California ISO

GMC Charge Code 4537
Market Usage Forward Energy
Straw Proposal

August 28, 2009

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Introduction

This straw proposal sets forth the ISO's recommended treatment of inter-scheduling coordinator energy trades (ISTs) for the purposes of calculating GMC charge code 4537, the Market Usage Forward Energy (MUFE) charge. It is the third step in the stakeholder process that began on August 3, 2009. The ISO proposal is based on a consideration of written stakeholder comments and discussions with stakeholders at the August 18th conference, as well as other information set forth in the following sections.

Background and Issue Overview

On August 3, 2009, the ISO published a discussion paper addressing issues related to the MUFE GMC charge code 4537 that were raised by stakeholders. MUFE became effective when the ISO's new market launched on March 31, 2009. Specifically, certain stakeholders questioned: 1) whether including ISTs in the calculation would cause an over collection of revenues assigned to the MUFE charge; and 2) whether it is appropriate to apply the MUFE charge to inter scheduling coordinator trades (ISTs) in the day ahead market [caused by the inclusion of financial and physical ISTs in the settlements calculation for netting purposes].

The ISO forecasted an over collection in the MUFE charge code and made a tariff required adjustment to reduce the rate from $0.4316 to $0.30 effective August 1, 2009. This action helped to resolve the first stakeholder concern. Additionally, FERC affirmed that the ISO had complied with its directive to submit revised tariff language that would include both physical and financial ISTs in the MUFE calculation.[1] Nonetheless, in light of the issues raised by stakeholders, the ISO advised FERC that the MUFE calculation and billing determinant issues would be explored as soon as possible after the new market launch in order to consider possible alternatives to the current approach.

The ISO began this process by posting the discussion paper and soliciting stakeholder comments. Fourteen parties provided input on the two alternative MUFE options proposed in the paper, and these comments, as well as the discussion paper, were discussed at a stakeholder conference held on August 18 at the ISO offices. The ISO also provided (upon request) what-if analysis data under the two ISO proposed options outlined in the discussion paper to 21 scheduling coordinators.

As explained in the discussion paper, the current design of charge code 4537 MUFE charges, on a per MWh basis, the net purchases and sales of energy in the DAM. The CAISO settlements Business Practice Manual (BPM)[2] describes the charge, and the activities included in the charge, as follows:

> Market Usage Forward Energy contains the activities associated with determining the market prices, maintaining and controlling the OASIS, monitoring market performance, ensuring generator compliance with market protocols, and calculating the results of the Integrated Forward Market (IFM). The purpose of the charge is to reflect a market participant's impact on the maintenance, monitoring, operation, and performance of the Forward Energy and Real-Time markets.

Currently, the MUFE charge is based on the **net** energy for each SC by trading hour. In contrast, the GMC forward scheduling charge (charge code 4512), which is applicable to ISTs, is driven by the number of schedules processed rather than the MW included on each schedule because the systems that process schedules do not distinguish between schedules with large or small MW quantities. Each schedule requires approximately the same time and effort to process and verify regardless of the MW quantity. Accordingly, the forward scheduling charge is assessed on a per-transaction basis.

At the time that the ISO filed the proposed GMC under MRTU rate design changes with FERC, the MUFE settlement calculation provided that *physical* IST energy trades would be offset against an SC's energy schedules in the day ahead market. During the proceeding, however, the ISO agreed with NCPA that both physical and financial ISTs should be netted against forward energy because both types of ISTs are, in fact, financial. The ISO reasoned that the purpose of both types of trades was to allow for contractual delivery of bilateral energy

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[1] *California Independent System Operator* 128 FERC ¶61, 021 (July 14, 2009).
[2] CAISO Settlements BPM for Charge Code 4537 Market Usage Energy dated 4/1/09 https://bpm.caiso.com/bpm/bpm/doc/000000000000125

contracts at agreed-upon locations and to “reverse” the ISO charges from one party to its counter party, so that it was appropriate to allow both types of ISTs to be netted. Consequently, by netting both financial and physical ISTs against energy in the day ahead market, IST transactions are currently charged both a per-schedule forward services rate and a per MWh MUFE rate for net energy in the day ahead market, even though ISTs do not trigger many of the ISO’s market usage services.

Thus, to better align ISO costs with the services provided to ISTs, the ISO discussion paper posted for the current stakeholder process proposed two alternative options that would alter the billing determinants for the MUFE. Both options would eliminate ISTs from the MUFE rate calculation. The result would be that ISTs would only be subject to the forward scheduling charge (on a per schedule basis), and to the settlements, metering, and client relations charge that applies to all active scheduling coordinators. Option 1 was limited to this modification and would continue the current practice of netting energy in the day ahead market (without ISTs). Option 2 proposed an additional step that would also eliminate the netting option and would apply the MUFE to gross energy in the day ahead market. The discussion paper also considered options that ultimately were not recommended because they did not reflect cost causation principles or did not adequately address the concerns raised by the stakeholders.

Thus, the issues put out for stakeholder consideration were (1) whether ISTs should continue to be included in the calculation of the charge, and (2) whether net energy or gross energy should be the basis for the charge.

Summary of ISO Recommended Options

To reiterate from the whitepaper, the ISO proposed two recommended options for the MUFE charge code:

1) Exclude all ISTs from the calculation for MUFE and retain the net energy basis for allocating the charge. The end result would be that the charge would be based on

the net energy in the DAM for Load, Generation, Imports, and Exports. The formula would be the absolute value of [(Gen+Imports)-(Load+Exports)].

2) Exclude all ISTs from the calculation of MUFE and apply the charge to each SC's gross MWh of energy in the DAM, i.e., without netting Load, Generation, Import and Exports as would be done in the calculation set forth in option 1. The CAISO's analysis shows that this would produce a significantly larger number of MWh than in option 1.

There are pros and cons for either of the above listed options which we will briefly summarize.

Option 1 Netting Calculation

Pros:

1) It eliminates ISTs from the calculation, which almost all stakeholders support

2) It maintains the existing FERC approved netting methodology

3) It requires little change to shadow settlements systems

Cons:

1) It is probably not the best option from a cost causation standpoint

2) It encourages SC's with both supply and demand to increase their use of self scheduling

Option 2 Gross Calculation

Pros:

1) It eliminates ISTs from the calculation, which almost all stakeholders support
2) It is probably the best option from a cost causation standpoint

Cons:

1) It is a shift from the existing FERC approved calculation

2) It has a significant bill impact to a few scheduling coordinators

Summary of Stakeholder Comments

Several scheduling coordinators submitted written comments to the MUFE discussion paper that was posted on August 3, 2009. Below is a summary of those comments:

Calpine:

- Supports option 2 (Gross calculation)
- Believes option 1 is inconsistent with cost causation
- Believes option 1 inappropriately shifts costs to generators
- Believes option 1 inappropriately encourages submission of balanced schedules
- Believes option 1 inappropriately encourages self scheduling
- Believes option 1 frustrates the ability to forecast costs
- Believes option 2 meets cost causation principles and avoids unintended consequences

CDWR State Water Project:

- Supports either option
- Believes that MUFE should be applied to IST's
- Believes ETC energy should not be assessed MUFE
- Believes functional association of the SMCR should be revisited
- Believes the ISO should review and update the cost allocation
- Believes the ISO should update its review of the administrative charges of other ISO's/ RTO's

Modesto Irrigation District:

- Supports neither option at this point. Requested quantitative analysis

Morgan Stanley Capital Group

- Supports option 2 (Gross calculation)

- Believes it best aligns with cost causation

Northern California Power Agency

- Supports current methodology
- Favors option 2 (Gross calculation)
- Believes option 1 does not support cost causation
- Believes modification to option 2 should include IST's and AS schedules

Pacific Gas & Electric

- Supports option 1 (Net calculation)
- Believes it more accurately reflects an SC's impact on the day ahead market

Powerex

- Supports option 2 (Gross calculation)
- Believes it follows cost causation principles

RBS Sempra Commodities

- Supports either option, but prefers option 2 (Gross calculation)

Southern California Edison

- Don't rush to make a change
- Supports option 1 (Net calculation)
- Believes is supports a fundamental design principle under MRTU
- Requests data to analyze options
- Believes option 2 would unjustly shift costs to participants with both supply and demand

San Diego Gas & Electric

- Supports option 1 (Net calculation)
- Believes it would be easy to implement

- Believes it retains the concept of net energy cost causation

Shell Energy

- Supports option 2 (Gross calculation)
- Believes option 1 does not produce an accurate charge based on an SC's true impact on GMC costs

Sacramento Municipal Utility District

- Supports option 1 (Net calculation)
- Believes it aligns with cost causation principles
- Believes IST's should not be included in this chare code and supports either option over existing design

Western Area Power Administrator

- Supports the current design
- Western is forced to use IST's to settle usage of the PACi imports to their loads

Western Power Trading Forum

- Supports either option over current design

CAISO Straw Proposal

Both options proposed by the ISO in the discussion paper would eliminate ISTs from the MUFE rate calculation, and there is broad stakeholder support for this rate treatment. Thus, the ISO has concluded that the implementation of either ISO recommended option will address the stakeholder concerns raised before FERC during the GMC under MRTU proceeding.

The question then becomes whether the current practice of netting, which has been approved by FERC for the purpose of calculating GMC rates both prior to the new market launch and subsequent to its implementation, should also be eliminated at this time (Option 2).

While there is general agreement among stakeholders that assessing the MUFE charge to gross energy in the day ahead market better reflects cost causation principles, Option 2 also would substantially increase GMC charges for certain stakeholders. From the standpoint of well-settled rate design principles, both cost causation and bill impacts should be taken into account when rate changes are being considered.

After extensive internal discussions that considered the input from stakeholders as well as the bill impact information, the ISO has decided to postpone consideration of the elimination of netting (Option 2). Thus, the ISO has concluded that the best option at this time is to remove ISTs from the MUFE calculation and leave the remainder of the calculation as it is and allocate the charge to scheduling coordinators based on net physical energy (Option 1). The equation would be changed from the existing calculation of:

$$MarketUsageForwardEnergyQuantity_{Bmdh} = ABS(TotalDAForwardNetEnergyQuantity_{Bmdh} - TotalDAInterSCTradeNetEnergyQuantity_{Bmdh})$$

To the proposed calculation of:

$$MarketUsageForwardEnergyQuantity_{Bmdh} = ABS(TotalDAForwardNetEnergyQuantity_{Bmdh})$$

Although the ISO proposes to eliminate Option 2 as an alternative to address the IST issues at this time, further modifications to the MUFE billing determinants may be considered in the future. In particular, the ISO plans to address, with its stakeholders, an updated cost of service study that will reflect cost center changes associated with the new building and the elimination of capitalized expenses associated with MRTU implementation. The ISO concludes that these upcoming GMC related stakeholder process and associated studies provide a better forum for consideration of the netting versus gross option.

Next Steps

The stakeholder process for GMC charge code 4537 (MUFE) will continue with the following timeline:

- September 4, 2009 – Comments due on straw proposal (see template below)

- September 15, 2009 – Meeting to discuss comments on straw proposal
- October 2, 2009 – Draft final proposal published
- October 12, 2009 – Comments due on final proposal
- October 29-30, 2009 – Present to CAISO Board for approval
- November 1, 2009 – FERC filing

Template for comments

Please use the template on the next page to submit comments to the CAISO.

Comments are due by close of business Friday, September 4, 2009 to csnay@caiso.com.

Stakeholder Comments Template
Subject: GMC Charge Code 4537 – Market Usage Forward Energy Straw Proposal

Submitted by (Name and phone number)	Company or Entity	Date Submitted

CAISO seeks written stakeholder comments on its GMC Charge Code 4537 – Market Usage Forward Energy Straw Proposal, which was posted on August 28, 2009 at http://www.caiso.com/23f1/23f1eeab40a20.html

Stakeholders should use this Template to submit written comments. Written comments should be submitted no later than Close of Business on Friday, September 4, 2009 to: csnay@caiso.com. Comments will be posted on the CAISO website.

The CAISO seeks stakeholder input on the following:

1. Do you support the ISO's straw proposal to eliminate ISTs from the MUFE calculation? Please explain why.

2. If you do not support removing ISTs from the MUFE calculation, what alternative do you propose? Please explain why your alternative is preferable to the ISO's straw proposal.

3. Do you support the ISO's straw proposal to continue netting physical energy in the MUFE calculation? Please explain why.

4. If you do not support the netting option, what alternative do you propose? Please explain why your alternative is preferable to the ISO's straw proposal.