structures and the functionalization of costs. Other stakeholders encouraged the ISO to continue providing transparency regarding administrative cost drivers, market participation trends, and the assumptions underlying future revenue requirement projections during the interim period prior to the next study.

The ISO intends to complete the next Cost-of-Service Study in 2028 and does not anticipate further extensions beyond that timeframe.

During the interim period prior to the 2028 study, the ISO will continue to provide transparency regarding evolving cost drivers and administrative spending through its annual budget and GMC stakeholder processes. These processes provide regular opportunities for stakeholders to review projected costs, market participation trends, and revenue requirement assumptions. The ISO will also monitor the impacts of EDAM implementation on market participation, administrative costs, and billing determinants to ensure that these developments are appropriately reflected in the 2028 study.

Consistent with the ISO's governance framework, the proposed tariff amendment extending the Cost-of-Service Study timeline will be presented to both the Western Energy Board (WEM) Governing Body and ISO Board of Governors for approval prior to submission to FERC. The specifics of the decisional classification, as well as the respective roles of the WEM Governing Body and the ISO Board of Governors in approving the Cost-of-Service Study extension, are described in greater detail in Section 4 – Western Energy Markets Governing Body Role below. While the next comprehensive Cost-of-Service Study will occur in 2028, the ISO must ensure that its tariff provides sufficient flexibility to recover its authorized administrative costs during the interim period. As discussed in the following section, the ISO therefore proposes adjustments to the annual GMC revenue requirement cap for 2027 and 2028 to reflect projected cost drivers and changes in offsetting revenues.

These interim adjustments do not alter the underlying allocation of costs across services established in the 2023 Cost-of-Service Study, which will remain in place until the next study is completed. See Table 1 for the current cost category percentages.

Table 1: 2023 Cost-of-Service Study Cost Category Percentages

Cost Category	Current Percentages
Grid Management Charges	
Market Services	49%
System Operations Real-Time Dispatch	23%
System Operations Balancing Authority Area Services	26%
CRR Services	2%
Western Energy Imbalance Market	
Real-Time Market	65%
Real-Time Dispatch	42%
Reliability Coordinator West	
RC Funding Requirement	8%

2. GMC Annual Revenue Requirement Cap Increase

As the ISO's markets and operational responsibilities continue to expand, the ISO must ensure that the GMC framework provides sufficient flexibility to recover its authorized revenue requirement while maintaining rate stability and transparency. To support this objective, the ISO proposes targeted updates to the annual GMC revenue requirement cap for 2027 and 2028.

Stakeholders generally acknowledged that updates to the GMC revenue requirement cap may be necessary to ensure the ISO's tariff continues to provide sufficient headroom to recover the ISO's authorized revenue requirement as the market evolves. However, several stakeholders requested additional transparency regarding the drivers behind the projected increases in the net GMC revenue requirement for 2027 and 2028. In particular, commenters sought further explanation of the factors contributing to the projected increase from approximately $249.9 million in 2026 to $298.8 million in 2027 and $313.4 million in 2028, including projected inflationary growth in operations and maintenance expenditures, the re-inclusion of cash-funded capital beginning in 2027, and changes in revenue offsets as market participation evolves. Stakeholders also requested clarification regarding how the transition of entities from the WEIM to EDAM may affect both the overall revenue requirement and the billing determinants used to recover GMC costs.

In response, the ISO provides this additional explanation regarding the primary drivers of the projected revenue requirement increases. A portion of the projected increase reflects inflationary growth in the Operations and Maintenance (O&M) budget required to sustain ongoing market and grid operations, as well as continued investments in the tools, systems, and operational capabilities necessary to support expanding regional market participation and evolving grid management needs. This growth reflects enterprise-wide operational demands, including investments in technology infrastructure, cybersecurity, system operations, and market systems needed to administer increasingly complex regional markets. Overall, the O&M budget is projected to grow at approximately five percent year-over-year, reflecting general inflationary pressures and the need to maintain and enhance the operational capabilities necessary to reliably administer ISO markets and grid operations.

The most significant increase in the projections reflect the re-inclusion of cash-funded capital in 2027, which supports priority initiatives aligned with the ISO's strategic plan. These investments support projects designed to strengthen the ISO's ability to operate and enhance organized wholesale electricity markets while supporting a reliable, efficient, and forward-looking energy grid for California and the broader Western region. The 2026 revenue requirement did not include a request for cash-funded capital, as project expenditures were supported using existing capital reserves to maintain fiscal balance and responsibly manage available resources. In 2027, the forecast assumes a return to a more typical capital funding approach, with selected strategic investments funded directly through the revenue requirement.

The projected increase in the net GMC revenue requirement also reflects a reduction in the operating cost reserve credit adjustment, which has historically lowered the net revenue requirement in prior years. In earlier periods, lower-than-forecast spending allowed the ISO to apply larger credits to offset a portion of the revenue requirement. As spending levels have stabilized, the magnitude of this credit adjustment is expected to decline, resulting in a smaller reserve offset in the forecast years.

Stakeholders also asked how changes in market participation and EDAM implementation may affect the revenue requirement and the billing determinants used to recover GMC costs. As part of the ISO's recent rate design updates, cost recovery associated with EDAM participation will be incorporated within the GMC framework. As WEIM entities transition to EDAM participation—or as participation in WEIM changes more broadly—certain revenues that historically offset the GMC revenue requirement may decline. At the same time, EDAM-related charges will be collected through the GMC structure, which will increase the portion of the ISO's costs recovered through GMC. Importantly, the transition to EDAM is also expected to expand overall market participation and increase the billing determinants, such as Day-Ahead Market volumes, over which GMC costs are recovered.

As the GMC revenue requirement evolves in response to projected changes in costs and offsetting revenues, the ISO proposes updates to the annual GMC revenue requirement cap for 2027 and 2028. While the currently effective cap was sufficient to meet the GMC revenue requirement in 2026, forecasted conditions in 2027 and 2028 are expected to increase the net GMC revenue requirement. As discussed above, key drivers of this increase include reductions in historical revenue offsets as certain services transition into EDAM, normalization of prior-year adjustments that previously reduced the revenue requirement, the resumption of collection for cash-funded capital beginning in 2027, and projected inflationary cost impacts.

Accordingly, the ISO proposes increases to the revenue requirement cap for 2027 and 2028 to ensure adequate recovery under the tariff, with any adjustments beyond 2028 to be evaluated through the normal triennial Cost-of-Service study cycle. These proposed adjustments are intended solely to ensure that the ISO's tariff provides sufficient flexibility to recover its approved annual revenue requirement during the interim period before the next Cost-of-Service study. The underlying allocation of GMC costs across services and billing determinants will continue to be governed by the Cost-of-Service study framework and will be revisited in the next scheduled study, which the ISO proposes to conduct in 2028.

By establishing increases to the revenue requirement cap, the ISO can ensure that, so long as the approved annual budget remains within the applicable cap and no changes to GMC rate design or billing determinants are proposed, it can avoid the need to submit an unanticipated filing with FERC that has not first been addressed through the ISO's stakeholder process.

Table 2 summarizes the ISO's GMC revenue requirement and rates for 2026 (actual) and the projected revenue requirements and associated rates for 2027 and 2028, reflecting current forecasts of operating costs, capital funding, and offsetting revenues.

Table 2: GMC Revenue Requirement and Rates (2026 actual; 2027–2028 projected)

	Actual	Projected	Projected
Revenue Requirement ($ in millions)	**2026**	**2027**	**2028**
Operations and Maintenance Budget	$ 290.3	$ 304.9	$ 320.1
Debt Service (including 25% Reserve)	14.7	14.7	14.7
Cash Funded Capital	-	31.0	31.0
Other Costs and Revenues	(51.3)	(51.0)	(51.8)
Operating Cost Reserve Adjustment	(3.9)	(0.8)	(0.7)
Total Revenue Requirement	**$ 249.9**	**$ 298.8**	**$ 313.4**
Revenue Requirement Cap ($ in millions)			
Revenue Requirement Cap	$ 250.0	$ 305.0	$ 320.3
Variance between Cap and Total	$ 0.1	$ 6.2	$ 6.9
Rates ($/MWh)			
Market Services Charge	$ 0.1416	$ 0.1513	$ 0.1389
System Operations Balancing Authority Area Services Charge	$ 0.1356	$ 0.1619	$ 0.1690
System Operations Real-Time Dispatch Charge	$ 0.0901	$ 0.0963	$ 0.0881
Congestion Revenue Rights Services Charge	$ 0.0109	$ 0.0134	$ 0.0142

As shown in Table 2, the ISO's net GMC revenue requirement is projected to increase in 2027 and 2028, driven primarily by higher operating funding needs, the re-inclusion of cash-funded capital beginning in 2027, and inflationary cost impacts, partially offset by other revenues. Despite this increase in the overall revenue requirement, projected Market Services and System Operations Real-Time Dispatch rates decline in 2028, reflecting increased participation in EDAM and the resulting expansion of the billing determinants over which GMC costs are recovered. This illustrates the distinction between changes in the total revenue requirement and the rates paid by individual market participants.

To ensure the tariff provides sufficient headroom to recover the ISO's authorized revenue requirement and minimize the risk of an out-of-cycle cap adjustment, the ISO proposes to increase the annual revenue requirement cap from $250.0 million in 2026 to $305.0 million in 2027 and $320.3 million in 2028. These proposed cap levels provide modest headroom above the projected GMC revenue requirement—approximately $6.2 million in 2027 and $6.9 million in 2028—preserving adequate recovery capacity while maintaining alignment with projected revenue requirement needs. This headroom provides a reasonable buffer to address potential variability in cost recovery arising from changes in market participation, including the potential exit of participants from the ISO market that could reduce other revenue offsets. By incorporating this modest variance, the proposed caps enhance revenue stability and mitigate the risk that unanticipated reductions in offsetting revenues would necessitate additional tariff amendments, while remaining narrowly tailored to the ISO's expected funding requirements.

3. Draft Tariff Language

Together with this Draft Final Proposal, the ISO is posting draft tariff language for stakeholder review and comment.

4. Western Energy Markets Governing Body Role

This financial planning initiative proposes two tariff amendments:

- Increasing the cap on the costs that may be recovered through the Grid Management Charge, which is currently found in Section 11.22.2.5; and
- Adjusting the timing of the next Cost-of-Service study that will be used to recalculate the service charge percentages and the rates for the fees and charges that make up the Grid Management Charge.

ISO staff believe these proposed amendments fall within the primary authority of the WEM Governing Body. Under the Charter for WEIM and EDAM Governance[1], the WEM Governing Body has primary authority over proposals to change or establish tariff rules applicable to the WEIM and EDAM entity balancing authority areas, WEIM and EDAM Entities, or other market participants within those balancing authority areas in their capacity as participants in WEIM or EDAM. The scope of this primary authority excludes, without limitation, proposals to change or establish tariff rules applicable only to the ISO balancing authority area or to the ISO-controlled grid.

Both proposed amendments would apply to WEIM and EDAM entity balancing authority areas and the market participants within those areas in their capacity as WEIM or EDAM participants. Neither amendment would apply solely to the ISO balancing authority area or the ISO-controlled

[1] The Charter for WEIM and EDAM Governance § 2.2.1 is available here.

grid. Accordingly, ISO staff believe these matters fall within the primary authority of the WEM Governing Body.

Stakeholders are encouraged to submit a response to this proposed classification in their written comments, particularly if they have concerns or questions.

Attachment D – Board Memo

Tariff Amendment – Cost-of-Service Study Deferral and Cost Cap Update

California Independent System Operator Corporation

May 22, 2026

Memorandum

To: Western Energy Markets Governing Body

From: Ryan Seghesio, Vice President, Chief Financial Officer and Treasurer

Date: April 21, 2026

Re: Decision on Financial Planning Initiatives: Cost-of-Service Study Extension and Revenue Requirement Cap Increase

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This memorandum requires action by the Western Energy Markets Governing Body (primary authority) and the ISO Board of Governors (consent agenda).

EXECUTIVE SUMMARY

This memorandum presents two components of the Financial Planning Initiatives: (1) extension of the Cost-of-Service Study timeline and (2) updates to the Grid Management Charge (GMC) revenue requirement cap. These proposals are intended to ensure that the ISO's cost recovery framework remains aligned with evolving market conditions, including the implementation of the Extended Day-Ahead Market (EDAM), while maintaining financial stability, transparency, and cost-causation alignment.

The ISO conducts a Cost-of-Service Study every three years to determine the ISO's revenue requirement and how ISO administrative costs are allocated. Under the current tariff, the next Cost-of-Service Study would be conducted in 2026. However, because EDAM is expected to begin operations in 2026, a study conducted now would rely primarily on pre-EDAM data and may not accurately reflect future operational conditions and cost drivers. The ISO therefore proposes to extend the timing of the next study to 2028, when a full year of EDAM operational data will be available. Conducting the study on this timeline will improve the accuracy of cost allocation outcomes and reduce the likelihood that subsequent adjustments would be required. The ISO will rely on the 2023 Cost-of-Service Study in the meantime, which Management believes is still reliable.

Separately, the ISO proposes to increase the GMC revenue requirement cap for 2027 and 2028 to ensure that the tariff provides sufficient headroom to recover projected costs. The ISO currently has a revenue requirement cap of $250 million. Although the existing cap is sufficient for 2026, inflation, forecasted increases in operations and maintenance costs, the re-inclusion of cash-funded capital beginning in 2027, reduced revenue offsets, and evolving market participation necessitate increases in the cap. These increases will avoid the need to exhaust reserves or risk losses. The increase in 2027—approximately 20 percent relative to 2026—is primarily driven by the re-inclusion of capital costs that were funded through reserves in 2026 and therefore reflects a timing shift rather than a structural increase in ongoing costs. Following this transition, revenue requirement growth is expected to return to levels more consistent with historical trends.

Although the total revenue requirement is projected to increase, this does not necessarily translate to higher rates or costs for market participants. As EDAM expands participation and increases billing determinants, costs are expected to be spread across a broader base, which may mitigate or offset rate impacts.

Stakeholders generally supported both proposals. Comments focused primarily on requests for additional transparency regarding cost drivers, assurance that the Cost-of-Service Study will be completed in 2028 without further delay, and clarification of the factors contributing to the 2027 revenue requirement increase and its potential rate impacts. The ISO has addressed these comments by providing additional detail on cost drivers, reaffirming its commitment to complete the study in 2028, and clarifying the distinction between overall revenue requirement and rates.

Management recommends approval of the proposed extension of the Cost-of-Service Study and the updates to the GMC revenue requirement cap to ensure continued alignment with evolving market conditions, financial sustainability, and transparency.

> ***Moved, that the Western Energy Markets Governing Body approves the extension of the Cost-of-Service Study and approves the increases to the GMC annual revenue requirement cap as described in the memorandum dated April 21, 2026, and requests that Management place this initiative on the ISO Board of Governors' consent agenda; and***
>
> ***Moved that the Western Energy Markets Governing Body authorizes Management to make all necessary tariff revisions and appropriate filings with the Federal Energy Regulatory Commission to implement the changes proposed in the memorandum dated April 21, 2026.***

BACKGROUND

Cost-of-Service Study Extension

The ISO conducts a Cost-of-Service Study every three years to determine the ISO's revenue requirement and how ISO administrative costs are allocated to market participants. The Cost-of-Service Study generally informs the ISO's GMC, which the ISO assesses on market participants' supply, demand, ancillary services, and congestion revenue rights. Under the current tariff, the next study would be conducted this year using historical data from the preceding year. The Cost-of-Service Study is a significant yearlong effort for the ISO, requiring thousands of man-hours across departments.

Because EDAM is expected to begin operations in 2026, a study conducted now would rely largely on data that predates EDAM implementation. Conducting the study prior to the availability of meaningful EDAM operational data could result in cost allocations that do not fully reflect the post-EDAM market structure and may require subsequent revisions. In simple terms, the benefits of a 2026 Cost-of-Service Study are low: the data could be so misleading that the ISO would need to conduct another study as soon as it would have a complete data set for a full year of EDAM. Extending the study to 2028 allows the ISO to incorporate a full year of EDAM operations from 2027, resulting in more representative cost allocation outcomes. This timing supports improved alignment with cost-causation principles and enhances the durability of the study results. During the interim period, the cost allocation framework established in the 2023 Cost-of-Service Study will remain in effect, and no changes to the underlying cost allocation methodology are proposed as part of this initiative. Although the ISO proposes increases to its self-imposed revenue cap, the ISO has no cause to believe the cost allocation structure of the existing GMC warrants change.

GMC Revenue Requirement Cap Increase

The GMC revenue requirement cap establishes the maximum level of costs that may be recovered under the tariff. The current cap is sufficient to meet the ISO's revenue requirement in 2026, but projected conditions in 2027 and 2028 require additional headroom.

Table 1: GMC Revenue Requirement and Rates

(2025-2026 Actual; 2027-2028 Projected)

	Actual	Actual	Projected	Projected
Revenue Requirement ($ in millions)	**2025**	**2026**	**2027**	**2028**
Operations and Maintenance Budget	$ 275.9	$ 290.3	$ 304.9	$ 320.1
Debt Service (including 25% Reserve)	14.7	14.7	14.7	14.7
Cash Funded Capital	25.0	-	31.0	31.0
Other Costs and Revenues	(68.6)	(51.3)	(50.0)	(50.3)
Operating Cost Reserve Adjustment	(8.6)	(3.9)	(2.4)	(0.7)
Total Revenue Requirement	**$ 238.4**	**$ 249.8**	**$ 298.2**	**$ 314.9**
Revenue Requirement Cap ($ in millions)				
Revenue Requirement Cap	$ 245.0	$ 250.0	$ 305.0	$ 320.3
Variance between Cap and Total	$ 6.6	$ 0.2	$ 6.8	$ 5.4
Rates ($/MWh)				
Market Services Charge	$ 0.1611	$ 0.1416	$ 0.1513	$ 0.1389
System Operations Real-Time Dispatch Charge	$ 0.1144	$ 0.0901	$ 0.0960	$ 0.0879
System Operations Balancing Authority Area Services Charge	$ 0.1293	$ 0.1356	$ 0.1619	$ 0.1690
Congestion Revenue Rights Services Charge	$ 0.0076	$ 0.0109	$ 0.0134	$ 0.0142

The proposed increases to $305 million in 2027 and $320.3 million in 2028 are driven by several identifiable factors. These include approximately 5 percent annual growth in operations and maintenance expenditures required to support ongoing market and grid operations, the re-inclusion of cash-funded capital beginning in 2027, reduced revenue offsets associated with evolving market design, and changes in market participation as EDAM is implemented. A significant portion of the ISO's growth in recent years reflects investments and capabilities developed in response to stakeholder-supported initiatives and expanding market participation.

The higher increase in 2027 relative to prior years is primarily attributable to the re-inclusion of cash-funded capital. In 2026, capital expenditures were funded using existing reserves to maintain fiscal balance. In 2027, the ISO returns to a more typical funding approach in which capital expenditures are included in the revenue requirement. Following this transition, growth in the revenue requirement is expected to return to levels more consistent with historical trends.

Over a longer time horizon, the ISO's revenue requirement growth has remained moderate, reflecting disciplined financial management.

Although the overall revenue requirement is projected to increase, this does not necessarily translate to higher rates or costs for market participants. As EDAM expands participation and increases billing determinants, costs are expected to be spread across a larger base, which may mitigate or offset rate impacts.

The proposed cap levels include modest headroom above projected revenue requirements to accommodate potential variability in market participation and revenue offsets, thereby reducing the likelihood of an out-of-cycle tariff filing.

POSITIONS OF THE PARTIES

The ISO conducted a stakeholder process that included a February 12 stakeholder meeting and a March 19 stakeholder meeting on the draft final proposal; both meetings were followed by a written comment period.

Stakeholders generally supported the proposal to extend the Cost-of-Service Study to 2028, recognizing that conducting the study in 2026 would rely on pre-EDAM data and may not produce representative results. Stakeholders requested assurance that the study will be completed in 2028 without further delay and emphasized the importance of maintaining transparency regarding cost drivers during the interim period.

With respect to the GMC revenue requirement cap, stakeholders did not express opposition to the proposed increases but requested additional transparency regarding the drivers of the projected increase, particularly the approximately 20 percent increase in 2027 relative to historical trends. Stakeholders also sought clarification regarding the impact of changing market participation, including transitions into EDAM, on revenue offsets, billing determinants, and rate impacts.

In response, the ISO enhanced the draft final proposal by providing additional explanation of operations and maintenance cost drivers, clarifying the role of cash-funded capital in driving the 2027 increase, and providing historical context demonstrating moderate long-term growth. The ISO also clarified how EDAM participation may affect both revenue offsets and billing determinants and emphasized the distinction between total revenue requirement and participant rates.

No stakeholder opposed the overall structure of the proposals. Stakeholder feedback primarily resulted in refinements to improve transparency and clarity rather than changes to the underlying approach.

CONCLUSION

The proposed extension of the Cost-of-Service Study and the updates to the GMC revenue requirement cap are necessary to ensure that the ISO's cost recovery framework remains aligned with evolving market conditions and operational requirements. Extending the timing of the Cost-of-Service Study will allow the ISO to incorporate EDAM operational data, improving the accuracy and durability of cost allocation outcomes, while the proposed cap increases provide appropriate flexibility to recover projected costs in 2027 and 2028.

These updates are time-sensitive and align with the development of the 2027 revenue requirement and associated tariff processes. Approval will support continued financial stability, enhance transparency, and ensure effective cost recovery as the ISO's markets evolve.

Importantly, approval of these initiatives does not replace or preempt the ISO's annually recurring revenue requirement stakeholder process, which will continue to serve as the primary forum for reviewing the ISO's annual budget, cost drivers, and revenue requirement assumptions, ensuring ongoing transparency and stakeholder engagement.