

# Memorandum

**To:** ISO Board of Governors

**From:** Ryan Seghesio, Vice President, Chief Financial Officer & Treasurer

**Date:** December 10, 2025

**Re:** **Decision on 2026 budget**

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***This memorandum requires ISO Board of Governors action.***

This memorandum summarizes the final 2026 grid management charge (GMC) revenue requirement, project budget, and rates proposal that the ISO Board of Governors is requested to approve, with an effective date of January 1, 2026. A high-level overview of the major budget components is summarized below. A complete description of the budget, including detailed tables and supporting documentation, is provided in the 2026 Draft Final Grid Management Charge Revenue Requirement, Project Budget, and Rates book, included as *Attachment A*.

The proposed 2026 GMC revenue requirement is \$249.9 million, an increase of \$11.4 million over 2025, driven by a 5% increase in the O&M budget (reflecting merit-based adjustments and 13 new budgeted extended day-ahead market (EDAM) supporting positions), a projected 25% decrease in other revenues due to EDAM rate design changes and the phase-out of nodal pricing revenues with PacifiCorp's 2026 EDAM entry, the full elimination of cash-funded capital collection with the \$26 million project budget instead funded through existing reserves, and a 55% reduction in the operating cost reserve credit. While these factors collectively increase the amount that must be recovered through the GMC, the resulting market services and system operations real-time dispatch rates are nevertheless projected to be lower in 2026 due to EDAM's launch and the associated expansion of day-ahead market volumes.

Changes from the previous draft version include a \$1 million increase in the project budget and change in GMC rates as a result of refined volume projections. The GMC revenue requirement remained the same.

**Management recommends the following motion:**

***Moved, that the ISO Board of Governors approves the 2026 grid management charge revenue requirement, project budget, and resulting rates as set forth in Attachment A to the memorandum dated December 10, 2025.***

## DISCUSSION AND ANALYSIS

The annual GMC revenue requirement is a central component of the ISO's financial planning framework and reflects the priorities outlined in the ISO's Strategic Plan. For 2026, the proposed GMC revenue requirement is \$249.9 million, just below the FERC-approved \$250 million cap.

The 2026 GMC revenue requirement was developed using the most recent results of the Cost-of-Service Study. The ISO completed its scheduled triennial study in 2023 in accordance with the tariff, and the updated cost allocations and fees from that study will be applied across the 2024–2026 budget cycle to develop the annual revenue requirements and resulting charges.

The GMC revenue requirement has five components:

- operations and maintenance budget;
- debt service;
- cash-funded capital;
- other costs and revenues; and
- operating cost reserve adjustment.

A summary of the 2026 GMC revenue requirement compared to 2025 is provided below.

### ***Operations and Maintenance Budget***

The operations and maintenance (O&M) budget represents the largest component of the revenue requirement. The proposed 2026 O&M budget is \$290.3 million, a \$14.3 million increase over 2025. The 2026 Draft Final Grid Management Charge Revenue Requirement, Project Budget, and Rates book (*Attachment A*) presents the O&M budget by delivery of services, resource utilization, and functional cost areas.

Key resource-level changes include the following:

- Salaries and benefits will increase due to the addition of 13 new budgeted positions, planned merit adjustments, and other compensation-related changes. These increases are partially offset by a 4% vacancy discount and a reduction in the benefit burden rate.
- Occupancy, equipment, and utilities will rise modestly, driven primarily by higher utility rates.
- Telecommunications, hardware, and software maintenance will increase due to higher telecommunications rates, expanded workforce needs, increased network and data storage requirements, and vendor cost growth.

- Consultants and contract staff costs will rise slightly due to short-term staff augmentation and other contracted services.
- Other contracts and professional fees will increase due to tools required for interconnection processing, enhanced software development, and expanded data analysis capabilities, including transitions to subscription-based licensing models and higher license counts.

Forecasting costs, a major component within this category, will continue to be offset by fees collected under the \$0.10/MWh intermittent resource forecasting fee, which is projected to generate \$7 million in revenue in 2026.

- The travel, training and other costs category will increase primarily due to planning for the 2026 Stakeholder Symposium and related engagement activities.

### ***Debt Service***

The Series 2021 bonds were issued to refinance the 2013 bonds, which originally funded construction of the ISO headquarters in Folsom as well as other capital investments. This refinancing is expected to generate approximately \$30 million in savings over the life of the bonds. The Series 2021 bonds are callable beginning February 1, 2031.

As of now, approximately \$130.3 million in principal remains to be collected through 2039. The annual debt service requirement for 2026 is \$14.7 million, which includes scheduled principal and interest payments on the Series 2021 bonds along with the required 25% reserve.

A summary of the debt service schedule is provided below.

<b>Debt Service (\$ in millions)</b>	<b>2026 Budget</b>	<b>2025 Budget</b>	<b>Change</b>
Principal payments	\$9.0	\$8.9	\$0.1
Interest payments	2.7	2.8	(0.1)
<b>Subtotal</b>	<b>11.7</b>	<b>11.7</b>	<b>0.0</b>
25% debt service reserve	3.0	3.0	0.0
<b>Total Debt Service</b>	<b>\$14.7</b>	<b>\$14.7</b>	<b>\$0.0</b>

### ***Cash-Funded Capital and Project Budget***

The 2026 GMC revenue requirement includes no cash-funded capital collection. Instead, the \$26 million project budget will be funded through existing capital reserves to maintain fiscal balance and manage customer cost impacts. The ISO has gradually built its capital reserve fund since 2010 to help stabilize the revenue requirement by contributing unencumbered funds when needed.

Proposed capital projects for 2026 are listed in *Attachment A* and will continue to be prioritized and managed under the ISO's established project approval process.

### ***Other Costs and (Revenue)***

Other revenue offsets the GMC revenue requirement and reflects all revenues other than the GMC. For 2026, other revenue is projected to be \$51.2 million, a \$17.4 million decrease from 2025. This reduction is driven largely by changes in western energy imbalance market (WEIM) system operations cost treatment under the EDAM rate design approved in the 2023 Cost-of-Service Study, as well as the phase-out of nodal pricing model revenue following PacifiCorp's May 2026 EDAM entry.

A full summary of other revenue is provided below.

<b>Other Costs and (Revenue) (\$ in millions)</b>	<b>2026 Budget</b>	<b>2025 Budget</b>	<b>Change</b>
Reliability Coordinator Funding Requirement	(\$21.7)	(\$20.7)	(\$1.0)
Interest Earnings	(7.7)	(8.0)	0.3
Intermittent Resource (wind and solar) Forecasting Fees	(7.0)	(6.5)	(0.5)
Western Energy Imbalance Market Administrative Charges	(5.3)	(18.4)	13.1
Generation Interconnection Project Fees	(3.6)	(3.0)	(0.6)
Nodal Pricing Model Fee	(3.1)	(9.2)	6.1
Other Revenue	(2.8)	(2.8)	-
<b>Total Other Costs and (Revenue)</b>	<b>(\$51.2)</b>	<b>(\$68.6)</b>	<b>\$17.4</b>

The Reliability Coordinator funding requirement is projected at \$21.7 million, reflecting application of the 8% Reliability Coordinator allocation from the 2023 study. This amount is approximately \$1 million higher than in 2025 due to the overall growth in the revenue requirement.

Moderate increases are projected in Intermittent Resource Forecasting Fees and Generation Interconnection Project fees, which help offset revenue reductions in other areas.

All other components of this category are expected to experience minimal changes.

### ***Operating Cost Reserve Adjustment***

The operating cost reserve adjustment reflects cumulative variances between actual and budgeted results, as well as the 25% debt service reserve contribution from the prior year.

For 2026, the operating cost reserve credit is projected at \$3.9 million, based on the 2024 true-up.

As with other revenue offsets, this credit helps ensure the revenue requirement remains below the FERC-approved cap.

A summary of the operating reserve adjustment is provided below.

Operating Cost Reserve Adjustment (\$ in millions)	2026 Budget	2025 Budget	Change
Change in the 15% reserve for O&M Budget	\$2.1	\$3.0	(\$0.9)
25% Debt Service collection from prior year	(2.9)	(2.9)	0.0
True-up of budget to actual revenues and expenses	(3.1)	(8.7)	5.6
<b>Total Operating Cost Reserve Debit / (Credit)</b>	<b>(\$3.9)</b>	<b>(\$8.6)</b>	<b>\$4.7</b>

### ***Grid Management Charge Rates, Fees, and Charges***

Despite increases in the overall revenue requirement, the market services, system operations real-time dispatch, and WEIM rates are projected to decrease in 2026 due to higher day-ahead volumes associated with EDAM's launch. The expansion of day-ahead participation under EDAM broadens the rate base, resulting in lower per MWh rates.

A comparison of the proposed 2026 rates to 2025 rates is provided below (\$ per unit).

Summary of Rates (\$ per MWh)	2026 Rate	2025 Rate	Change
<b>Grid Management Charges</b>			
Market Service Charge	\$0.1416	\$0.1615	(\$0.0199)
System Operations Balancing Authority Area Services Charge	\$0.1356	\$0.1269	\$0.0087
System Operations Real-Time Dispatch Charge	\$0.0901	\$0.1122	(\$0.0221)
CRR Services Charge	\$0.0109	\$0.0079	\$0.0030
<b>Supplemental Services Rates</b>			
WEIM Market Service	\$0.0913	\$0.1042	(\$0.0129)
WEIM System Operations	\$0.0901	\$0.1004	(\$0.0103)
RC Service Rate	\$0.0325	\$0.0320	\$0.0005

## ***Budget Process***

The ISO provided multiple opportunities for stakeholder engagement throughout the budget development process, beginning with the July kickoff meeting and followed by a November stakeholder call. One stakeholder submitted questions concerning the timing of the next Cost-of-Service Study, the absence of cash-funded capital in 2026, and the drivers behind projected GMC volumes for 2024–2026. The general consensus, taken from the meetings, was the stakeholders were supportive of the GMC revenue requirement, project budget and resulting rates. Meeting materials and recordings were posted on the ISO website.

Upon ISO Board of Governors approval, the ISO will publish the final 2026 Grid Management Charge Revenue Requirement, Project Budget, and Rates book to take effect on January 1, 2026.

It should be noted that minor post-decision adjustments to internal line items may occur to reconcile year-end headcount and cost center reorganizations; however, these adjustments will not affect the approved total budget.

## ***Conclusion***

The proposed 2026 GMC revenue requirement provides the funding necessary for the ISO to deliver on the commitments in its Strategic Plan while maintaining disciplined cost management and rate stability. Management recommends ISO Board of Governors approves the 2026 grid management charge revenue requirement, project budget, and resulting rates as described above and as set forth in Attachment A to this memorandum.