California ISO | WESTERN ENERGY IMBALANCE MARKET

Memorandum

To: ISO Board of Governors and Western Energy Imbalance Market Governing Body

From: Ryan Seghesio, Chief Financial Officer

Date: September 13, 2023

Re: **Decision on 2023 Cost-of-Service Study driven rate and fee changes**

This memorandum requires ISO Board of Governors and WEIM Governing Body action.

EXECUTIVE SUMMARY

The ISO completed its triennial Cost-of-Service study (2023 Cost-of-Service study) in accordance with its tariff. The study analyzes cost and time data to determine how much time and resources staff uses to support the services that the ISO offers. The study's results are used to update the Grid Management Charge (GMC) Revenue Requirement percentage allocations to the Market Services, System Operations, and Congestion Revenue Rights Services (CRR Services) cost categories. The study results are also used to update the Western Energy Imbalance Market (WEIM) cost category percentages, the Reliability Coordinator (RC) funding percentage, and other supplemental services. The study results indicated no change to the major GMC percentage allocations and some minor percentage or fee changes across some of the other services. A summary of the changes in the 2023 Cost-of-Service study is illustrated in Table 1 – Summary of 2023 Cost-of-Service Study Results and Changes below.

Additionally, as part of the 2023 Cost-of-Service study, the ISO proposes four rate design tariff changes summarized below:

- Bifurcate the System Operations Charge to a System Operations Real-Time Dispatch Charge and a System Operations Balancing Authority Area Services Charge effective in 2026.

- Implement an EDAM administrative charge transitional load ramp-in period that will provide for incremental costs for WEIM entities joining the EDAM.

- Increase the GMC Revenue Requirement cap beginning in 2025 to accommodate inflationary and operational cost increases; as well as, to accommodate the accounting treatment of EDAM revenues and GMC Revenue Requirement structure changes.

- Finally, the ISO proposes to eliminate the tariff language in Appendix F - Rate Schedules, Schedule 1 - Grid Management Charge, Part E – System Operations Charge Exemption for Certain Long-Term Power Supply Contracts effective January 1, 2024. There are no longer power supply contracts that qualify, so the provisions are anachronistic.

The cost category percentage changes and some of the fee changes are requirements of the Cost-of-Service study under the tariff and the current rate structure; as such, they do not require additional approval. However, the rate design tariff changes described in the memo do require the ISO Board of Governors and the WEIM Governing Body approval.

> ***Moved, that the ISO Board of Governors and the WEIM Governing Body approve the rate design tariff changes as outlined in the memorandum dated September 13, 2023;***
>
> ***Moved, that the ISO Board of Governors and the WEIM Governing Body authorize Management to make all necessary and appropriate filings with the Federal Energy Regulatory Commission to implement the proposal described in the memorandum, including any filings that implement the overarching initiative policy but contain discrete revisions to incorporate Commission guidance in any initial ruling on the proposed Tariff amendment.***

DISCUSSION AND ANALYSIS

Changes from the Draft Final Proposal

The 2023 Cost-of-Service study analyzed the 2024 through 2026 revenue requirements under two scenarios. The first scenario assumes the pre-EDAM and impacts the analysis of the 2024 revenue requirement. The second scenario assumes the EDAM and impacts the analysis of the 2025 and 2026 revenue requirements.

As of late August 2023 (after the release of the draft final version of the 2023 Cost-of-Service study), the EDAM is being evaluated for a 2026 inaugural operational year. This change required the ISO to reevaluate the Cost-of-Service study results and proposed changes. The impacts to the study's analysis, given the new kickoff date, were minimal and the ISO proposes to address them as follows:

- Align the System Operations bifurcation effective date to January 1, 2026.
- Change the Real-Time percentage allocations to be effective for the full three years rather than split rates over the 3-year period.

- The Real-Time Market percentage will be 64.5% (average of the 64% and 65% originally published).
- The Real-Time Dispatch percentage will be 42%.

- Change the Transmission Ownership Rights Charge amount to be effective for the full three years rather than split rates over the 3-year period.
  - The rate will be $0.325/MWh (average of the $0.32 and $0.33 amounts originally published).

Table 1 – Summary of 2023 Cost-of-Service Study Results and Changes includes these changes.

Table 1 – Summary of 2023 Cost-of-Service Study Results and Changes

Item	2024	2025	2026
Grid Management Charges			
GMC Cost Category Percentages	No Change		**Changes**
Market Services	49%		
System Operations	49%		Charge Retired
NEW: System Operations Real-Time Dispatch			23%
New: System Operations Balancing Authority Area Services			26%
CRR Services	2%		
Western Energy Imbalance Market			
WEIM Percentage Allocations	**Changes**		
Real-Time Market	from 63% to 64.5%		
Real-Time Dispatch	from 50% to 42%		Charge Retired
Reliability Coordinator West			
Reliability Coordinator Funding Percentage	**Change** from 9% to 8%		
Supplemental Fees			
Other Revenue (offsets to the GMC Revenue Requirement)	No Change		
Miscellaneous Fees (collected as charges below the line)	**Change**		
TOR Charge/MWh	from $0.18 to $0.325		
Extended Day-Ahead Market			
EDAM Systems Operations			**Changes** WEIM Real-Time Dispatch and EDAM System Operations charges will be replaced by the NEW System Operations Real-Time Dispatch charge.
EDAM Transitional Ramp-In Model			EDAM Transitional Ramp-In (Initial EDAM Years 1 through 4)
GMC Revenue Requirement			
GMC Revenue Requirement Cap	No Change $202M	**Changes** $245M	$250M
Other			
Tariff Appendix F - Rate Schedules, Schedule 1 - Grid Management Charge, Part E – System Operations Charge Exemption for Certain Long-Term Power Supply Contracts	**Change** Remove language as there are no longer power supply contracts that qualify, so the provisions are anachronistic.		

Bifurcation of the System Operations Charge

The ISO proposes to bifurcate its System Operations Charges to a System Operations Real-Time Dispatch Charge and a System Operations Balancing Authority Area Services Charge effective in 2026. As the bifurcation of the System Operations Charge is already part of the WEIM Administrative Charge calculations, this proposal will simplify the process by removing a step in the charge calculation process and provide for greater detail in the calculations. In addition, the new Systems Operations Real-Time Dispatch Charge will supersede the WEIM System Operations Charge and the recently proposed EDAM Systems Operations Charge. This change will have no financial impact on customers as it simply changes how the ISO collects for these costs.

EDAM Administrative Charge Transitional Load Ramp-In

The ISO proposes an EDAM administrative charge transitional load ramp-in period that will provide for incremental costs for WEIM entities joining the EDAM. The ramp-in will be offered only during the initial four calendar years of the EDAM. In addition, the ramp-in will only apply to those charges paid by load-serving entities; not energy suppliers. This will avoid providing any suppliers with a competitive advantage in the market. The ramp-in will increase each calendar year starting with charges no less than the WEIM load-based charges. This ramp-in approach aligns costs with benefits as the EDAM benefits are quantified and participation evolves accounting for transmission and load served by the ISO balancing authority area and the EDAM entity areas. The ramp-in approach will support introduction and growth of the EDAM, which will reduce GMC rates for all existing ISO market participants due to the additional supply and demand volumes participating in the market starting the first year.

Based on BANC's recent commitment to join the EDAM in the spring of 2026, the ISO is evaluating its kickoff date of the EDAM to optimize the interest of other parties to join the EDAM. The scenarios in Table 2 – Revenue Contributions Scenarios Comparison is a conceptual projection assuming just PacifiCorp and BANC join in the spring of 2026. The comparison illustrates the transitional load ramp-in effect on revenue contributions by participants assuming PacifiCorp's and BANC's participation in the EDAM effective year 1 of operation. The annual revenue contribution assumes the 2023 Cost-of-Service study cost category percentage allocations, a projected year 1 revenue requirement, prorated year 1 WEIM Charges and EDAM charges to account for spring WEIM off-boarding and EDAM onboarding, and a 3% year-over-year revenue requirement for inflationary growth for years 2 through 5. The prorated WEIM charges account for 25% of projected WEIM and Nodal Pricing Model (for PacifiCorp) annual revenue and the prorated EDAM charges account for 75% of projected EDAM annual revenue.

Table 2 — Revenue Contributions Scenarios Comparison

Projected Market Services (DA and RT) and System Operations (RTD) Revenue Contributions

($ in millions)

** Prorated Year 1 WEIM Charges and EDAM charges to account for spring WEIM offboarding and EDAM onboarding.*

Scenario	Year 1 Charges	Year 2 Charges	Year 3 Charges	Year 4 Charges	Year 5 Charges
Base: No EDAM Participation					
CAISO (assuming no PAC and BANC WEIM Revenue offsets)	$ 160.9	$ 166.1	$ 171.5	$ 177.0	$ 182.7
PacifiCorp (existing WEIM and NPM Charges)	$ 13.0	$ 13.0	$ 13.0	$ 13.0	$ 13.0
BANC (existing WEIM)	$ 0.6	$ 0.6	$ 0.6	$ 0.6	$ 0.6
Revenue Contributions	$ 174.5	$ 179.7	$ 185.1	$ 190.6	$ 196.3
Scenario 1a: Only CAISO, PAC, and Other Entity (Yrs 1-5) w/o Load Volume Ramp-In					
CAISO's portion of the charges	$ 130.1	$ 123.4	$ 127.1	$ 130.9	$ 134.8
PacifiCorp's portion of the charges*	$ 37.2	$ 46.7	$ 48.1	$ 49.5	$ 51.0
BANC's portion of the charges*	$ 7.2	$ 9.6	$ 9.9	$ 10.2	$ 10.5
Revenue Contributions	$ 174.5	$ 179.7	$ 185.1	$ 190.6	$ 196.3
Scenario 1b: Only CAISO, PAC, and Other Entity (Yrs 1-5) w/Load Volume Ramp-In					
EDAM Load Volume Ramp-In	5%	25%	50%	75%	100%
CAISO's portion of the charges	$ 141.9	$ 135.3	$ 134.6	$ 134.4	$ 134.8
PacifiCorp's portion of the charges*	$ 27.6	$ 37.0	$ 42.0	$ 46.6	$ 51.0
BANC's portion of the charges*	$ 5.0	$ 7.4	$ 8.5	$ 9.6	$ 10.5
Revenue Contributions	$ 174.5	$ 179.7	$ 185.1	$ 190.6	$ 196.3
Reduction in CAISO charges from Base	$ 19.0	$ 30.8	$ 36.9	$ 42.6	$ 47.9
PacifiCorp's and BANC's Scenario 1b discount compared to what they would be charged for full supply and load (Scenario 1a) from year 1.	27%	21%	13%	6%	0%

The scenarios comparison provides a detailed comparison of the Market Services and System Operations Real-Time Dispatch revenue requirements comparing a base scenario of no EDAM participation with a scenario in which PacifiCorp and BANC participates in the EDAM (without (Scenario 1a) and with (Scenario 1b) the proposed load-based ramp-in). In combining the ramped-in load-based charges with the supply based charges, PacifiCorp and BANC could expect a ramp-in of Year 1 (73%), Year 2 (79%), Year 3 (87%), Year 4 (94%), and Year 5 (100%) when compared to what the total load and supply based costs would have been without proposed load-based ramp-in. This ramp-in reflects the ISO's costs and load customers' benefits, and the fact that EDAM entities joining the Day-Ahead Market also pay new entrant fees that go directly to their specific early implementation costs.

Revenue Requirement Cap

The GMC Revenue Requirement cap has remained unchanged since 2015 at $202 million. The ISO proposes no change in the Revenue Requirement cap for 2024. However, with ongoing inflationary pressures and the recent growth in new positions as well as the need to accommodate the accounting treatment of the incoming EDAM revenues and GMC Revenue Requirement structure changes, the ISO proposes to increase the GMC Revenue Requirement cap to $245 million in 2025, and an increase to $250 million in 2026.

Outdated Tariff Section Elimination

The ISO proposes to eliminate the tariff language in Appendix F - Rate Schedules, Schedule 1 - Grid Management Charge, Part E – System Operations Charge Exemption for Certain Long-Term Power Supply Contracts. The section was added as part of the 2011 GMC rate design and the last contract eligible for exemption expired in 2021. There are no longer power supply contracts that qualify, so the provisions are anachronistic.

POSITIONS OF THE PARTIES

Numerous stakeholders attended the July and August stakeholder calls to discuss the 2023 Cost-of-Service study results and impacts to the GMC and other rates. The participants included Avista Corporation, California Community Choice Association (CalCCA), California Public Utilities Commission, PacifiCorp, Sacramento Municipal Utility District, San Diego Gas and Electric, Seattle City Light, Six Cities, and Southern California Edison amongst others. There were no objections or concerns raised regarding the study's results, the proposed bifurcation of the System Operations Charge, the proposed GMC Revenue Requirement cap increase, or the proposed elimination of the Tariff Appendix F - Rate Schedules, Schedule 1 - Grid Management Charge, Part E – System Operations Charge Exemption for Certain Long-Term Power Supply Contracts language. All of the stakeholder comments[1] received were regarding the proposed EDAM administrative charge transitional load ramp-in.

California Community Choice Association (CalCCA) expressed their full support of the EDAM and of Balancing Authority Areas joining the EDAM when they identify a benefit to them doing so. However, CalCCA believes the EDAM administrative charge transitional ramp-in model unnecessarily skews the costs and benefits of the EDAM. They further opined that the ISO should instead require all EDAM load, including California load-serving entities and EDAM BAAs, to pay their full GMC upon day one of the EDAM.

Six Cities expressed concerns about whether the model provides just and reasonable rates and reflects an appropriate rate design for ISO entities. In addition, Six Cities stated that they understand and support the ISO's objective of encouraging early EDAM participation commitments; however, they have reservations about whether it is reasonable for the ISO footprint to effectively subsidize a transition period for EDAM participants by agreeing to relinquish a share of the reduction in GMC that ISO entities would otherwise have received if EDAM participants pay their full share of administrative charges. While Six Cities questioned the justifications for the policy choice being proposed, they stated that they do not oppose the proposed Transitional Ramp-In Model. However, their lack of opposition is contingent on the ISO's commitment to not extend the ramp-in period to other entities in future years.

The ISO's response to CalCCA's and Six Cities's comments was that the ISO believes the transitional load ramp-in model is a just and reasonable model for aligning the costs with benefits of the EDAM services that will grow with increased participation. As the EDAM does not initially cover ancillary services or convergence bidding, nor make use

[1] Stakeholder comments and ISO responses are available here: http://www.caiso.com/InitiativeDocuments/ISO-Responses-to-Comments-2023-Cost-of-Service-Study-July-12-2023.pdf

of congestion revenue rights, an EDAM entity load will not have the same access to all these services as the California load will. Additionally, the incentive of the ramp-in model for early adoption increases the overall benefit for California entities. Further, the ISO believes that since the actual benefits of the EDAM have not been measured from actual operation and the ultimate benefits that do accrue are a function of the number of those participating in the EDAM, that the ramp-in model provides incentives for early adoptions that will best align costs with benefits while providing immediate GMC cost reduction and operational benefits to existing California customers. Just as the ramping of the WEIM benefits grew as WEIM participation grew, the ISO believes the benefits of the EDAM will grow as the EDAM participation grows. As such, the ISO doesn't view the transitional load ramp-in model as a subsidy, but rather as a mechanism for allowing the benefits to be understood and grow as a result of time and additional participation. The ISO is in agreement with Six Cities in keeping the ramp-in period fixed to only the initial four years of the EDAM operations and not extended or stretched out once filed and approved.

Comments received from Idaho Power Company and Los Angeles Dept. of Water, as well as a joint comment submitted on behalf of Balancing Authority of Northern California, PacifiCorp, Portland General Electric, and Seattle City Light were all in support of the EDAM administrative charge transitional load ramp-in proposal. The common theme of the comments is that the ramp-in proposal is a just and reasonable means to balance the benefits and initial financial burden of participation in EDAM. The comments also mention that the both the ISO and EDAM entities will benefit from lowered rates the increased participation in the EDAM.

CONCLUSION

Management seeks joint authority approval by the ISO Board of Governors and the WEIM Governing Body to bifurcate the System Operations Charge, by eliminating it effective January 1, 2026, and replacing it with two new charges: System Operations Real-Time Dispatch Charge and System Operations Balancing Authority Area Services Charge. Management also seeks approval to establish the EDAM administrative charge transitional ramp-in of load volumes during the first four years of the EDAM operations, revise the GMC Revenue Requirement cap beginning in 2025, and eliminate the tariff language in Appendix F - Rate Schedules, Schedule 1 - Grid Management Charge, Part E – System Operations Charge Exemption for Certain Long-Term Power Supply Contracts effective January 1, 2024. All other percentage and fee adjustments as part of the 2023 Cost-of-Service study are requirements under the tariff and current rate structure.