

Appendix A

Stakeholder Process and Issues

Extension of 2004 GMC Settlement into 2007



Appendix A
Stakeholder Process
Extension of the 2004 GMC Settlement

Stakeholder Process to Date

| Activity | Date | Number of Stakeholder Representatives <i>(Indicate phone and onsite reps)</i> |
|---------------------------------|----------------|----------------------------------------------------------------------------------|
| Conference call | March 7, 2006 | 36 by conference call |
| Stakeholder meeting | March 20, 2006 | 19 by conference call 13 onsite |
| Stakeholder meeting | April 25, 2006 | 10 by conference call 11 onsite |
| Conference call (working group) | May 11, 2006 | 13 by conference call |

Stakeholder Comments on March 7, 2006 Conference Call (documents available at: <http://www.caiso.com/17b5/17b58a16428f0.html>)

| Stakeholder | Comment | ISO Response |
|----------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Sean Neal, Modesto Irrigation District (MID) | MID is agreeable to the removal of the \$75,000 monthly fixed payment obligation. Prefers ISO straw proposal to extend Settlement for ten months through October 31, 2007. | The ISO concurs. |
| Holly Cronin, California Dept. of Water Resources-State Water Project (CDWR-SWP) | Concerned about the cost shift if MID is no longer obligated to pay the fixed payment. | The cost shift will not be the full fixed payment as MID will pay GMC at tariffed rates as any other SC would. As a practical matter, since MID has left the Control Area, no other treatment is equitable. |
| Derek Dyson, Transmission Agency of Northern California (TANC) | How does the ISO expect to set rates to recover its revenue requirement in 2007? Over ten months? | No, rates will be set to recover the revenue requirement over twelve months, though Settlement rates will only be in effect for ten months. |
| Milke McGuffin, Coral Energy | Coral's preference is for GMC rates to be modified for MRTU as of January 1, 2007. This will reduce workload on ISO and market participants as they are preparing for MRTU implementation. | The ISO understands the need to make changes for MRTU. However, making changes to be effective January 1, 2007 may take valuable resources away from MRTU testing and implementation now. Also, such changes are likely to cause shifts in the relative incidence of the GMC, which will have to be analyzed and reviewed by stakeholders. The ISO currently does not have the necessary data to do this analysis at this time. |
| Susan Schneider, Phoenix Consulting | PIRP participants had an expectation that ISO imbalance charges would be netted during the month. | This is a new issue for the ISO GMC discussions. PIRP issues with imbalance charges will be addressed in PIRP Initiative. PIRP Initiative discussions will include issues with forecasting and data quality as well. |

| Stakeholder | Comment | ISO Response |
|-------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| David Cohen, TANC | Could you explain further how an extension of the Settlement fits in with the current budget process and the timing of MRTU implementation? | The ISO is not proposing any change to the stakeholder budget process as outlined in the Settlement and the Tariff. All provisions would continue to be in effect through 2006 and, if agreement is reached, into 2007. Language can be included in the agreement to allow for MRTU implementation on a date other than November 1, 2007, if that occurs. |
| David Cohen, TANC | When does the ISO expect to begin the stakeholder process for the GMC under MRTU? | The ISO expects to begin the stakeholder process for GMC under MRTU in the fall of 2007. |
| David Cohen, TANC | Could the ISO provide bill impact analysis of the type used in the previous GMC stakeholder process? | The ISO will work to provide that data. (Note: The ISO did provide bill impact analysis to parties that signed the Confidentiality and Non-Disclosure Agreements.) |
| Karen Le Vine, Mirant | How will the ISO address a situation in which MRTU implementation is delayed past November 1, 2007? | The language of the agreement can include a reference to the earlier of MRTU implementation or January 1, 2008. |
| Susan Schneider, Phoenix Consulting | Will the ISO post comments received on March 13? | The ISO has created a separate webpage for documents related to this stakeholder process. All comments, as well as all stakeholder documents, will be posted there. |

Written Stakeholder Comments Submitted – March 13, 2006 (documents available at: <http://www.caiso.com/17b5/17b589b1424b0.html>)

| Stakeholder | Written Comment |
|-----------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Cogeneration Association of California/Energy Producers and Users Coalition | Supports an extension of the 2004 GMC Settlement until MRTU implementation and deferral of MRTU rate design elements. |
| California Dept. of Water Resources-State Water Project | Supports an extension of the 2004 GMC Settlement until MRTU implementation and deferral of MRTU rate design elements. Expressed concern about changes proposed in the ISO Straw Proposal, but was assured that those changes would not materially impact CDWR-SWP. |
| California Wind Energy Association | Requested netting of deviations for GMC Charge Types 4506 and 4536 consistent with the treatment of deviations for market charges. This netting was a principle agreed to in the development of the Participating Intermittent Resource Program. |
| Coral-Energy | Supports development of MRTU GMC rate design to be effective January 1, 2007. |
| enXco | Requested netting of deviations for GMC Charge Types 4506 and 4536 consistent with the treatment of deviations for market charges. |
| Southern California Edison | Supports an extension of the 2004 GMC Settlement until MRTU implementation and deferral of MRTU rate design elements. |
| Williams | Supports an extension of the 2004 GMC Settlement until MRTU implementation and deferral of MRTU rate design elements. |

Stakeholder Comments from March 20, 2006 Meeting (documents available at: <http://www.caiso.com/17b5/17b589b1424b0.html>)

| Stakeholder | Comment | ISO Response |
|-------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Susan Schneider, Phoenix Consulting | How are MRTU costs characterized in the ISO's revenue requirement? In which category of cost are they? | MRTU costs are classified in debt service if they are capitalizable costs. Otherwise they are in O&M. |
| Jeff Diamond, Electricity Oversight Board | What inflation rate was used in developing the projected 2007 revenue requirement? | Salaries and wages were assumed to increase at 3.5%. All other operations and maintenance costs were assumed to increase 1.5%. |
| David Cohen, TANC | Is the projected cost of MRTU, \$170 million, only for Release 1? | Yes, it is. We do not currently have an estimate of the cost of Releases 1A or 2. |
| David Cohen, TANC | Does the ISO anticipate another bond offering in 2007 to fund the MRTU costs not covered by the 2004 bond offering? | It is possible. However, there may be other sources available. For example, under certain conditions, the ISO's settlement with SDG&E over GMC on SWPL schedules allows for a refund of amounts paid back to SDG&E. If that occurs in 2006, there is potentially \$8 million available. |
| Sean Neal, MID | ISO may be required to make a Section 205 filing on both budget and rates this year. | ISO agrees that a Section 205 filing is required. |
| Bill Mason, enXco | The impact of CTs 4506 and 4536 (GMC deviations charges) is high on the Oasis project. The deviations for these charges should be netted over the month. | We believe that there are other issues concerning PIRP that could be better addressed in a separate process that considers all aspects of the Program. Also, any change in the rate structure will have to be agreed to by all participants; the ISO cannot unilaterally make the requested change. |
| Susan Schneider, Phoenix Consulting | All charges on wind generation deviations should be netted over the month consistent with the original PIRP agreement. | See response above. |
| David Cohen, TANC | Did wind generation receive an exemption from GMC deviations charges? Does the ISO know the dollar impact of the wind exemption? | No. At this time, the ISO has not analyzed the data, but will do so as soon as possible. |

| Stakeholder | Comment | ISO Response |
|-------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Susan Schneider, Phoenix Consulting | The settlements system changes to accommodate the monthly netting for the PIRP should not be extensive. | Automating the monthly netting will require changes to Settlements databases. In particular, the GMC calculations have not been structured with monthly netting. A new charge type might be required. |
| Nancy Rader, CalWEA | Monthly netting of deviations for PIRP was part of the negotiations during the development of the Program. As PIRP resources may not have control over their production, deviations cannot be avoided. | We believe that there are other issues concerning PIRP that could be better addressed in a separate process that considers all aspects of the Program. |
| Rod Aoki, CAC/EPUC | Support an extension of the GMC Settlement, but not an accommodation for PIRP deviations. | Thank you. |
| Erin Moore, SCE | Support an extension of the GMC Settlement. | Thank you. |
| Holly Cronin, GDWR-SWP | SWP supports an extension of the GMC Settlement. | Thank you. |
| Mike McGuffin, Coral Energy | Supports an MRTU-ready GMC effective January 1, 2007. Not many changes needed to current rate design to be MRTU-ready. | Changes in the rate design will affect the allocation of the revenue requirement. In addition, the ISO will have to perform a cost of service study to develop the new rates. |
| Many parties | Can the ISO provide bill impact analysis similar to that done in the last GMC stakeholder process and the Settlement discussions? | Yes, the ISO will provide hypothetical bill impact analysis based on the Straw Proposal and the MRTU alternative. |
| David Cohen, TANC | Will the ISO provide a discussion of the actual vs. forecasted billing determinants for 2005? | Yes, this will be provided before the next meeting. |
| Susan Schneider, Phoenix Consulting | Will the bill impact analysis be a public document that can be distributed? | We do not think so, but we will review the tariff requirements on the release of confidential data. |
| David Cohen, TANC | What is the ISO's timeline for this effort? | The ISO would like to reach agreement by the end of May with possible Board approval in June/July. |
| Bob Kargoll, PG&E | PG&E supports an extension of the GMC Settlement. | Thanks. |
| Many parties | Can the ISO provide a markup of the GMC Settlement for review by participants? | Yes, we will. (Note: it was later determined that the preferred method of filing would be a transmittal letter that would not require a markup of the GMC Settlement document.) |

Stakeholder Comments from April 25, 2006 Meeting (documents available at: <http://www.caiso.com/17c917c9ac60416f0.html>)

| Stakeholder | Comment | ISO Response |
|-----------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Many parties | Please explain how the ISO determined that the revenue requirement trigger of \$197 was appropriate? | The forecast for 2007 revenue requirement contains assumptions concerning the availability of operating reserve credits. The 2006 revenue requirement benefited from the availability of \$10 million in generator fines. This will not occur in 2007. In addition, if an adverse situation, such as litigation against the ISO, less may be available from the operating reserve this year for use next year. The ISO did not want to be in the situation of controlling operating expenditures, while being required to file at the Commission due to uncontrollable factors. |
| Jeff Diamond, Electricity Oversight Board | A trigger of \$197 million does not seem unreasonable. | Thank you. |
| Charles Mee, CDWR-SWP | In my view, a revenue requirement trigger of \$190 million is about right. The ISO should target spending at \$190 million. | The revenue requirement does not necessarily represent what the ISO is spending. There are three main components of the revenue requirement, O&M, debt service, and the effect of the operating reserve. Only O&M represents the effect of current spending. |
| Sean Neal, MID | Will the issuance of new debt to fund MRTU expenditures affect the ISO's expected revenue requirement of \$190 million for 2007? | No, the projection assumes some amount necessary for debt service or capital expenditures to fund MRTU expenditures. The bonds could be structured to maintain stable near term rates. |
| Jeff Diamond, Electricity Oversight Board, Sean Neal, MID | The ISO filing should incorporate the 2004 GMC Settlement document | Not necessarily. The filing could be made by transmittal letter. |
| Bert Hansen, SCE | What is the role of other parties if the ISO and PG&E were to make a joint filing? | Other parties that were not signatories to the filing could either be on record as not opposed to or supporting the agreement. |

| Stakeholder | Comment | ISO Response |
|-------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Sean Neal, MID | Is it possible to delay the filing of this agreement until the budget situation for 2007 is better defined? When will the ISO know the revenue requirement for 2007. | It is not the ISO's preference to delay filing an agreement as parties may change their positions over time. The revenue requirement will be known with some degree of certainty in October. However, if parties no longer support the agreement, the ISO might be forced to perform a cost study to justify rates for 2007 with less than one month's notice in order to file by November 1. |
| Susan Schneider, Phoenix Consulting | I requested that the ISO release the bill impact analysis at an aggregated level at the last meeting. Will the ISO release that information? | ISO Legal has concerns with providing this information as it is based on confidential data, but has no concerns if Ms. Schneider were to sign the Confidentiality/Nondisclosure Agreements. ISO Legal will review the Tariff provisions. (Note: On subsequent review, Legal determined that the aggregated bill impact analysis would remain confidential and subject to release only under the Confidentiality/Nondisclosure Agreements. Ms. Schneider was informed of this decision by email message.) |
| Susan Schneider, Phoenix Consulting | Will the PIRP Initiative result in the changes to the GMC rate structure that the PIRP participants have requested? | No, the PIRP Initiative cannot lead to changes in the GMC rate structure. Changes in the GMC rate structure must be vetted in the GMC Options process. |
| Bill Mason, enXco | enXco continues to request that the ISO net deviations during the month for GMC as it applies to PIRP resources. | As previously stated, in the context of the agreement to extend the Settlement, the ISO cannot unilaterally grant enXco's request. Other GMC participants, who would bear the cost, must agree to this request before the ISO can consider it. The ISO will provide data on which participants may make that decision. However, the data does not reside in the current GMC databases and must be compiled separately. Given the ISO's limited resources, this will take some time. |

Stakeholder Comments from May 11, 2006 Conference Call

| Stakeholder | Comment | ISO Response |
|----------------|-----------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Many parties | Parties raised concerns that the ISO's preferred method of filing by transmittal letter may not be appropriate for vehicle. | If all parties are willing to be signatories to the ISO filing, the ISO could use a different method. However, as parties, other than PG&E, are not willing to be listed as signatories, the ISO method of letter filing is the best option. If parties are concerned, additional language could be added to address those concerns. |
| Sean Neal, MID | Does the ISO consider that if the revenue requirement trigger is exceeded, the ISO will make a Section 205 filing? | Yes, the ISO will be required to make a Section 205 filing. |

Stakeholder Process Going Forward

| Activity | Date |
|------------------------------------------------------------------------------|-------------------|
| Release of impact of PIRP request for netting of deviations during the month | Not yet scheduled |
| Stakeholder comments | Not yet scheduled |