

Memorandum

To: Energy Imbalance Market Governing Body
From: April Gordon, Director of Financial Planning and Procurement
Date: July 6, 2017
Re: Briefing on 2018 ISO Grid Management Charge Update

This memorandum does not require EIM Governing Body action.

EXECUTIVE SUMMARY

In accordance with the California ISO Tariff (Appendix F, Schedule 1) the ISO completed its scheduled tri-annual cost of service study.¹ The results of the study are used to update the percentage allocations used to determine the grid management charge (GMC) rates as summarized below:

Evolution of the GMC Rates						
Triannual Cost of Service Study's New GMC Percentages	X	Annual Revenue Requirement	/	Estimated GMC Volumes	=	GMC Rates

The GMC is the vehicle through which the ISO recovers its annual revenue requirement from the entities that use ISO services. Funding the annual revenue requirement ensures that the ISO recovers its administrative, operating and capital costs.

The updated cost of service study results indicate a shift of resources (time and dollars) from the system operations and congestion revenue rights (CRR) services cost categories to the market services cost category. The market services percentage allocation of the GMC will increase by 5% beginning with the 2018 GMC as shown in the table below:

¹ The 2016 Cost of Service Study can be found at http://www.caiso.com/Documents/2016Cost_ServicesStudy_2018GMCUpdate.pdf.

GMC	Old Percentages	New Percentages	Increase / (Decrease) in Percentages
Market Services	27%	32%	5%
System Operations	70%	66%	-4%
CRR Services	3%	2%	-1%

This shift is primarily driven by the market changes brought on by FERC Order No. 764, which positions the ISO real time market to better support the participation of intermittent resources and additional market intervals. Another driver behind the shift in cost categories is the reduction of direct costs (primarily in the system operations category) due to process efficiencies implemented since the last cost of service study.

The updated cost of service study also amends the EIM percentage allocations which are used to determine the EIM Administrative Charges. EIM rates are determined by the real-time market and real-time dispatch portion of the market services activities and system operations activities.

GMC	EIM Real Time Activity	Old Percentages	New Percentages	Increase / (Decrease) in Percentages
Market Services	Real Time Market	61%	79%	19%
System Operations	Real Time Dispatch	45%	39%	-6%

The changes in the EIM percentage allocations are due to the same reasons affecting the GMC allocations. The implementation of the 15-minute market resulted in more market intervals, the enhancement of the real-time market desk, and ultimately a greater percentage of real-time market activities in the market services area. While process improvements led to cost savings in the real-time dispatch portion of system operations.

The revised percentages for both GMC and EIM will become effective with the 2018 GMC and remain until the next GMC update.

BACKGROUND

The current GMC design was vetted through a comprehensive stakeholder process and approved by the ISO Board of Governors and FERC in 2011 to be effective on January 1, 2012. The structure contains three cost categories: market services, system operations and CRR services; and, percentages that are applied to the revenue requirement to determine the amount in the three cost categories upon which rates are set. The percentages are determined by a cost of service study that is based on the ISO's activity based costing (ABC) structure that was fully implemented in 2010. The market services category is designed to recover costs the ISO incurs for running the markets. The system operations category is designed to recover costs the ISO incurs for reliably operating the grid in real time. The CRR services category recovers costs the ISO incurs for running the CRR markets.

In 2014, the ISO Board approved minor amendments to the GMC design, including the requirement that the ISO conduct an updated cost of service study starting in 2017 and every three years thereafter. In conducting each cost of service study, the ISO will recalculate the three service charge percentages and the rates for the fees and charges that constitute the GMC as well as the EIM Administrative Charge. As stated in the tariff, the ISO will submit tariff amendments to reflect any changes to the allocation percentages or level of fees and charges.

COST OF SERVICE STUDY

The tri-annual cost of service study uses activity based costing to determine the percentages used to allocate the annual revenue requirement into the grid management charges (market services, system operations, and CRR services). 2016 data was used for the update and the hours associated with the Level 1 activities are summarized below:

ABC Code	Level 1 ABC Activity	Number of Level 2 Activity Tasks	Number of Non-Administrative 2016 Hours Reported
Direct			
80001	Develop Infrastructure	9	85,174
80002	Develop Markets	9	61,237
80004	Manage Market & Reliability Data & Modeling	17	103,931
80005	Manage Market & Grid	11	203,020
80007	Manage Operations Support & Settlements	16	91,830
80010	Support Customers & Stakeholders	8	70,178
Indirect			
80003	Manage Human Capabilities	8	28,137
80008	Plan & Manage Business	16	63,648
80009	Support Business Services	46	448,587
Totals			
9		140	1,155,742

The cost of service study also tracks the shift in time and resources associated with the cost categories (also referred to as grid management charges) between studies.

EIM ADMINISTRATIVE CHARGE

The western energy imbalance market relies on the ISO's existing real time portion of the market services activities and system operations activities. Real-time activities occur in market services for the real-time market and in system operations for real-time dispatch. Conceptually, energy imbalance market participants pay the same rate as existing customers, but only for their real-time market and real-time dispatch activities specifically related to the energy imbalance market.

To determine the EIM Administrative Charges in 2018, management will first allocate the 2018 Revenue Requirement to the three GMC service categories using the new percentages as identified in this report, forecast volumes in these categories to determine the GMC rates, and then apply the new real-time cost proportions to the respective rates for market services and system operations. A draft of the 2018 Revenue Requirement and resulting GMC/EIM rates will be available publicly in October 2017 and a final draft will be presented to the ISO Board for their approval in December 2017.

POSITIONS OF THE PARTIES

Numerous stakeholders participated in the May 24, 2017 stakeholder call² to discuss the 2016 Cost of Service Study results and impacts to the 2018 GMC and EIM rates. The participants included (but were not limited to) Arizona Public Service, Idaho Power, LADWP, NV Energy, PacifiCorp, Powerex, Puget Sound Energy, Sacramento Municipal Utility District, and Seattle City Light. There were no objections or concerns raised regarding the results.

CONCLUSION

Management will file the necessary tariff amendments with FERC adjusting the relative percentage allocations. The revised allocations will become effective with the 2018 GMC and EIM rates and will remain in place until the next GMC update.

² The stakeholder meeting minutes can be found at http://www.caiso.com/Documents/MeetingMinutes_2016Cost_ServiceStudy_2018GMUpdate.pdf.