

PG&E comment received October 17, 2013

Pacific Gas and Electric Company (PG&E) offers the following comments in the stakeholder process for the California Independent System Operator's (CAISO) 2014 Budget and Grid Management Charge Rates.

PG&E does not offer comments on the details of the proposed 2014 CAISO budget or proposed grid management charge (GMC) rates. However, PG&E does observe the 2014 Energy Imbalance Market (EIM) administrative rate is not being updated along with the GMC rates. The EIM administrative rate of 19 cents per MWh, developed in early 2013, will be in effect for the three month period from Oct. 1, 2014 to Dec. 31, 2014.

The EIM administrative rate is based on data filed with FERC as part of the CAISO's 2012 GMC restructuring and is derived by dividing the estimated real-time component of both the 2012 Market Services and the Systems Operations revenue requirements by their respective CAISO billing determinant. PG&E appreciates the detail provided by the CAISO in the EIM Design Initiative on the rate calculation (see attachment for calculation details). However, the appropriateness of the methodology used by the CAISO to allocate the revenue requirements and of the allocators used in calculating the rates is not apparent to PG&E. (1)

PG&E looks forward to the upcoming CAISO cost-of-service study that will begin in spring 2014 to determine the CAISO's 2015 GMC rates, including the administrative fee for EIM Entities. PG&E welcomes the opportunity to work with CAISO to develop a fair and transparent methodology to determine the EIM's cost-of-service and administrative rate. Getting this rate correct is especially important since, for the first time, the CAISO will have different classes of stakeholders that don't share in the same market costs. Moreover, the CAISO needs to ensure that EIM Entities seeking an expanded voice in CAISO governance have commensurate cost responsibility. Given the importance of this rate and the possibility of additional EIM Entities beyond PacifiCorp, it may make sense to develop a fourth GMC service category for EIM costs. (2)

In general, PG&E seeks an EIM allocation approach that has the following characteristics:

- Allocated EIM costs should be based on fully loaded costs including operations & maintenance cost, debt service, and capital investments;
- The EIM administrative rate should not be based on incremental cost for each new EIM participant; and
- The details of the EIM administrative rate calculation should be transparent and audited periodically.

(1) PG&E is not aware of information supporting the real-time (63%) and day-ahead (37%) split of Market Services revenue requirements and the real-time dispatch (48%) and balancing area services (52%) split of Systems Operations revenue requirements (see attachment). The CAISO uses the same volumes in the calculation of both the real-time and day-ahead/BA services rates.

(2) Current service categories are: 1) Market Service Charge, 2) Systems Operations Charge, and 3) CRR Service Charge.

Attachment - CAISO's Calculation of 2014 EIM Administrative Rate (3)

\$ in thousands

Market Services	<u>Total</u>	<u>RT Market</u>	<u>DA Market</u>
Revenue requirement			
% from 2010 cost of service study	100%	63%	37%
2012 revenue req. after applying fees	\$49,391	\$33,031	\$16,361
2012 est. volume in thousands of MW & MWh	557,462	557,462	557,462
Rate in \$ per MW or MWh \$0.09 \$0.06 \$0.03			
System Operations	<u>Total</u>	<u>RT Dispatch</u>	<u>BA Services</u>
Revenue requirement			
% from 2010 cost of service study	100%	48%	52%
2012 revenue req. after applying fees	\$131,512	\$62,630	\$68,889
2012 est. volume in thousands of MWh	469,179	469,179	469,176
Rate in \$ per MWh \$0.28 \$0.13 \$0.15			
CRR Services is not applicable			
Combining the real-time components for EIM			
Real-time market	6 cents per MWh		
Real-time dispatch	<u>13 cents per MWh</u>		
Total EIM	19 cents per MWh		

(3) CAISO Stakeholder Comments Matrix, Third Revised Straw Proposal, p. 15.

ISO response

The ISO developed the three service categories which are foundational services that the ISO provides participants using a cost of service study accepted by participants, the ISO board and FERC as part of the restructuring of the ISO charges in 2012. The rates for 2012 were as follows:

Market Services	9 cents
System Operations	28 cents
CRR Services	2 cents

The ISO is allowing EIM entities to use the real time portion of the market services and system operations activities. EIM entities would then logically pay less than the full rate as they are only using a portion of the ISO services. The most direct and transparent method of calculating a cost-based charge for EIM services is to make the rate proportional to the level of services used by EIM entities. To determine the rate for these flows through the ISO systems, the ISO identified the cost components of market services and system operations that related to real time activities. The costs included all components of the revenue requirements associated with these two services.

- Of the total costs of market services of \$49.4 million, \$33.0 million or 63% related to real time activities. 63% of the market services rate is 6 cents.
- Of the total costs of system operations of \$135.1 million, \$62.6 million or 48% related to real time activities. 48% of the systems operations rate is 13 cents.
- Note that the real time activity costs of market services of \$33.0 million and system operations of \$62.6 million noted above are made up of the identified costs of ABC real time activities plus a proportional share of all remaining indirect costs which include overhead, debt service and out of pocket capital.
- Adding the two real time components results in a total rate of 19 cents. This is a fixed rate for the period under discussion.
- In summary, the rate paid by the EIM Entity is the same as the rate the ISO participant would pay for each service.

The revenue from these incremental EIM volumes will ultimately reduce the revenue requirement and rates for full ISO market participants. In early 2014, the ISO will commence a stakeholder process to review the cost of service study and attribution of activity costs. We look forward to PG&E's participation in that stakeholder process.