California ISO
Your Link to Power

Responses to Stakeholder Comments on GMC 2012 Cost of Service Study Discussion Paper Issued October 8, 2010

1. Please comment on the design principles listed in the discussion paper, and suggest any others you believe should be considered.		ISO comments
SDG&E	SDG&E is pleased with the effort by CAISO staff in this attempt to define costs and tie cost responsibility with the appropriate function and groups at the various levels identified in this discussion paper. The design principles appear to be practical and allow for a workable methodology of determining how costs might be allocated appropriately except for guiding principle 2 which states that the focus of the redesign should be on 'use of ISO services, not market behavior". An example of why the CAISO needs to consider market behavior can be found when analyzing the modifications made to the Market Usage Forward Energy Charge during calendar year 2009. One of the reasons for eliminating the Inter SC transactions in determining this GMC charge was that the charge for IST participants was acting as a disincentive for using this feature of the market. This example demonstrates that GMC rate design does in fact need to consider market behavior when developing new rates.	We understand that costs drive behavior and have attempted to design rates that will not be a barrier while also attaching a cost to the transaction. For example Inter-SC trades were set at $1.00 per transaction, regardless of volumes. A nominal bid fee of $0.005 is proposed to deter SCs from submitting excessive volumes of "fishing bids"...
SCE	SCE is in agreement that the seven guiding principles set forth in the discussion paper are useful principles to guide the development of the 2012 GMC structure. These principles are: (1) Cost Causation, (2) Focus on use of ISO services, not market behavior, (3) transparency, (4) Predictability, (5) Forecastability, (6) Flexibility, (7) simplicity. Specifically, SCE agrees with the ISO that simplicity and transparency should be considered in developing the GMC rate structure, as that will allow customers to better understand how their market participation decisions may affect their GMC costs. SCE will caution however, that the focus on cost causation and the use of ISO services (and not market behavior) should not be absolute. Market behavior may be affected by GMC rates (which are prices from the perspective of market participants, and which therefore do affect their decisions). There should always be a final check on GMC rates, and a continuous monitoring, to ensure that GMC rates are not unduly negatively affecting market outcomes. Accordingly, an eighth principle should be added: (8) GMC rates should be designed to minimize adverse market outcomes.	We concur with SCE and have included it in subsequent discussion papers. The ISO agrees that a properly designed GMC should seek to do no harm (negatively affecting market outcomes) avoid imposing negative incentives (address negative market behavior such as deviations), and simply should be a mechanism to recover ISO revenue requirements in a manner which minimizes market impacts.
PG&E	PG&E has no comments on this issue at this time.	Noted

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Dynegy	Dynegy supports the principles of cost causation, transparency, and predictability. In regards to focusing on the use of CAISO services, not market behavior – this topic warrants further discussion. For example, while the CAISO proposes per-bid fees to deter "spamming" or fishing" (submitting large numbers of bids), it processes those bids electronically, so that the level of incremental cost imposed by an additional bid is difficult to discern. Assuming, *arguendo,* that market prices, not GMC rates, should discipline market behavior, it's difficult to discern whether other things such as CAISO market prices are having the desired effects (e.g., in reducing levels of self-scheduling). In theory, designing GMC rates that recover costs, not manipulate market behavior, is probably a reasonable goal, but it is a discussion that is difficult to have without also discussing how other things affect market behavior. In regards to forecastability – which the CAISO defines as using billing determinants that can be easily forecasted by both the CAISO and market participants – it appears the CAISO may be moving towards withdrawal or injection MWh as a billing determinant that would apply to more, or larger, cost categories than under its current GMC rate structure. It's not apparent that accurate forecasts for these quantities, which seem appropriate billing determinants, are readily obtained or available for market participants to use. Reductions in throughput MWh over the last year have led to unanticipated and significant changes in GMC component rates. Nevertheless, it is probably much easier for market participants to forecast billing determinants like withdrawal and injection MWh than to forecast other billing determinants like the number of bids. In regards to simplicity – simplicity and cost causation are appropriate rate design principles that nevertheless may conflict. Dynegy looks forward to seeing how the CAISO balances the tension between simplicity and cost causation.	A bid fee is used by most other ISOs, or they are contemplating using one. We believe the design takes into consideration a charge that does not discourage activity but is in recognition that excessive bid volumes do impact ISO systems and process. The relationship between bid volumes and their direct impact on ISO systems is difficult to assess, but a nominal fee provides a signal to participants that there are costs associated with the participant's use of ISO systems. The proposed determinants are demand and throughput of energy in the ISO markets and Balancing Authority Area. These volumes are easier to forecast by both the participant and the ISO than most of the current determinants such as deviations, # of schedules etc. This should assist participants in their budgeting process.

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MID/SVP	Further, the CAISO is aware of MID/SVP's concerns regarding a formula rate concept utilized over a long-period oftime. As illustrated from the CAISO's presentation, when debt service is retired, as is projected in 2013, or other expenses decrease, there is no effective protection to prevent spending up to the revenue requirement cap. MID/SVP's concerns are expressed in greater detail in their joint comments submitted to the CAISO on June 18, 2010.	4 of the 5 ISO/RTOs use a formula rate and PJM uses a fixed rate. The ISO has used a formula rate for many years and will propose continuing this method. We acknowledge the participants' concerns and point to the fact that the ISO implemented dramatic budget reductions in 2006 and has held the line on increases since that time. The ISO's management is dedicated to keeping costs reasonable and continually benchmarks our costs to ensure they are in line with other ISOs/RTOs.

2. Please comment on the use of ABC and the allocations into the 3 proposed GMC service categories		ISO comments
SDG&E	SDG&E supports the continued application of the Activity Based Costing model to the GMC 2012 Cost of Service study as described in the discussion paper. Cost category percentages for allocating Level 2 direct operating activities for partial responsibility between both Market Services and System Operations may require more study before additional comments may be offered	The comments are noted and will be considered in the final proposal.
SCE	SCE is supportive of the ISO's implementation of ABC. ABC should allow the ISO to better determine its cost of service associated with its activities and align its GMC rate structure with its underlying costs. The three GMC service categories (Market Services, System Operations, and CRR Services) are in SCE's view appropriate. However, it may be appropriate in some cases to have more than one billing determinant to recover the costs of one of these three service categories. This should be considered over the course of the stakeholder process.	The comments are noted and are being considered in the design.
PG&E	PG&E has no comments on this issue at this time.	Noted.

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2. Please comment on the use of ABC and the allocations into the 3 proposed GMC service categories		ISO comments
Dynegy	Dynegy appreciates that the CAISO has broken out CRRs into its own category. Dynegy regrets that this separation did not take place earlier, because Dynegy still perceives that the development and administration costs of this system, which does not benefit all market participants, and disproportionally benefits a few, were allocated broadly to market participants, while the development and administration costs of other systems that also had a limited set of beneficiaries were recovered specifically from those beneficiaries. Because the CAISO's market and system operation systems are, to a large extent, intertwined, there may be some unavoidable overlap between those two buckets. In Table 6, it's not apparent why 100% of market design and regulatory policy costs are allocated to market services, while 100% of the costs to develop State/Federal policy are allocated as an indirect cost. And while the opportunity to comment on other proposed allocations of activities to cost categories may be tempting, Dynegy expects that conversation may best be had after the bill impact statements are released	Noted. We believe that most of the costs of market design and regulatory policy are related solely to market services. On the other hand, the State and Federal regulation impacts both market design and current operations which is the reason for the indirect allocation.
MID/SVP	MID/SVP has no comments on this issue at this time.	Noted.

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3. Please comment on the options the ISO has described for the billing determinants for allocating charge codes to users. Please describe any other options you believe should be considered.		ISO comments
SDG&E	SDG&E notes that the allocation of cost responsibility by ABC has only identified those customer categories having an impact on the various Level 1 and Level 2 direct operating activities, without specifically addressing the issue of just how a particular customer is, in fact, relating to these activities. For example, whereas Internal Load – UDC and Internal Generation – Merchant in Exhibit 2 are shown to have some relationship to the Level 2 activities for the development and running of the Day Ahead (Level 1 category 80005) and Real Time (Level 1 category 80006) market, the allocation of the actual costs must consider how the different customer types within the general categories of Load and Generation relate to these activities. If a customer is solely responsible for either the load or the generation resulting charges and payments, then it would appear reasonable to assume an allocation of costs based upon the metric (assuming MWh) for each. For UDC customers such as SDG&E who are participating in the markets on behalf of both Load and Generation, however, these direct operating activities are useful only so far as the net effect of providing incremental MWhs from the CAISO to balance supply and demand for the UDC customers. Opportunity for further discussion regarding the causes and impacts by and on customers (Scheduling Coordinators) will be important to come to the appropriate conclusions for cost allocation to users. In the process, it is hoped that the total number of charge codes currently in use for GMC charges may somehow be reduced. **SDG&E TOR issue:** SDG&E shares joint ownership of the Southwest Powerlink ("SWPL") with Arizona Public Service Company ("APS") and the Imperial Irrigation District ("IID"), in percentages defined by the SWPL Agreements, APS and IID have Transmission Ownership Rights (TOR) on SWPL. Furthermore, SDG&E, as the Scheduling Agent under the SWPL Agreements, submits TOR energy schedules to the CAISO for the APS/IID SWPL Transactions, and the CAISO assesses charges to SDG&E, as the Scheduling Coordinator under the CAISO Tariff for the APS/IID SWPL Transactions. Furthermore, it is also important to note that the ISO GMC costs assigned to this customer class and upon which the rate is derived should not have a full allocation of certain ISO functional costs as other rate classes must pay. SDG&E argued this position in the prior ISO GMC stakeholder meetings and explained why a full allocation of such costs is inappropriate. The TOR allocation needs to be based upon cost causation as otherwise this class will subsidize other classes. SDG&E looks forward to working with the CAISO and CAISO	We believe the various customer types were considered when the design was developed. The ISO looks forward to further discussions when the billing determinant discussion paper and billing impacts are presented. We acknowledge that TORs have been treated as "other supply and demand" in the initial development of the design and billing impacts. We will review other options in an attempt to accommodate TORs within the proposed GMC structure.

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<tr><td colspan="2">3. Please comment on the options the ISO has described for the billing determinants for allocating charge codes to users. Please describe any other options you believe should be considered.</td><td>ISO comments</td></tr>
<tr><td>SCE</td><td>The ISO has proposed several potential billing determinants for use in recovering the costs of the three service categories from customers:

1) Allocation to Demand: Establishing a metric and calculating the denominator by summing the energy withdrawals by load and exports.

2) Allocation to Supply and Demand: Establishing a metric and calculating the denominator by summing the injections by generation and imports and the withdrawals by load and exports.

3) Transaction Fees to Offset Total Cost: Transaction fees, such as bid segment fees, are set at an appropriate level to allow a market participant to make an economic decision whether to incur the added expense. The transaction fee creates a marginal cost that serves two purposes: (1) limits excessive usage by market participants, and (2) recovers costs of transactions that participate but do not result in a successful outcome (e.g., energy bids that do not clear the market). The costs recovered by transaction fees are used to offset the revenue requirement of the associated cost category. For example, a bid segment fee would offset the revenue requirement of the Market Services Cost Category.

4) Administrative Fees: Administrative fees are used to establish an appropriate cost to allow a market participant to make an economic decision whether to incur the added expense. For example, a SCID monthly fee can be used to manage the number of active/inactive SCIDs maintained in the system. The costs recovered in this manner are typically used to offset the revenue requirements of the other cost categories.

SCE agrees that these potential billing determinants should be considered for use in determining the GMC rates. In general however, SCE would oppose the application of a System Operations GMC rate to supply. SCE is concerned that supply (generators) would simply incorporate that GMC rate into its bids, and raise the market price commensurately. And the benefits of reliable System Operation are accruing to demand. The Market Services service category may appropriately be recovered from both supply and demand, as both directly use that service. As the stakeholder process proceeds, SCE may have additional ideas for billing determinants.</td><td>The use of both supply and demand was considered in the design. As noted in both the billing determinant and billing impacts papers, since both load and generation will provide similar services, we recommend that the GMC be designed in a manner that provides symmetrical marginal costs regardless of the technology used to provide the service. The marginal cost of the underlying technology should determine its competitiveness in the ISO market, not a difference attributed to GMC rate differential.</td></tr>
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PG&E	PG&E would like to address the CAISO's proposed 2012 GMC Congestion Revenue Rights (CCR) charge. During the October 14, 2010 Stakeholder meeting, the CAISO seemed to indicate that the billing determinants for a 2012 GMC charge to recover Congestion Revenue Rights (CRR) Services costs would be "MW based." PG&E believes that the billing determinants for a GMC charge associated with CRR Services should be "transaction based." PG&E is unaware of any costs associated with CRR Services that vary with the MW amount awarded. Some may argue that CRR Revenue Adequacy is a function of the MW of awarded CRRs. However, the GMC charges being contemplated do not address CRR Revenue Adequacy. There is already a mechanism to address surpluses or deficiencies in the CRR Balancing Account. Instead, the proposed GMC charge attempts to recover system, labor and indirect costs associated with providing CRR Services. PG&E contends that the cost of providing CRR Services is a function of the number of CRRs nominated and awarded. Indeed, CAISO's actions in the recent past support this contention. CAISO needed to reconfigure their CRR Settlements Payload due to size constraints which were associated with the number of CRRs being included in the payload. Similarly, CAISO has encountered problems associated with the CRR Transfer/Load Migration Process resulting from the number of Load Migration CRRs being created each month. Given these issues, PG&E proposes that CAISO adopt a GMC charge for CRR Services which is based on the number of CRR awarded to each CRR market participant. In addition, market participants who nominate CRRs (but are not awarded any) impose a cost which should not be subsidized by market participants who are awarded CRRs. PG&E proposes that a GMC charge for CRR Services include the following: • A uniform charge assessed to each Registered CRR Holder • A charge for each CRR nomination in the allocation tiers and auctions • A charge for each CRR awarded in the allocation tiers and auctions • A charge for each ETC, CVR and TOR nomination in the allocation tiers • A charge for each CRR awarded as a result of load migration • A charge for each CRR transacted in the Secondary Registration System The relative size of each charge is undetermined but as an initial proposal, PG&E suggests that CRRs awarded in the Annual Processes be three times (3X) the GMC charge assessed to each CRR awarded in the Monthly Processes. In addition, PG&E suggests that CRRs awarded in the Long-Term Processes be nine times (9X) the GMC charge assessed to each CRR awarded in the Annual Processes. The relative size of the GMC charge assessed to load migration CRRs is an open question. CRR market participants can take actions to reduce nomination-based or transaction-based charges. In contrast,	The use of MWh volumes to collect revenue required to support CRRs is consistent with other ISOs/RTOs. The ISO provided details on costs associated with the CRR process and determined that it represents ~ $ 7 Million. We acknowledge that balancing cost causation with simplicity can be difficult. The ISO believes there are more impacts on ISO systems associated with the processing and maintaining 100 1MW CRRs than there are on processing 1 – 100 MW CRR and the ISO's proposal is a reasonable method for addressing this reality. We may to consider a high bid fee relative to the fee for a cleared CRR. On the energy side, the bid segment fee is $0.005 and the cleared schedule is $0.09. This would strike a balance – we recover more from bidding (nominating) in the market relative to received CRRs.

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Dynegy	The CAISO has proposed four billing determinants: demand MWh, supply and demand MWh, transaction fees and administration fees. These all are reasonable ways to allocate costs. As noted above, transaction fees can serve a simultaneous function of allocating costs and encouraging or discouraging certain market behaviors, an aspect of GMC rates that the CAISO has indicated it wishes to discontinue. Other approaches, such as “capacity” based approaches (e.g., a MW, not MWh, “demand” charge) could be part of the discussion. Dynegy is intrigued by the CAISO’s proposed approach for simplifying the GMC rate structure and looks forward to further discussions. Clearly, how market participants feel about the CAISO’s proposed approach will largely depend on the billing impacts. Dynegy expects that the bill impact statements will stimulate more discussion about the details of the CAISO’s approach.	We believe these were considered when the design wasdeveloped. We look forward to further discussions when billing determinant discussion paper presented.

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MID/SVP	MID/SVP have concerns regarding a proposal that would use SCIDs (active or inactive) as a billing determinant, as expressed on slide 17 of the CAISO's Oct. 14 presentation on the Cost-of-Service study. While there may be better solutions to allocating the costs that were attributed to the Settlements, Metering and Client Relations ("SMCR") bucket, which MID/SVP understand is proposed to be retired in the next rate design, MID/SVP are concerned with a potential continuation and expansion of the billing determinant used for SMCR. MID/SVP's concerns were realized earlier after reviewing the proposal submitted by Pacific Gas and Electric Company ("PG&E"), in PG&E' s June 18, 2010 comments in this stakeholder process. 1 PG&E expressed a preference to increase the SMCR charge to $2,000 per SCID per month. MID/SVP strongly oppose the proposal to increase per-SCID costs in the next rate design, and would support elimination of the use of such a per-SCID cost allocation method in the GMC altogether. A per-SCID billing determinant is punitive toward smaller entities, as the same charge is assessed to differing entities irrespective of size. Also, an entity may elect to use one or more SCIDs, which does not necessarily reflect a greater proportion of business that such entity may conduct in comparison to a smaller entity. Further, entities may use separate SCIDs for specific, valid, business purposes, such as distinguishing sales transactions to different classes of entities. Emphasizing cost allocation on a per-SCID basis greatly discourages market participants from using SCIDs for such purposes. While MID/SVP have endured under this approach under the current rate design, MID/SVP do not want to see it increased or expanded. MID/SVP also do not believe that a charge on inactive SCIDs is justified. MID/SVP have a hard time seeing how inactive SCIDs create significant work for the CAISO. Once an SCID is created, it would seem that the primary effort and expense in connection with such SCID would have passed. Thereafter, the CAISO's ongoing work with respect to SCIDs should be minimal, and this is even more the case with respect to inactive ones. For example, settlements as to inactive SCIDs should be relatively simple to produce, as there should be no transaction information to report and verify. Further, SCIDs can b inactive for relatively short periods of time, for example two-to-three months, and such short periods of inactivity should not warrant the same charge as if the SCID(s) were active. SCIDs can also be inactive for longer period's oftime. If the CAISO is concerned about SCIDs remaining inactive for long periods of time, a better option (instead of levying a charge) would be for the CAISO to correspond with the holder of the SCID to discuss whether such SCID should be retired.	Based on current evaluation the treatment of the SCID fee will not change from the current method. This will mitigate the concerns addressed in this comment.