

Proposal for FERC Fee Recovery

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Background

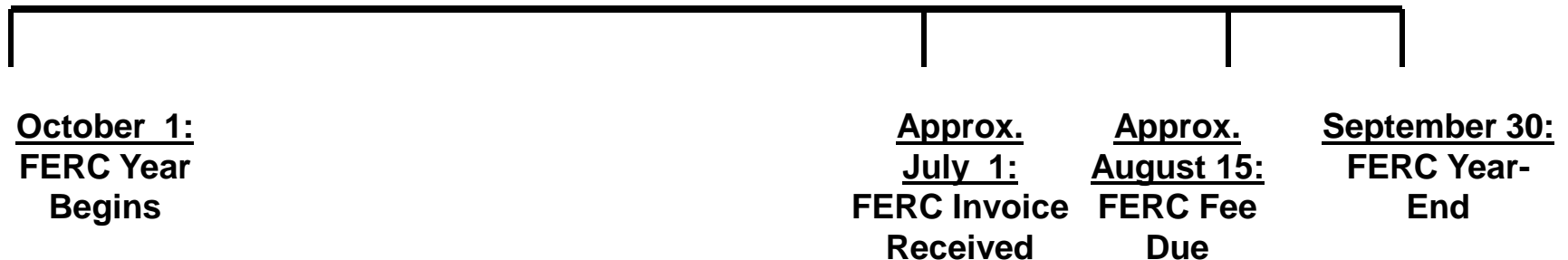
- ◆ **NYISO's Rate Schedule 1 revenues are collected via a fixed charge per MWh multiplied by the applicable volume of MWhs transacted each month.**
 - *Net result = NYISO's revenues follow the seasonal nature of electricity usage.*
 - *Potential for volatility in revenue collections due to MWh volume variations*

- ◆ **NYISO's expenses, however, do not follow this same seasonal pattern.**
 - *Largest single payment made within NYISO's budget is the annual assessment of FERC Fees, which impacts the management of NYISO's budget and cash flows.*

FERC Fee Structure

- ◆ FERC follows the standard Federal Fiscal year – Beginning October 1st and Ending September 30th.
- ◆ The FERC Fee Invoice is not issued until approximately July 1st each year, and is payable on or about August 15th.

FERC Fees Annual Cycle



FERC Fee Structure *(continued)*

- ◆ **FERC Fees are assessed based upon inputs NYISO cannot reasonably predict:**
 - *FERC's total program budget for fiscal year*
 - *Ratio of NYISO's MWh volumes compared to total MWh volumes for all jurisdictional entities*

FERC Fee Structure *(continued)*

- ◆ **Historically, NYISO has included FERC Fees within its annual revenue requirement as part of Rate Schedule 1.**
 - ***Budget amount is an estimate which can differ from actual invoice, potentially by millions of dollars***
 - ***Timing and amount of assessment requires NYISO to pay FERC Fees from external lines of credit, incurring additional debt interest expense, historically as high as ~\$0.1M annually.***
 - ***No other ISO includes FERC Fees within its annual budget***
 - ***FERC Fees represent a fixed cost that is independent of NYISO operations***

FERC Fees - Other ISOs

- ◆ **PJM, CAISO, & MISO all have similar FERC Fee recovery methodologies**
 - *Annually estimate a \$/ MWh rate to be billed monthly based on actual MWhs. When official FERC assessment is known, any true-up is rolled into following year's estimate (similar to NYISO Voltage Support Recovery – Rate Schedule 2)*
 - PJM Rate Schedule 9
 - CAISO allows for MPs to choose between monthly or annual billing of FERC Fees
 - MISO Rate Schedule 10

- ◆ **ISO-NE invoices entire FERC Fee assessment in the billing month following the receipt of the FERC Fees invoice**
 - ISO-NE Rate Schedule 4

Impacts

Inability to Accurately Budget and Control

Cost:

- ◆ NYISO cannot predict inputs to FERC annual assessment
- ◆ FERC does not provide any guidance or advance notice
- ◆ Inputs to FERC annual assessment can create significant variability in amount assessed year to year
- ◆ NYISO is budgeting for a cost it has no ability to impact or control

NYISO FERC Fees - Budget vs. Actual	Budget	Actual	Variance
2010	\$ 11.2	\$ 10.0	\$ 1.2
2011	\$ 12.0	\$ 11.0	\$ 1.0
2012	\$ 12.0	\$ 11.0	\$ 1.0
2013	\$ 11.5	\$ 11.1	\$ 0.4
2014	\$ 12.0	\$ 11.7	\$ 0.3
2015	\$ 12.5	TBD	TBD

Impacts (continued)

Limited Ability to Adjust/Manage Fiscal Plans:

- ◆ **Charges are unknown until NYISO receives FERC's invoice in July**
- ◆ **As a result, first half year's spending is generally conservative**
- ◆ **Second half year's spending dependent on FERC Fees assessment**
 - *Only six months and less than half of the annual budget typically remains to adjust accordingly, if needed*
 - *Budget overruns on FERC Fees can limit NYISO's ability to meet commitments or planned objectives*
 - *Budget underruns on FERC Fees can cause larger year-end surpluses*
- **Reduced flexibility and ability to plan spending in a prudent manner exists due to timing of FERC invoice**
- **Challenges to managing NYISO cash flows throughout the course of a given budget year**

Benefits of Alternative Recovery

- ◆ **Ability for NYISO to plan and manage annual spending focused on operations and project delivery**
- ◆ **Reduced potential for mid-year RS1 increases if FERC Fees are under-estimated**
- ◆ **Further limits the potential for budget underruns and/or budget flexibility if FERC Fees are over-estimated**
- ◆ **Budget savings from reduced debt service cost**

Market Participant Feedback on Alternative Options

Based upon feedback received to date, Market Participants have expressed a preference for Option 2 – Invoice MPs on a monthly basis based on Load Ratio Share.

The following slides provide additional details on Option 2.

Alternative Option 2

- ◆ **Invoice Market Participants on a monthly basis:**
 - *Estimated values until Invoice is received*
 - *Recovery allocation based on monthly load ratio share*
 - *True-ups required July – September for over/under collection amounts*
 - *Apply using same allocation percentages as Rate Schedule 1 Budget recovery*
 - *Non-Physicals will also use a pro-rata allocation percentage*
 - *FERC Fee recoveries will be held in interest bearing escrow account until invoice is due*

Option 2 Recovery Timeline

1st Year of Implementation Timeline

<p><u>Oct 1 – Dec 31, 2015:</u> <u>Continue current methodology – Recovery of FERC Fee recovered via RS1</u></p>	<p><u>Jan 1 – Dec 31, 2016: FERC Fee recovered via Option 2</u></p>	<p>True-up July – Sept 30</p> <p><u>Approx. Jul 1:</u> FERC Invoice Received</p> <p><u>Approx. Aug 15:</u> FERC Fee Due</p>	<p><u>Oct 1 – Dec 31: FERC Year Begins New estimated Fee Recovery</u></p>
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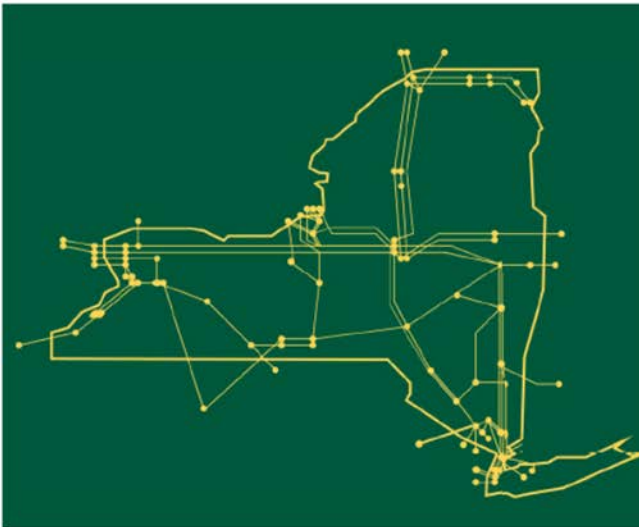
Subsequent Years Timeline

<p><u>Jan 1 to June 30 – Continue collecting based on estimated Fee</u></p> <p><u>Jan 1 – Dec 31, 2017: FERC Fee recovered via Option 2</u></p>	<p>True-up July – Sept 30</p> <p><u>Approx. Jul 1:</u> FERC Invoice Received</p> <p><u>Approx. Aug 15:</u> FERC Fee Due</p>	<p><u>Oct 1 – Dec 31: FERC Year Begins New estimated Fee Recovery</u></p>
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Next Steps

- **February 25:** BPWG meeting to review alternative options
- **March 31:** BPWG meeting to continue discussion
- **April:** **Management Committee Discussion, if needed**
- **May:** **BPWG meeting to continue discussion, if needed**
- **May:** **Management Committee Vote**
- **July:** **Board of Directors**
- **July:** **FERC Filing**
- **January 1, 2016:** **Implementation, effective for the October 2015 – September 2016 FERC fiscal year invoice and 2016 Budget Cycle**

The New York Independent System Operator (NYISO) is a not-for-profit corporation responsible for operating the state's bulk electricity grid, administering New York's competitive wholesale electricity markets, conducting comprehensive long-term planning for the state's electric power system, and advancing the technological infrastructure of the electric system serving the Empire State.



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