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

October 1: FERC Year Begins

Approx. July 1: FERC Invoice Received

Approx. August 15: FERC Fee Due

September 30: FERC Year-End

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**

Alternative Options

The following slides propose several options for Market Participant consideration as to the recovery of NYISO's annual FERC Fee assessment.

Alternative Option 1

- **Invoice Monthly – January to December**
  - ***Estimated values produce a $/MWh rate and recovered based on actual Injections/ Withdrawals***
  - ***Estimated Rate for Non-Physicals will be based on the annual rate reset process***
  - ***True-up on Rate and Volume required***
  - ***Apply using same allocation percentages as Rate Schedule 1 Budget recovery***
  - ***Treatment would be consistent with how FERC Fees are implicitly collected via Rate Schedule 1***
  - ***Treatment would be similar to CAISO, PJM, and MISO approach***
  - ***FERC Fee recoveries would be held in interest bearing escrow account until invoice is due***

Alternative Option 1 Example

Option 1 - Monthly Estimated Charge Based on Per MWH Rate			
FERC Fee Estimate	$	11,875,000 *	
Annual MWH Budget Estimate		165,000,000	
FERC Fee Rate	$	0.072	
Injection Rate	$	0.020	28%
Withdrawal Rate	$	0.052	72%
Monthly Injection Amount MWH		200,000	
FERC Fee Charge to MP	**$**	**4,030**	
Monthly Withdrawal Amount MWH		200,000	
FERC Fee Charge to MP	**$**	**10,364**	

* Net of amount billed to Non-physicals

- **Spreads impact of recovery over twelve months**
- **Provides rate certainty (pending true-up) to Market Participants and is similar to current collection methodology**
- **Most administratively complex alternative to implement and monitor, primarily due to required true-up on rate and volume**

Alternative Option 2

- **Invoice Market Participants on a monthly basis – January to December**
  - ***Estimated values until Invoice is received***
  - ***True-ups required July – December***
  - ***Apply using same allocation percentages as Rate Schedule 1 Budget recovery***
  - ***Non-Physicals will also use a pro-rata allocation percentage***
  - ***FERC Fee recoveries would be held in interest bearing escrow account until invoice is due***

Alternative Option 2 Example

OPTION 2 - Monthly Estimated Charge Based on Load Ratio Share			
Monthly FERC Fee Estimate	$	989,583 *	
Actual Monthly MWH		16,500,000	
Implicit FERC Fee Rate	$	0.05998	
Monthly Injection Amount MWH		200,000	28%
FERC Fee Charge to MP	**$**	**3,359**	
Monthly Withdrawal Amount MWH		200,000	72%
FERC Fee Charge to MP	**$**	**8,636**	

* Net of amount billed to Non-physicals

- **Spreads impact of recovery over twelve months**
- **Administratively more complex to implement and monitor primarily due to required true-up**
- **Potential for variability in rate from month-to-month**

Alternative Option 3

- **Invoice Market Participants for actual FERC Fee amount in total on the next available invoice after receipt (July) for payment in August.**
  - ***Apply using same allocation percentages as Rate Schedule 1 Budget recovery***
  - ***Treatment would be consistent with ISO-NE approach***

Alternative Option 3 Example

OPTION 3 - Annual Actual Charge Based on Load Ratio Share			
Invoiced FERC Fee	$	11,875,000 *	
August - July Actual MWH	169,300,000		
Implicit FERC Fee Rate	$	0.0701	
Aug-July Injection Amount MWH	2,400,000		28%
FERC Fee Charge to MP	**$**	**47,107**	
Aug-July Withdrawal Amount MWH	2,400,000		72%
FERC Fee Charge to MP	**$**	**121,132**	
* Net of amount billed to Non-physicals			

- **Administratively less complex to implement and monitor primarily due to no required true-up**
- **Larger one time annual payment than if billed monthly**

Next Steps

- **February 25:** BPWG meeting to review alternative options
- **March 31:** BPWG meeting to continue discussion, as needed
- **April 29:** Management Committee Discussion
- **May 12:** BPWG meeting to continue discussion, if needed
- **May 27:** 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

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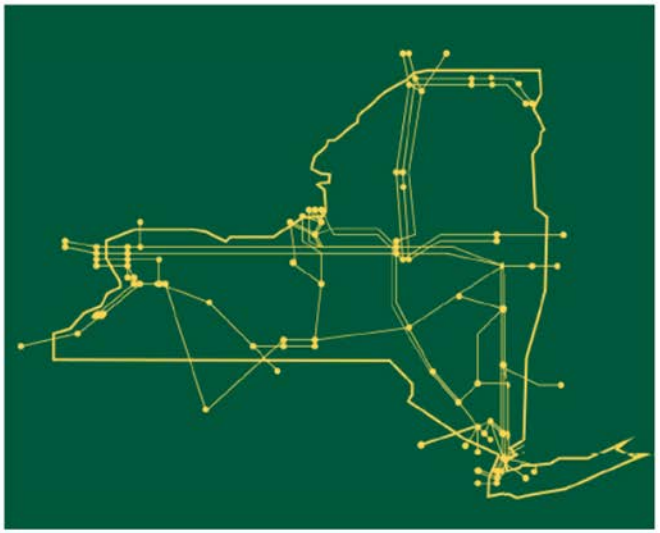

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