UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

California Independent System Operator Corporation	))))	Docket No. ER02-250-000

ANSWER OF
THE CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION
TO COMMENTS, REQUESTS FOR HEARING, REQUESTS FOR SUSPENSION, PROTESTS, MOTIONS TO INTERVENE AND MOTIONS TO REJECT FILING

I. Introduction and Summary

On November 2, 2001, the California Independent System Operator Corporation ("ISO") filed its 2002 unbundled Grid Management Charge ("GMC")[1] with the Federal Energy Regulatory Commission ("FERC" or "the Commission"). In accordance with the Notice of Filing issued on November 7, 2001, a number of interventions were filed on or before November 23, 2000, some of which included comments on or protests of the proposed GMC, requests for suspension, hearing or motions.

Pursuant to Rule 213 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.213 (2001), the ISO submits its Answer to the Motions to Intervene, Requests for Hearing, Requests for Suspension, Motions to Reject the Filing, Comments

[1] Capitalized terms that are not otherwise defined are used in the sense given in the Master Definitions Supplement, Appendix A to the ISO Tariff. The filing is hereinafter referred to as the "2002 GMC filing".

and Protests submitted in the above captioned docket.[2] As explained below, the ISO does not oppose the intervention of any of the parties that have sought leave to intervene in this proceeding. The ISO submits, however, that the various intervenors' opposition to, and the requests of, some parties for substantive modifications to portions of the proposed GMC, as well as requests for suspension or rejection of the GMC are unsupported or otherwise unjustified.[3] The Commission should accordingly accept the proposed GMC without condition or substantive modification.

In addition, the ISO is submitting an errata filing to the GMC filing contemporaneously with this filing. The errata identifies a proposed Tariff change that was omitted from the 2002 filing, by oversight. The errata modifies Appendix F, Schedule 1, Part B of the ISO Tariff to allow for a Quarterly Adjustment to reduce the ISO's revenue requirement for the year to reflect anticipated cost savings, or to reflect unanticipated collections of fines and penalties. This Tariff modification allows for the possibility of intra-year rate reductions due to these factors.

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[2] Some of the intervenors commenting substantively on the GMC filing do so in portions of their pleadings variously styled as "Comments" or "Protest," without differentiation. There is no prohibition on the ISO's responding to the comments in these pleadings. The ISO is entitled to respond to these pleadings and requests notwithstanding the label applied to them. *Florida Power & Light Company*, 67 FERC ¶ 61,315 (1994). In the event that any portion of this answer is deemed an answer to protests, the ISO requests waiver of Rule 213 (18 C.F.R. §385.213) to permit it to make this answer. Good cause for this waiver exists here given the nature and complexity of this proceeding and the usefulness of this answer in ensuring the development of a complete record. *See, e.g., Enron Corporation*, 78 FERC ¶ 61,179 at 61,733, 61,741 (1997); *El Paso Electric Company*, 68 FERC ¶ 61,181 at 61,899 and n. 57 (1994).

[3] The ISO does not address every issue raised by the intervenors in this proceeding, but rather intends to address those of greatest significance to the proposed 2002 GMC. It should not be assumed that the ISO agrees with any argument not addressed herein.

II. Background

A. November 2, 2001 Filing

The ISO filed its original unbundled GMC (”2001 GMC”) on November 1, 2000, with an effective date of January 1, 2001.[4] The 2001 GMC was accepted for filing subject to refund, and currently is the subject of a proceeding before Presiding Administrative Law Judge Bobbie J. McCartney in Docket No. ER01-313-000, *et al*. The 2001 GMC filing unbundled the GMC, which had been a single charge assessed on Market Participants, into three cost categories in an effort to more fairly allocate the ISO's costs.

The 2002 GMC filing retains and builds upon the ISO's original unbundled rate framework put in place by the 2001 GMC filing. The 2002 GMC filing has retained the vast majority of elements of the 2001 GMC, including the concept of three cost categories. Two of the cost categories undergo name changes, and the billing determinant for one of these was substantively modified.

For 2002, the Control Area Services (“CAS”) category remains the same as in 2001.[5] As was described in Mr. Leiber's testimony (Exh. No. 1), the name of the “Inter-Zonal Scheduling Charge” is being changed to the “Congestion Management Charge” (“CONG”). This name change will not impact the entities being charged or the types of costs recovered. The “Market Operations Charge” is being renamed the “Ancillary Services and Real-Time Energy Operations Charge” (“ASREO”). The change in name of

[4] A detailed procedural history of the GMC was included in the November 1, 2001 Transmittal Letter for the 2001 GMC filing in Docket No. ER01-313.

[5] *See* Exh. No. ISO-1 at 46, regarding application of the CAS charge, the ISO did determine that it would not allow an exemption for one entity from the CAS Charge to continue in 2002.

this category is related to a change in the billing determinant, which has been expanded to include 50% of self-provided Ancillary Service volumes. This change reflects the costs necessarily incurred by the ISO to facilitate self-provision of Ancillary Services. Further, it compensates the ISO for its role as Control Area Operator in certifying, validating, et cetera, both self-provided and procured Ancillary Services and for its role as the Ancillary Services provider of last resort for the ISO Control Area. This change is discussed in both the testimony of Mr. Philip R. Leiber (Exh. No. ISO-1) and the testimony of Mr. Spence Gerber (Exh. No. ISO-11).

B. Interventions

Motions to intervene were filed by a number of parties.[6] The ISO does not oppose the intervention *per se* of any of the parties that have sought leave to intervene. Several intervenors protested or commented on only a narrow range of issues raised by the changes in the 2002 GMC filing from the 2001 GMC filing; and some intervenors simply repeated the protests they had made to the 2001 GMC filing, which, as noted above, is currently before ALJ McCartney; other intervenors raised new issues. The ISO does not believe that any of the substantive challenges to the filing, or the proposals contained

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[6] Timely motions to intervene were filed by California Department of Water Resources ("CDWR"); California Electricity Oversight Board ("CEOB"); California Municipal Utilities Association ("CMUA"); the Public Utilities Commission of the State of California ("CPUC"), the Cities of Anaheim, Azusa, Banning, Colton, and Riverside, California ("Southern Cities"); the Cities of Redding and Santa Clara, California and the M-S-R Public Power Agency ("Cities/M-S-R"); the City and County of San Francisco ("San Francisco"); the City of Vernon, California ("Vernon"); the Cogeneration Association of California and Energy Producers and Users Coalition ("CAC/EPUC"); the Metropolitan Water District of Southern California ("MWD"); Modesto Irrigation District ("MID"); Northern California Power Agency ("NCPA"); Pacific Gas and Electric Company ("PG&E"); Sacramento Municipal Utility District ("SMUD"); San Diego Gas & Electric Company ("SDG&E");; Southern California Edison Company ("SCE"); Transmission Agency of Northern California ("TANC"); Trinity Public Utility District ("Trinity"); Turlock Irrigation District ("TID"); and the Western Area Power Administration (WAPA"). The interventions submitted by Cities/M-S-R, CMUA, MID, MWD, TANC and Trinity include many of the same arguments. For convenience, only one entity is usually cited by the ISO for arguments that may appear multiple times in this group of filings.

within those challenges, have merit. The proposed 2001 GMC filing continues to refine the painstaking unbundling effort which has now extended over several years, improves the ISO's reasonable approach to unbundle the GMC, and results in just and reasonable rates.

III. Answers to Comments and Protests

A. The ISO's Costs are Not Excessive and Represent a Reduction in Budgeted Spending from the 2001 GMC filing.

The ISO has an open budget setting process and the bulk of the documents produced in that process have been submitted as part of the ISO's 2002 GMC filing. Even as certain intervenors complain about the ISO's spending, the ISO's budgeted costs for 2002 have decreased by over $10 million dollars as compared to 2001, as discussed in greater detail below, and the need for these projected expenditures is well supported.

1. <u>Overall Revenue Requirement</u>

Certain intervenors argue that the ISO's overall costs are too high.[7] The CPUC states that it is not convinced by the ISO's claims that its budgeted spending has decreased.[8] The CPUC also expresses concern that certain capital spending that was intended to reduce the ISO's costs, such as a new Open Access Same Time Information System ("OASIS") and Emergency Management System ("EMS"), have not created reductions in the ISO's overall operating costs.[9]

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[7] See e.g., CEOB at 4, CMUA at 2, MID at 14-15, SMUD at 4-5.

[8] CPUC at 4-5

[9] Id..

The ISO, a non-profit, public benefit corporation, has every incentive to manage its operations in an efficient manner and not to overcharge customers for the cost of grid activities. In his November 2, 2001 prefiled testimony (Exh. No. ISO-1), Mr. Leiber explains in detail the foundation for the projected expenditures. He reviews the budget process and the various safeguards built into that process which ensure that the budget comprises only costs that are prudently incurred for the reliable operation of the ISO Controlled Grid and the maintenance of the ISO Markets for the benefit of the ratepayers of California.[10] MID's suggestion that the upheaval in the California markets over the past several years has somehow rendered the budgeting process described by Mr. Leiber ineffective is wholly without merit.[11] While certain intervenors have taken to hyperbole to describe the ISO's budget,[12] they have not identified the tasks that the ISO should cease performing; neither have they pointed to a single example where the ISO has frivolously expended funds or undertaken projects that were unnecessary.

In addition, the ISO has submitted Period I and Period II cost statements[13] as required by the Commission, as well as a document entitled "Analytical Support for the California ISO Grid Management Charge for 2002"[14], and several documents that were part of the ISO's 2002 budget process.[15] Intervenors, such as CEOB, that claim that the

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[10] Exh. No. ISO-1 at 27-39.

[11] MID at 15.

[12] *See e.g.,* Cities/M-S-R at 39.

[13] These were filed as Exh. Nos. ISO-2 and ISO-3, respectively. The contents of each of the cost statements are discussed in the testimony of Mr. Leiber, Exh. No. ISO-1 at 56-90.

[14] This was filed as Exh. No. ISO-4.

[15] A complete itemized listing of materials submitted as part of the ISO's 2002 GMC filing can be found at page 3 of the ISO's November 2, 2001 Transmittal Letter.

ISO's 2002 GMC filing lacks support have not provided any example of support that might be absent from the multiple exhibits filed by the ISO.[16] As already noted, the ISO conducted an open budgeting process and has provided the bulk of the documents developed in that process in its November 2, 2001 filing. Contrary to CEOB's suggestion, the 2002 GMC filing is comprehensive.

Overall, the ISO has been working to reduce its costs in the face of the ever-expanding list of responsibilities that the ISO has been asked to assume or, of necessity, has assumed. In fact, the ISO's budgeted spending for 2002 is significantly *lower* than its budgeted 2001 spending (consisting of the O&M and capital budgets). The higher revenue requirement is due to other factors, including higher cost of debt service/cash funded capital expenditures, due to the financial rating downgrade of the ISO, and additional monies which have had to be collected through the GMC to cover the ISO's capital costs in the absence of access to financial markets. Below is a summary of the ISO's 2001 and 2002 budgeted spending:

Year:	**2001**	**2002**
O&M Budget	$171,798	$177,465
Capital Budget	$37,774	$22,000
Total Spending:	$209,572	$199,465

The above table shows the spending that the ISO has control over in a given year. The revenue requirement used to set the GMC consists of these and other elements that are not controllable, which are shown in the table below. The line entitled "Total Finance and Cash Funded CapEx Budget" increases due to the ISO's inability to execute a bond

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[16] CEOB at 4.

offering early in 2002 when funds are needed for the CapEx budget. Instead, such funds must be collected directly from the revenue requirement. Additionally, the revenue requirement increases by $8.8 million due to the absence of a revenue credit that was available to reduce 2001 costs. This is due primarily to under-collections in 2001 due to lower volumes.

Year:	**2001**	**2002**
O&M Budget	$171,798	$177,465
Total Finance and Cash Funded CapEx Budget	$63,141	$68,330
Total Expense Recovery Budget	($2,402)	($2,610)
Available Revenue Credit or Deficiency	($7,230)	$1,608
Total Spending:	$225,307	$244,794

While budgeted spending has decreased significantly, it is true that the rates per MWh have increased. The factors contributing to the increase in the rates per MWh are explained in depth in the November 2, 2001 filing and are reviewed here briefly.[17] The primary causes of the rate per MWh increase were a significant decrease in volumes used to calculate the rates for 2002, under-recoveries due to volume decreases in 2001, and, as noted above, the need to collect funds for the capital expenditure program that are normally financed, directly from rates.

Therefore, while overall budgeted expenditures have *decreased* by over $10 million dollars from the 2001 GMC to the 2002 GMC, it is the ISO's inability to finance capital projects while "D" bond rated that has necessitated that the ISO collect those

[17] Exh. No. ISO-1 at 27-39.

costs directly through the GMC, and the lower volumes which have affected the Operating Reserve from 2001 to 2002. Clearly these factors are outside of the control of the ISO.

2. CPUC Concerns

The CPUC identifies two major concerns with the ISO's proposed revenue requirement. First, the CPUC does not understand why the ISO revenue requirement is increasing if its budgeted spending is decreasing.[18] The CPUC does state that it has undertaken "only an admittedly brief review of the ISO's filing",[19] and states that the ongoing GMC hearing "has impacted the CPUC's ability to thoroughly evaluate the more recent submittal."[20] The CPUC seems to understand that the ISO cannot issue bonds due to its poor credit rating, and that a portion of the ISO capital budget will come from GMC collections (cash-funded capital expenditures). This accounts for a portion of the increase in the revenue requirement. The CPUC does not recognize, however, that the ISO revenue requirement also reflects the absence of a credit from the operating and capital reserve account (referred to as the "Operating Reserve" in the 2001 GMC filing) that was used to reduce the 2001 revenue requirement by $7.2 million. Rather than being able to realize the benefits of a credit, the ISO needs in 2002 to recoup a deficiency of $1.6 million. The calculation of the Operating Reserve position is included in the November 2, 2001 filing, in Exhibit No. ISO-9.

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[18] CPUC at 4-5.

[19] Id.

[20] Id. at 3.

The O&M budget increases by $5.7 Million, a modest 3% increase, from FY2001 to FY2002. The items leading to this increase are fully documented throughout the ISO's filing and are thoroughly explained in Mr. Leiber's testimony.[21] It should also be noted that at the November 2001 meeting of the ISO Board of Governors, ISO management informed the Board that it intended to keep 2002 O&M spending pegged at the 2001 budgeted level. Further, ISO management stated that a rate reduction would be incorporated in an updated filing at the end of the first quarter of 2002, unless that would result in insufficient funds to operate the ISO. The memorandum related to this plan is provided with this filing as Exh. No. ISO-12. The proposed Tariff amendments associated with the November 2, 2001 rate filing were to have modified the quarterly adjustment provisions in Schedule 1, Part D to permit such intra-year rate reductions, but the specifics of this proposal were inadvertently omitted. The ISO is filing an errata simultaneously with this Response, to correct this oversight.

The CPUC's second concern is that "some line items may not have decreased as much as they should have."[22] The CPUC specifically notes the ISO's OASIS and EMS redesigns as elements of the ISO's capital spending program that should have resulted in cost savings.[23] The CPUC is correct in that the ISO has and will continue to see cost savings from the OASIS and EMS redesign efforts *over the alternative of keeping the previous systems in place*. When the ISO analyzed these projects, the alternatives considered were to keep the existing system in place, with support, maintenance, and

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[21] Exh. No. ISO-1 at 27-39.

[22] CPUC at 5.

[23] Id.

upgrade costs, or to replace the system and pay lower support and maintenance costs. The latter option was the less costly alternative. Like all other capital expenditures, the ISO performs detailed cost-benefit analyses of such alternatives.

3. Specific Items Questioned by Cities/M-S-R

The Cities/M-S-R intervention and protest lists over 20 specific alleged faults with the ISO's 2002 GMC filing, the data submitted in support of the 2002 GMC, and the overall revenue requirement. While this appears to be a voluminous protest, most, if not all of the questions Cities/M-S-R raises could have been readily explained if they had participated in the stakeholder process, or contacted the ISO directly, rather than taken a litigation track. While the ISO finds the Cities/M-S-R's arguments to be unsupported or frivolous, the sheer bulk of their filing compels the ISO to respond.

Cities/M-S-R first states that the ISO's Period I data (FY2000) is not relevant for comparison purposes to Period II (FY2002).[24] Cities/M-S-R contends that because 2000 data was not unbundled, and not restated to reflect the ISO's 2001 reorganization, it is not of value.[25] It was neither feasible nor necessary to arbitrarily fit the data from 2000 into the unbundled categories or ISO organizational structure in place in 2002. The ISO has followed FERC regulations as set out in 18 CFR 35.13, and has filed Period I data for the most recent full calendar year, which is FY2000. FY2001 data is not available at this point, as the calendar year is not yet complete.

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[24] Cities/M-S-R at 11.

[25] Id. at 11-12.

Second, Cities/M-S-R states that "certain Period I and II statements do not conform to the format required by Section 35.13 of the Commissions regulations."[26] The ISO has made every attempt to comply with Section 35.13 of 18 C.F.R. Cities/M-S-R only points out two schedules, AD and AE, as not having been submitted in the correct format.[27] Schedules AD and AE require presentation of monthly data for depreciation. The ISO presented the information on an annual basis. This was an oversight, and can easily be corrected. This minor oversight does not have any impact at all on the proposed rates, as depreciation is not even used in the calculation of the rates. The ISO's rate structure uses the concept of debt service coverage rather than depreciation. This observation by Cities/M-S-R is, therefore, insignificant and is not a valid reason to delay implementation of the new rates.

Third, Cities/M-S-R begins by expressing concern that "the new budget data contained in the 2002 GMC filing fails to demonstrate that three bucket methodology proposed by the ISO is adequate to properly recover its projected 2002 GMC revenue requirement of $244.5 million."[28] Cities/M-S-R's concerns are unwarranted. The "three bucket" methodology has been in place in 2001, and has resulted in appropriate collection of the ISO's revenue requirement. Again, Cities/M-S-R objects to the three bucket rate structure after it failed to participate in the stakeholder process that the ISO held from 1998 to 2000 to develop this structure, a process in which many of Cities/M-S-

[26] Id. at 12.

[27] Id.

[28] Id.

R's municipal counterparts played a constructive role.[29] Cities/M-S-R, in this paragraph, also tries a scattershot approach to denigrate the rate structure, with comments such as "The ISO has failed to demonstrate that O&M and Debt Service costs contained in the current filing are accurately functionalized."[30] Specifically, it points to the Scheduling function, indicating it should not be billed based on Gross Load and Exports, but on an "as scheduled basis."[31] Again, because Cities/M-S-R failed to avail itself of its opportunities to participate in the stakeholder process, it passed up the chance to be a vocal advocate for this concept when its view would have been more constructive. The concept of billing the Scheduling function separately on an "as scheduled basis" using the number of schedules submitted as the billing determinant was raised, discussed, and dismissed by the majority of participants during that process.

Fourth, Cities/M-S-R states that "an additional $50 million of gross Operating and Maintenance Budget costs should be directly assigned to the three cost categories, resulting in a significant shift in cost allocation among the three buckets."[32] Cities/M-S-R provides no further detail of how they would reallocate this "$50 million". Furthermore, the ISO has undergone a detailed, lengthy, and open budgeting process that resulted in the presentation of the very detailed cost allocation matrix (Exh. No. ISO-4), incorporating substantial improvements in the allocation process from 2001. Cities/M-S-R has no valid issue here – just a red herring.

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[29] The stakeholder process that resulted in the unbundling of the ISO's GMC is described at length in the testimony of Michael K. Epstein filed as part of the 2001 GMC. 2001 GMC Exh. No. ISO-1 at 6-14, 16.

[30] Cities/M-S-R at 13.

[31] Id.

[32] Id.

Fifth, Cities/MSR states that it is unable to make a reasonable comparison between the Period I and Period II data "because the ISO used the 2000 ISO organization structure but did not update the 2001 test year data for the reorganization that took place in 2001."[33] It appears that Cities/MSR is getting its test year terminology confused when it refers to 2001. The test year for this filing is FY2002, the Period II data, and the Period I data is for 2000. In addition, extensive details regarding cost centers have been provided in this filing. Details about the FY2001 reorganization were also provided to interested stakeholders through discovery in Docket No. ER01-313-000.

Sixth, Cities/M-S-R states that the "2002 GMC filing is deficient in that it has not provided sufficient detail about the budgets, billing determinants and resulting rate comparisons."[34] This statement is unfair and untrue. The 2002 GMC filing is thorough and comprehensive, providing substantial detail on the ISO's 2002 budget, and goes beyond what is required by the Commission. The ISO, as always, has pursued an open and transparent budgeting process and has invited and encouraged participation and suggestions from all interested parties. As already noted, the bulk of the documents developed in the course of the 2002 budget process were filed as part of the ISO's November 2, 2001 filing.

Seventh, Cities/M-S-R states that there is a "discrepancy respecting the amount of planned 2002 capital expenditures."[35] The figures mentioned by Cities/M-S-R, however, do not represent a discrepancy at all. In fact, Exhibit ISO-1, page 30, line 14, reflects $22

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[33] Id at 14.

[34] Id.

[35] Id. at 15.

million. This figure is correct and represents the 2002 capital budget. The amount of $20 million stated on Exhibit ISO-4, page 140 is the size of the anticipated bond offering. These two different figures represent two completely different items.

Eighth, Cities/M-S-R alleges that the ISO has not adequately explained its cost of capital and believes that the ISO has been inconsistent by mentioning a 4.55 percent and 5.5 percent figure.[36] The ISO has explained how interest costs are calculated in its filing and there are no inconsistencies. The 4.55 percent figure is the weighted average cost of capital for 2002 based on the interest expense for the bonds the ISO currently has outstanding, and the $20 million in bonds the ISO hopes to issue in 2002, which are likely to have a higher interest rate – estimated at 5.5 percent.

Ninth, Cities/M-S-R appears to repeat a claim made in 2001, that because the ISO has not yet made a filing under Section 204 of the Federal Power Act[37] to the Commission requesting authorization to issue bonds, that it is inappropriate to collect funds in its 2002 rate for either debt service or capital.[38] The ISO has indicated that it will make such a filing for authorization to issue bonds as soon as that is appropriate – i.e., when it knows the terms of the debt that will be issued. Until the ISO's credit rating improves, a bond offering is, in any case, not possible. Until then, the ISO's capital expenditures will be funded from funds collected directly through the GMC. The point of Cities/M-S-R argument is vague and inconsistent, making it unclear what it would have the ISO do. Either Cities/M-S-R want the ISO not to spend any money on capital projects

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[36] Id.

[37] 16 U.S.C. § 824c.

[38] Cities/M-S-R at 15-16.

until a bond offering is possible, approved in advance by FERC, with a new Section 205 filing made based on these facts (which would mean no spending at all in 2002), or Cities/M-S-R want the ISO to eliminate collections for debt service altogether and instead collect the full costs of capital projects directly from rates.

Critical capital expenditures must be made to permit the ISO to continue to do the job it is mandated to do by state and federal law. The 2002 capital budget is already significantly lower than in previous years, and contains only the most critical projects. If the ISO implemented the second alternative, the ISO's revenue requirement would be higher by $9.3 million. Obviously, this option is illogical. The simple fact is the ISO has a $22 million capital budget planned for 2002 that can be funded from either a bond offering or directly from rates. No other options exist.

Tenth, Cities/M-S-R raises several concerns specifically about the ISO's capital projects. MSR states that because certain capital projects will not be placed in service until 2003, the ISO should not collect in 2002 any debt service costs necessary to fund these projects.[39] The ISO plans to execute a bond offering for $20 million in 2002 that will provide $13.7 million in funds to support the 2002 capital budget, with the remaining $6.3 million of funds available for the 2003 capital budget. Before anyone will lend money to the ISO, they will require that the ISO be in a position to recover debt service costs from its GMC. In selecting when and how frequently to issue bonds, the ISO aims to minimize transaction and issuance costs. By executing one bond issuance that will provide capital funds for two years, the ISO minimizes transaction costs and saves money for those who pay the GMC. The ISO has done this in each of its two previous bond offerings. The ISO

[39] Id. at 16.

does not earn a return on a rate base, does not have shareholders, and has absolutely no incentive to collect more than it needs to fund its operations – all points that appear to escape Cities/M-S-R. As for the claim that all such capital projects for which funding is identified needs full justification, the ISO has laid out the process for capital project approvals repeatedly in this filing,[40] in the 2001 rate case, [41] and in the public budget workshop. A comprehensive review process exists and is followed for all capital spending.

Next, Cities/M-S-R complains that only seven out of fifty-five of the ISO's proposed capital projects are denoted as "Regulatory Mandated".[42] The ISO has attempted to provide various high-level categorizations for its projects, in addition to detailed descriptions. Others may also be "Regulatory Mandated" but may have been primarily assigned to other categories. Moreover, those projects that might not be “Regulatory Mandated” are also necessary to maintain or improve the ISO’s capability to meet its obligations – and Cities/M-S-R has not indicated otherwise.

Cities/M-S-R also complains that dollar amounts are not provided for individual capital projects.[43] The ISO has provided dollar values for groups of projects, but has not released individual project estimates as such amounts are only estimates at this time, and have not been subject to contractual negotiations with vendors. It is in the interests of ratepayers not to make such information available to vendors, who can then use the information in developing their bids. The ISO would not object to providing information on

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[40] This review process is described at Exh. No. ISO-1 at 23-25.

[41] 2001 GMC Exh. No. ISO-7 at 21-23.

[42] Cities/M-S-R at 16.

[43] Id. at 17.

estimated costs of individual projects if the appropriate confidentiality agreements were in place.

Cities/M-S-R then complains about the allocation of the prospective capital projects to the ISO's service categories.[44] The ISO's process here is perfectly proper. While Cities/M-S-R criticizes the fact that judgment is used by the ISO staff to assign projects to the GMC services categories, judgment of such experts is appropriate, necessary and unavoidable.

Finally, with respect to capital projects, Cities/M-S-R contends that because the ISO has not provided proof of its ability to issue bonds, it should be precluded from including debt service in its revenue requirement.[45] This is a *non sequitur*. As discussed elsewhere, if the ISO is to have any funds for its capital program, it must either obtain such funds from a bond offering, in which case the transaction and carrying costs of the offering would be in the revenue requirement, or it must obtain the costs of the capital program directly through the revenue requirement. In the interest of keeping the overall revenue requirement lower, the ISO has assumed in the budget that it will have the ability at some point in 2002 to make a bond issuance. While this may or may not happen, it is prudent to keep the possibility of such an issuance open. If the ISO committed from the outset to collect its full capital spending requirement directly from rates, the overall revenue requirement would be higher.

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[44] Id.

[45] Id.

Eleventh, Cities/M-S-R alleges that the ISO's legal costs are not appropriately assigned to the unbundled service categories.[46] This is incorrect. The ISO's budgeted legal costs are assigned to specific service categories where appropriate; for example, costs of arbitrations related to market disputes are assigned to the ISO's third GMC category, "Ancillary Services and Real Time Energy Operations." Most other legal costs, such as "Tax", "State Regulatory Work", "General Employment", and "Federal Regulatory Work" benefit all three ISO services and are allocated appropriately to those three services. So, again, Cities/M-S-R's allegation is unfounded.

Twelfth, Cities/M-S-R alleges that the ISO has incorrectly allocated $53 million in start-up costs to the unbundled service categories.[47] Cities/M-S-R is mistaken in its understanding of these costs, claiming that they are pre-1998 start-up capital investment, and should be allocated consistent with how they were incurred. The $53 million in costs referred to are not related to specific capital projects, but were payments that would have been included in the O&M budget if the ISO had been operational. This amount was for operating costs such as employee salaries and benefits, facility costs, computing costs, consulting, etc. It is appropriate to allocate these costs in the same manner as current year operating costs are allocated. Significantly, the ISO used this same allocation in the 2001 GMC. Cities/M-S-R summarizes this issue by stating that "More than 50% of that pre-1998 start-up capital investment and corresponding debt service should not be allocated to either the Control Area Services or Congestion Management cost

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[46] Id. at 18.

[47] Id.

categories."[48] The reasoning for singling out these two cost categories as inappropriate to bear a portion of these costs is unexplained. By suggesting such a random reallocation of costs, Cities/M-S-R is indicating that they will pick and choose costs to be put in one or another service category for which they are not responsible for paying. This concept contradicts the concept of cost causation and is unreasonable.

Thirteenth, Cities/M-S-R claims that "the ISO has submitted insufficient work papers concerning the budgeting process."[49] The only example provided is a reference to Cities/M-S-R's desire to have the ISO's budgeting tool. The budgeting tool is merely the software program that allows ISO managers and directors to compile their budget data and backup documentation. The ISO has provided the output of the budgeting tool in the form of the completed 2002 budget, back up documentation for each cost center, allocations, and so forth. Providing the software program would serve no useful purpose and certainly is not necessary in order to justify the ISO's costs.

Fourteenth, Cities/M-S-R indicates that "problems arose in the process before the ISO for the development of the 2002 GMC [*sic*]", but does not indicate what missteps it alleges the ISO made, or how the ISO might have acted differently.[50] Cities/M-S-R is dissatisfied with the ISO's proposal to assess a portion of the GMC to entities that self-provide ancillary services, and accordingly, appears to claim that the stakeholder process was flawed and unfair. The ISO believes that Cities/M-S-R has chosen selectively to raise an allegedly "ineffective stakeholder process" – as have others in the past – as a

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[48] Id.

[49] Id. at 19.

[50] Id.

justification to reject some aspect of the ISO's rate structure and thereby avoid paying its fair share of the costs of the ISO's services.

Cities/M-S-R also criticizes the public budget workshop held on October 4, 2001, as "extremely theoretical" and, at "about three hours in duration", apparently too short.[51] The meeting, in fact, was thorough and provided details of most every aspect of the proposed budget. Each ISO Officer provided an overview and details of his or her 2002 budget and area of responsibility. Other speakers included the ISO Treasurer and the ISO's Manager of Financial Planning. The ISO ended the presentation by indicating its willingness to continue to discuss, during that day, or later, any concerns raised by stakeholders. Cities/M-S-R did not take advantage of these opportunities.

With respect to certain information changing between the public budget workshop and the final approval by the ISO Governing Board, the ISO readily acknowledges that it would be preferable if the proposed rates could be static. The reality is, however, that during the fall of 2001, the ISO was attempting to project what would happen in 2002 based on the best and latest information about 2001 activity levels, which were extremely volatile. All proposed rates prior to those approved by the ISO Governing Board were marked as subject to change, and were based on volatile information. The ISO made information about proposed changes to the rates, based on the best information available to the ISO, available to stakeholders without delay, and provided updates to stakeholders as the information changed. Cities/M-S-R's complaints are unfounded.

Fifteenth, Cities/M-S-R makes brief observations about the ISO's budget and billing determinants and provides several tables that show the ISO budget and billing

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[51] Id.

determinant volume.[52] Cities/M-S-R then states “these tables reflect that the GMC proposal simply fails to provide adequate safeguards against run-away cost increases.”[53] But Cities/M-S-R does not state how this data supports the conclusions it draws. This is a recurring problem in Cities/M-S-R’s protest. In fact, there are numerous safeguards to ensure that the ISO’s costs are just and reasonable; these have been listed in the 2001 rate case and are effective.

Sixteenth, Cities/M-S-R argues that the ISO changed the billing determinant for its third service category to include self-provided Ancillary Services only because “ISO systems are too costly and that the services of ISO markets are not needed."[54] Cities/M-S-R provides no basis for this unfounded conclusion. The ISO has provided comprehensive testimony which explains the rationale for modifying the third service category: the ISO both performs work to accommodate self provision, and maintains systems necessary to serve as provider of last resort – it is appropriate to recover from self-providers a portion of the costs involved in these activities.[55]

Seventeenth, Cities/M-S-R takes issue with the billing determinant volumes used for Control Area Services.[56] The ISO has indicated in its filing the basis for the projected volumes, and rejects Cities/M-S-R's claim that the figure is erroneous. The fact that budgeted volumes in 2002 are significantly lower than the 2001 budget should come as no surprise to anyone familiar with energy consumption patterns in California this year.

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[52] Id. at 21-23.

[53] Id. at 23.

[54] Id. at 23-24.

[55] *See* Exh. No. ISO-11.

[56] Cities/M-S-R at 24.

Demand is down about 4 percent from January – November 2001 from actual 2000 volumes. The ISO had assumed 3.5 percent load growth from 2000 to 2001. Based on these two observations, it should not be surprising that the budgeted volume from the Control Area Services charge falls from 267 TWh in 2001 to 247 TWh in 2002, a decrease of about 7.5 percent. The 2002 billing determinant forecast for Gross Control Area Load is a projection with a 0 percent growth rate based on the 2001 actual experience. In any event, to the extent that actual billing determinant volumes are either higher or lower than the estimates by more than 5 percent, the rates may be adjusted under the quarterly adjustment provision of Appendix F, Schedule 1, Part D of the ISO Tariff. To the extent they differ from estimates by less than 5 percent, the difference between forecast and actual recovery of costs will be taken into account in setting the next year's rates, as was done in setting the rates for 2002.

Eighteenth, Cities/M-S-R's contends that "the ISO completely fails to document the basis for its reassignment of costs for the settlement and billing function from the third category, ASREO, to the Control Area Service and Congestion Management category."[57] This claim is again, simply incorrect. The ISO provided the following documents to support the allocation of these costs:

- Testimony by the ISO's Director of Settlements, Mr. Spence Gerber (Exh. No. ISO-11)
- Cost Allocation Matrix (Exh. No. ISO-4)

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[57] Id. at 24-25.

Nineteenth, Cities/M-S-R appears to be confused about the ISO's costs of administering out of market ("OOM") calls for energy and the costs of that energy itself.[58] All costs of operating the ISO, including costs of administering OOM energy calls, are recovered through the GMC.[59] The costs of such OOM energy are *not* recovered through the GMC, but through the market.

Twentieth, Cities/M-S-R takes issue with the number of employees required to perform the ISO's responsibilities.[60] The ISO's budget reflects the costs necessary to execute the tasks it must perform to fulfill its responsibilities under the ISO Tariff. The ISO uses a mix of full time employees and contractors/consultants to get its job done. The ISO balances these resources as appropriate to attempt to achieve the lowest cost, highest quality work product available. The increase in employees from 544.5 to 590.5 represents 23 employees performing new tasks and 23 contractor conversions to perform tasks at a lower cost than using external resources. The costs budgeted and included in the revenue requirement are fully justified and documented in the ISO's budget process.

Twenty-first**,** Cities/M-S-R states that there is insufficient explanation for an increase in "professional and consulting services" given an increase in full time staffing.[61] In fact, non-ISO staff labor costs, such as consulting costs, have not increased, but have remained about the same from 2001 to 2002. Non-ISO staff labor costs are included in three separate categories: (1) consulting and professional services (as mentioned by Cities/M-S-R), (2) temporary contractors, and (3) other contracts and services. One must

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[58] Id. at 25.

[59] ISO Tariff, Appendix F, Schedule 1, Part C.

[60] Cities/M-S-R at 25-26.

[61] Id at 26.

look at these categories on an aggregate basis to draw appropriate conclusions: in both the 2001 and 2002 budgets, these total $14 million. Support is available for all such costs, for each department and proposed expenditure.

Twenty-second, Cities/M-S-R provides a comparison of the ISO's staffing and salary amounts to those of the New York and New England ISO, and makes the claim that sufficient documentation to justify higher salaries and more employees has not been provided.[62] Cities/M-S-R would apparently like more benchmarking analysis included with the 2002 GMC filing. While a benchmarking analysis is not required with a Section 205 filing, the ISO has been proactive in its participation in benchmarking efforts. In fact, the ISO benchmarking studies have been provided through discovery in the ER01-313-000, et al., and the ISO would gladly provide Cities/M-S-R with copies of this material as well. Furthermore, Cities/M-S-R's recitation of the NY and New England salary and employee data, while interesting, does not demonstrate that the ISO's costs are unjust or unreasonable. Several factors distinguish ISO operations and costs from NY and New England, and their data may not be completely relevant to the ISO's situation. For example, the ISO system is much larger than that of New York or New England; neither area must maintain the duplication of certain facilities which earthquake preparedness requires of the ISO; the ISO did not begin as a power pool prior to becoming an ISO; and, the level and types of services provided by the ISOs differs significantly. In any event, Cities/M-S-R's desire for more benchmarking data is not an adequate reason to delay implementation of the ISO's new GMC rates.

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[62] Id. at 26-27.

Twenty-third, the assertion that "[t]he ISO has not reflected in its 2002 GMC filing the impact of the ISO's 2001 reorganization" is wholly erroneous.[63] The ISO has stated repeatedly during its 2001 rate case that the reason it is not possible to permanently fix the allocation percentages for each cost center is that to do so would not allow changes in the ISO's organization to be reflected in the revenue requirement for each service category. This flexibility is necessary, and was used in 2001 and in 2002. The 2002 GMC filing fully reflects the 2001 reorganization. Any party may compare the 2001 cost allocation matrix and staffing against the 2002 cost allocation matrix and staffing in order to identify any changes from the reorganization.

Finally, Cities/M-S-R states that the 2002 GMC filing is fraught with errors and omissions, which situation calls for a full review by the Commission.[64] As noted above, the vast majority of the "errors and omissions" which Cities/M-S-R point to are matters that are either misunderstood by virtue of failing to participate fully in the stakeholder process, or are misconstrued by Cities/M-S-R; for the others, there is no basis in fact, policy or logic.

B. The ISO employs a just and reasonable allocation methodology that has been improved for the 2002 GMC.

As explained in the 2001 GMC filing, the allocation process used by the ISO was developed over the course of two years as part of the unbundling of the GMC.[65] This process was refined in the course of the 2001 GMC proceeding, in part in response to

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[63] Id. at 28.

[64] Id.

[65] *See* 2001 GMC Exh. No. 1, Direct Testimony of Michael K. Epstein.

stakeholder suggestions to provide for greater use of direct assignment of costs. For 2002, the ISO has converted its allocation methodology to one of direct assignments by individual costs whenever feasible. All ISO departments can directly assign their individual costs to the three unbundled service categories, whenever it is possible to directly link such costs with the service categories.

The CPUC states that it believes the ISO's three-category system provides the appropriate granularity and generally supports the methodology used by the ISO.[66] The CPUC also states that it is also supportive of improvements made in the 2002 GMC filing involving the greater use of direct assignment.[67] MWD states that it does not mind annual review and changes to the GMC's allocations, but believes that the allocation matrix approach using subjective input should be revised whenever an accounting system is installed to directly track a cost.[68] MWD also believes that the ISO should be required to revise its accounting system within a year to track the costs of the GMC.[69] Finally, SMUD argues that the ISO has not provided enough information on the allocation of its costs, citing the ISO Tariff, which directs that the allocation be done in accordance with "appropriate methodologies."[70]

Part of the ISO's 2002 unbundled GMC is the Cost Allocation Matrix and cost support documents, which explain how the ISO's costs are allocated.[71] These documents

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[66] CPUC at 5-6.

[67] Id. at 6.

[68] MWD at 8.

[69] Id. at 8-9.

[70] SMUD at 5.

[71] Exh. No. ISO-4.

are part of the basis of each GMC filing and allow for easier implementation of improvements, such as direct assignment of costs, and reallocations from year to year. SMUD's concerns that the ISO may change its allocation methodology and unjustly and unreasonably impact Market Participants are unfounded. The ISO submits any changes to its allocations each year as part of its Section 205 filing.

C. The Charge of 50 Percent of the ASREO Charge to Entities that Self-Provide is Just and Reasonable

The ISO's GMC was unbundled with the allocation of costs based on cost-causation as one of its main objectives.[72] Under the law, the ISO has the responsibility of being provider of last resort for Ancillary Services for the ISO Control Area and is therefore obligated to ensure that all Market Participants have access to Ancillary Services when needed. The 2002 GMC recognizes that Market Participants who self-provide their Ancillary Service requirements should still share in the administrative costs associated with self-provided Ancillary Services as well as the costs of sustaining the ISO as their provider of last resort.

Certain intervenors oppose the ASREO Charge's cost being borne by Market Participants who self-provide, even if they are billed at a lower rate.[73] This opposition disregards the ISO's costs of administering self-provision. Under the intervenors' logic, if all entities in the ISO Control Area self-provided Ancillary Services, the ISO would still be legally required to provide those services when they are needed but would be unable to recover any of the costs of making that service available. As explained in the testimony

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[72] Exh. No. ISO-11 at 5.

[73] *See e.g.*, CEOB at 5, CMUA at 6, MID at 9, NCPA at 6, and SMUD at 6-8.

of Mr. Spence Gerber (Exh. No. ISO-11), the ISO believes that assessing the ASREO Charge on 50% of self-provided Ancillary Services volumes is consistent with cost causation and that it is therefore just and reasonable.[74]

Market Participants that bid Ancillary Services into and procure their Ancillary Services from the ISO market pay the ASREO Charge on two parts of the Ancillary Service transaction: when it is bid into the market and when they procure that resource. It should be noted that for Market Participants that self-provide, this charge is only assessed on one side of a transaction, and only assessed on 50 percent of those volumes. The overall effect is that the fee assessed to Market Participants who self-provide is equivalent to 25 percent of the fee that would be charged on a transaction in which an owner of a resource would bid the Ancillary Service into the ISO market and then procure that service from the market (as they would be charged for the sell and the buy).

Those protesting the 50 percent ASREO Charge to those who self-provide Ancillary Services portray this charge as having been undertaken because the ISO felt that the ASREO Charge rate would otherwise be too burdensome for those who use the ISO's Ancillary Services markets. The ISO's concern, however, is not simply that the ASREO Charge might become overly burdensome. Rather, the ISO believes that if the administrative costs are imposed only on those who sell and purchase in the ISO's Ancillary Services markets, there is an improper cost-shift from self-providers to market-only participants. Those who self-provide still benefit from the existence of the Ancillary Services markets, which provide cover whenever it is needed. Therefore, those who

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[74] Exh. No. ISO-11 at 5-6.

always use and pay for the Ancillary Services markets in effect subsidize those who merely seek to rely on it as their back-up. As well as a requirement to ensure reliability, the existence of these markets is a necessary part of unbundled services and serves, in the long run, as an incentive for developing additional capacity in and around the ISO Control Area.

CMUA argues that the ISO should have responded to decreasing volumes with lower prices or better service to remedy the lower volumes in the ISO Ancillary Service markets.[75] NCPA makes a similar argument that the ISO should respond to the lower billing determinant volumes by lowering prices or improving service.[76] In understanding why the ISO did not simply scale back its operations and eliminate most of its Ancillary Services market, its is important to remember that the ISO is obligated under the law to be the provider of last resort for Ancillary Services for the entire ISO Control Area. The ISO is therefore obligated to ensure that all Market Participants have access to Ancillary Services whenever needed. The ISO is not a "for-profit-entity". The ISO does not have the luxury of being able simply to reduce its profit margin due to lower volumes. If essential service are to be provided, its costs must be recovered. Costs in this area are being controlled and discretionary work is not being undertaken. Work that is being done is that which is critical to fulfill the ISO's legal and reliability responsibilities. In addition, CMUA does not recognize the fact that substantial portions of the ISO's costs are fixed and are not directly associated with volumes. Higher rates as a result of lower volumes are unavoidable in such instances. While the use of fixed customer charges would be an

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[75] CMUA at 1-2.

[76] NCPA at 6.

alternative rate design that some might consider more appropriate for the nature of the ISO's costs, this concept was opposed by the great majority of stakeholders as discriminatory to smaller participants during the stakeholder process.

NCPA argues against charging 50% of the ASREO Charge to self-providers of Ancillary Services by noting that a change in the price of tea in China will not have any affect on the ISO's costs, and that tea drinkers are not assessed fees.[77] Cities/M-S-R describes the 50 percent ASREO Charge to entities that self provide as "akin to a life-long reader of Newsweek magazine receiving a bill from Time magazine because Time stands ready to send the magazines should they be ordered."[78] Neither are true analogies. In addition to being silly, NCPA's analogy regarding the price of tea in China fails to recognize that the ISO is not required by law to have Chinese tea at the ready for Market Participants in California. Similarly, Time magazine is not required by law to provide a service if needed or requested, while the ISO is. Equally, the sudden, involuntary non-consumption of either tea or Newsweek by some has no immediate, direct effect on other consumers.

In addition, both the flawed analogies and the arguments that the 50% ASREO Charge "eviscerates" the self-provision markets in California and encourages more dependence on the ISO[79] imply that the ISO is charging Market Participants for 50% of the costs of their Ancillary Services. This makes it sound as if those who self-provide are paying half-again more in total Ancillary Services costs. This is simply not true. The

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[77] Id.

[78] Cities/M-S-R at 10.

[79] CMUA at 6.

ASREO Charge is a charge for the ISO's administrative costs Ancillary Service self-provision and the Ancillary Services markets – not for the actual Ancillary Services themselves. It may well be more cost effective for Market Participants to self-provide their own Ancillary Services rather than purchase them on the ISO market. The 2002 GMC recognizes, however, that even Market Participants who self-provide their Ancillary Service requirements must still share in the administrative costs of sustaining the Control Area operator as all Market Participants' provider of last resort.

NCPA argues that the ISO is making an end-run-around the Responsible Participating Transmission Owner agreements ("RPTO agreements") with PG&E and SCE that addressed provision and self-provision of Ancillary Services. NCPA's argument is that by decoupling payment of Ancillary Services from the use of Ancillary Services, the ISO hopes to create a way to charge customers with Existing Contracts ("ETC") some part of the ASREO Charge.[80] Similarly, WAPA argues that although the ISO honored ETC rights until 2002, it now appears that the ISO wants to charge ETC customers for the costs of administering the ISO Ancillary Services market and that this step will violate the principal of cost causation.[81]

The data on which WAPA and NCPA rely is inaccurate: ETCs are not exempted from the GMC in 2001, which requires ETCs to pay the Control Area Services Charge. The ETC right holders are exempted from the Inter-Zonal Scheduling Charge. While many of the municipal entities' interconnection agreements ("IA") do require that these entities provide spinning and non-spinning Ancillary Services, the ISO still has to do work

[80] NCPA at 6-7.

[81] WAPA at 3.

to validate and dispatch those resources. Given that the IA obligations are with the relevant Participating Transmission Owner and not directly with the ISO, work the ISO must perform is exacerbated by the lack of direct visibility/contact (such as manual work-arounds). However, while the ISO did not anticipate providing a specific exclusion to ETC holders for the ASREO Charge, it is willing to consider whether other options would be appropriate, in conjunction with the resolution of a number of other issues of mutual concern to ETC holders and the ISO.

D. The Billing Determinant of Control Area Gross Load Has Not Changed From the 2001 GMC Filing and Continues To Be Just and Reasonable.

The use of Control Area Gross Load as a billing determinant for the Control Area Services component was developed over a long stakeholder process, approved by a stakeholder board, and submitted as part of the ISO's 2001 unbundled GMC filing made on November 1, 2000.[82] The use of Control Area Gross Load as the billing determinant for CAS has not changed in the 2002 GMC and the issue is currently before ALJ McCartney in 2001 GMC proceeding.[83] Although the ISO has already addressed these arguments in the 2001 GMC proceeding, the ISO will briefly address again the arguments made by intervenors on this point.

The arguments put forward in the 2001 GMC proceeding indicated that the CAS component of the GMC was misunderstood as a charge for the delivery of Energy or Ancillary Services, confusing the issues in Docket No. ER98-997, et al. (the QF PGA proceeding) with the ISO's administrative costs of ensuring grid reliability as Control Area

[82] 2001 GMC Exh. No. ISO-1 at 6-14, 16.

[83] ER01-313-000, et al.

Operator. Some of the intervenors still appear to be laboring under this same misapprehension. For example, in support of its case against the ISO's use of Control Area Gross Load as a billing determinant in the GMC, MID quotes ALJ Leventhal's Initial Decision in Docket No. ER98-997-000, et al. ("the QF PGA proceeding"), which states (*inter alia*) that "the rates for qualifying facilities are just and reasonable if the ISO meters, schedules, and procures ancillary services on a net load basis."[84] The CPUC makes a similar mistake, stating that perhaps a "standby GMC" rate should be explored at hearing.[85] The CAS charge is not a charge for the metering, scheduling or procurement of Ancillary Services or Energy. Neither is it a charge that has anything to do with Standby Service. Rather, the CAS charge is a fee to recover the ISO's costs of administering the ISO Controlled Grid and the costs it incurs as Control Area operator for the whole of the ISO Control Area.

CAC/EPUC argues that the ISO's CAS charge violates the principals of cost causation.[86] It is the WSCC's position, however, that all Load within the ISO Control Area, including QFs and other behind-the-meter Loads, is the responsibility of the ISO as the Control Area operator. The WSCC's own statements make this clear. In a recent filing in the QF PGA proceeding, The WSCC stated:

> The QF load, just like any other load, benefits from operating reserve being available when needed. For example, if a QF generator trips, the load will be instantly served from the spinning reserve portion of the operating reserves of all control areas. Within 10 minutes after notification by the control area operator, the contingency reserves in the control area

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[84] MID at 13-14, quoting *California Indep. System Operator Corp.*, 96 FERC ¶ 63,015 at 65,142 (2001).

[85] CPUC at 6.

[86] CAC/EPUC at 7.

containing the QF load will replace the energy being provided by other control areas. Just like any other load, the QF load causes a need for operating reserve based on the full amount of the load, not just on the net level transmitted across the ISO's grid. Thus, such load not only benefits but also causes a need for additional operating reserves to maintain system reliability. Consequently, the control area load must be accounted for as the control area bears responsibility for such reserves and must know the amount of load for which reserves must be provided. This is the principle reflected in the WSCC's requirement that a control area's operating reserves be calculated on a gross load basis. Although the operating reserve may actually be provided by another entity by mutual agreement, in the end, it is the control area that is responsible for ensuring that the reserve is provided and the control area will be monitored by the WSCC for compliance with the WSCC reliability criteria. In other contexts, the Commission has recognized that cost causation principles require behind the meter load to bear its fair share of the costs it imposes on the system.[87]

Thus, from a reliability standpoint the ISO must monitor and ensure Ancillary Services are provided for these behind-the-meter Loads. Accordingly, since behind-the-meter Loads benefit from the CAS that the ISO provides, and part of the ISO's costs of providing Control Area Services can be traced to its obligations with respect to these Loads, all Load including behind-the-meter Loads should be assigned a share of the CAS costs in accordance with the principal of cost causation.[88] As explained in its response to these same arguments submitted by CAC/EPUC in response to the 2001 GMC:

The ISO acts as the Control Area operator for the entire system within its boundaries. As such, it must abide by the WSCC criteria put forward in the Minimum Operating Reliability Criteria ("MORC").[89] The ISO must ensure that adequate capacity reserves are available at all times. The ISO must satisfy these operating and planning criteria for all Load within the Control Area, and not merely

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[87] See Brief on Exceptions filed by the WSCC in Docket No. ER98-997, et al. at 5-6. a copy of which is provided as Exhibit No. ISO-13.

[88] 2001 GMC Exh. No. ISO-29 at 11-32.

[89] The MORC criteria were included in the November 1, 2001 filing as Ex. No. ISO-11.

that on the ISO Controlled Grid. In this manner the ISO ensures the reliability of behind the meter Load.[90]

CAC/EPUC also argues that allocating the CAS charge to QF Load in a manner that assumes that all QF Load could fail simultaneously, violates 18 C.F.R. § 292.305(c) and is discriminatory.[91] As the WSCC and ISO have explained before, including to CAC/EPUC, the CAS component of the GMC does not assume a simultaneous outage of all QF generation, nor does the level of CAS provided by the ISO vary by generator outage.[92] The same is true for metered Loads as behind-the-meter Loads. All Loads are therefore treated the same – they are simply billed on the basis of their gross Load.

Finally, CAC/EPUC argue that the ISO's use of Control Area Gross Load violates the provisions of the Public Utility Regulatory Polices Act of 1978 regarding the sale of backup or maintenance power.[93] CAC/EPUC's argument, however, is totally misplaced, as the CAS component of the GMC is not a charge for the sale of back-up power, maintenance power, or any other type of Energy.

MID contends that the ISO should not charge California-Oregon Transmission Path ("COTP") transactions that MID claims do not use the ISO grid.[94] Yet MID provides no specific reasoning to differentiate "COTP non-grid transactions" from other Control

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[90] Answer of the California Independent System Operator Corporation to Motions to Intervene, Comments, Requests for Hearing, Requests for Suspension Motions to Reject Filings and Protests in Docket No. ER01-313-000, December 7, 2000 at 14.

[91] CAC/EPUC at 7.

[92] *See e.g.*, 2001 GMC Exh. No. ISO-29 at 37-39.

[93] CAC/EPUC at 8.

[94] MID at 11-12.

Area Gross Load that would support not assessing the charge which is otherwise levied on all Control Area Gross Load.

The CPUC believes that use of an exclusively energy-based billing determinant led to many of the problems in the 2001 GMC proceeding regarding behind-the-meter Load and argues that the question of whether an energy-based charge is appropriate for largely fixed costs should be set for hearing.[95]

The appropriateness of the billing determinants used in the 2001 GMC unbundling are currently before Judge McCartney. Intervenors in that proceeding are currently presenting arguments and working through the issue of whether Control Area Gross Load is an appropriate billing determinant for the GMC. The CAS billing determinant has not been changed for the 2002 GMC filing.

The billing determinant of Control Area Gross Load for the CAS component of the GMC was established through a long stakeholder process and approved by a stakeholder board. The billing determinant development process is described in the testimony of Michael K. Epstein, which was submitted to the Commission as part of the ISO's 2001 GMC.[96] While it is true that the ISO's costs of providing CAS are largely fixed, the ISO believes that allocation of CAS costs to the Load that the ISO is responsible for, *i.e*,. all Load within the ISO Control Area, and which benefit from the CAS, is appropriate.

The CPUC proposes a fixed charge for part or all of the GMC to all market participants.[97] The ISO is planning a comprehensive stakeholder review of the GMC in

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95 CPUC at 6.

96 2001 GMC: Exh. No. 1 at 21-27.

97 CPUC at 6.

2003 and suggests that that process would be a more fruitful forum for the discussion of alternatives to the ISO's current billing determinants.

Finally, PG&E argues that the ISO has failed to explain how it will directly bill behind-the-meter Loads of wholesale customers and states that if wholesale customers are not directly billed, PG&E claims the ISO has not explained why it would be appropriate to assign costs to those wholesale customers without a corresponding FERC order allowing pass-through.[98]

As discussed in greater detail below, wholesale customers may elect to be directly billed under the ISO's Other Appropriate Party ("OAP") designation for the Control Area Services Charge. If a wholesale customer does not, however, elect to qualify as an Other Appropriate Party for CAS, the ISO will bill that customer's Scheduling Coordinator ("SC") as designated by a RPTO agreement or other agreement. In the example presented by PG&E, the SC would be PG&E. While the ISO believes that the entities that cause costs to be incurred should pay for those costs, it is PG&E's responsibility to apply for Commission authorization to pass through costs to wholesale entities, as it has done in the ER01-424-000, -001 dockets.

E. The "Other Appropriate Parties" Concept Is a Voluntary Designation for Purposes of the Control Area Services Charge and Is Not a New Concept in the 2002 GMC Filing.

The "Other Appropriate Parties" concept was originally incorporated into the ISO's first unbundling effort as part of the 2001 GMC filing to allow for entities to elect a means of direct billing without having to comply with the requirements to retain the services of, or

[98] PG&E at 3.

qualify as a Scheduling Coordinator. In the 2001 GMC, and again in the 2002 GMC filing, election as an OAP is voluntary for assessment of the Control Area Services Charge. In the absence of an election to be billed directly for CAS, the ISO will submit a GMC bill for the Control Area Services Charge to the Scheduling Coordinator responsible for the non-electing entity's otherwise unreported Load. The ISO believes that the voluntary OAP designation is just and reasonable for assessment of the CAS Charge.

CMUA contends that the ISO filing is silent on the need for, meaning of or applicability of OAP, and states that it is concerned because it is not clear if the ISO may simply bill a party as an OAP or if Commission approval is required.[99]

MWD states that the ISO is introducing a new definition for OAP and argues that the need for or application of OAP is not addressed in the 2002 GMC filing. MWD further contends that OAP is simply a means for the ISO to keep rates lower for SCs.[100] Finally, MWD requests that FERC delete the OAP provisions or at a minimum require prior FERC approval as a condition of designation as an OAP.[101]

MID contends that "at a minimum, however, it appears that among the purposes of these [OAP] provisions is to make entities other than Scheduling Coordinators responsible for the ISO Tariff charges."[102] MID, too, therefore, requests that FERC approval be required before an entity is designated as an OAP and that the second sentence of the definition of OAP be deleted.[103]

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[99] CMUA at 8-10.

[100] MWD at 9.

[101] Id. at 10.

[102] MID at 16.

[103] MID at 15-17. The sentence MID objects to reads:

NCPA states that the language of the OAP provision is vague but appears to target entities with Loads that are not served through the ISO Controlled Grid.[104] It argues that the Commission has previously prevented the ISO from altering its Tariff to permit the GMC to reach Loads outside the ISO Controlled Grid or charging interconnected entities for transactions that do not use the ISO Controlled Grid.[105] Further, NCPA states that the purpose of the OAP provisions is to allow the ISO to get around its own condition of dealing only with SCs and argues that, as the definition of OAP is vague, the ISO should at least be required to identify the entities it intends to charge as OAP.[106]

As noted above, the "Other Appropriate Parties" concept was originally incorporated into the ISO's first unbundling effort as part of the 2001 GMC filing. In the 2001 GMC, the then proposed ISO Tariff changes stated that the GMC would be assessed to "Scheduling Coordinators and other appropriate parties".[107] The term "other appropriate parties" was at that time undefined.

Through the discovery process and in the Rebuttal Testimony of Michael K. Epstein,[108] the ISO gave a more definite shape to the scope of Other Appropriate Parties. In his testimony, Mr. Epstein explained that the concept of Other Appropriate Party was

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Such party may include out-of-state or in-state entity that provides real-time power through out-of-market Energy transactions or consumes real-time power through arrangements over the ISO Controlled Grid; or a governmental or municipally-owned entity with Control Area Gross Load not generally served through, but continuously interconnected with, the ISO Controlled Grid.

104 NCPA at 4.

105 Id.

106 Id. at 5.

107 *See* 2001 GMC at Attachment A, Tariff Sheets.

108 2001 GMC Exh. No. ISO-27.

developed because a number of entities who are provided services by the ISO are suitable as the parties who should pay for such services.[109]

In explanation of the ISO's assessment of the CAS Charge to OAPs, Mr. Epstein stated:

> The ISO's first choice is to bill the GE [Governmental Entity] itself, in order to do this, the ISO needs the GE to provide it with the necessary Load data. In essence, this means that the GM must agree to be billed. In cases where the GE does not agree to be billed, the ISO bills the entity that has Scheduling Coordinator responsibility for the relevant "behind-the-meter" Load on behalf of the GE.[110]

The purpose and the voluntary nature of OAP election for the Control Area Services Charge remains the same in the 2002 GMC filing.

Many of the protests and concerns expressed by intervenors appear to stem in part from a misunderstanding that the OAP provision is a means for the ISO to reach out and directly bill entities for the Control Area Services Charge against their will and in lieu of their Scheduling Coordinators. As noted above, this is not the case. In the absence of an entity agreeing to be billed as an OAP, the Scheduling Coordinator responsible for an entity's otherwise unreported Load will be billed that portion of the entity's Control Area Services Charge. Those Scheduling Coordinators are responsible for obtaining from the Commission any authority needed to pass the Control Area Services Charge assessments through to the entities that the SC represents.

The various proposed provisions to check the ISO's ability to designate a GE as an OAP are therefore not applicable with regard to the CAS Charge. Commission approval on a case-by-case basis is not necessary as the ISO will not unilaterally designate any

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109 Id.

110 Id. at 5.

GE as an OAP for purposes of the CAS Charge, but will only enter into an OAP arrangement for CAS with individual GEs that agree to be billed directly for CAS. Similarly, definition of the types of parties that may elect OAP status is unnecessary with regard to the CAS Charge, as the definition of an OAP "type" would not subject a GE that may qualify as an OAP to a risk of being so designated for purposes of the CAS charge without its consent.

F. The Overall Operation of the Operating and Capital Reserve Account Has Not Changed From the 2001 GMC filing.

As a revenue neutral entity, the ISO maintains an operating and capital reserve account to cover unforeseen costs – such as defaults by Market Participants and the costs associated with the implementation of orders of the Commission (such as the Commission's emergency measures through the Spring of 2001). The operating and capital reserve is funded through the GMC by collecting an amount equal to 25 percent of the ISO's debt service payments. The account is considered fully funded when the reserve reaches 15 percent of the ISO's total budgeted annual maintenance and operating costs.[111] Thereafter, excess funds in this account are used to reduce the revenue requirement in the next year's GMC. This operating and capital reserve is a part of the ISO's Commission approved Tariff, and is simply being renamed the "operating and capital reserves account" to distinguish it from the ISO defined term "Operating Reserve" used with respect to Ancillary Services. Proposed changes to Section 8.5 of the Tariff change the word "will" to "may" with respect to whether excess funds can be used to offset the revenue requirement in the next fiscal year's operating budget. This change is

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[111] Exh. No. ISO-1 at 72.

proposed to benefit ratepayers. The ISO intends to return surplus funds to ratepayers as expeditiously as possible, and the "may" language was meant to permit a faster return. The ISO had developed language to be included in Appendix F, Schedule 1, Part B, under the quarterly adjustment provision which would permit rates to be lowered on a quarterly basis due to lower than anticipated costs. Accordingly, the surplus funds may be returned *sooner* than on an annual basis. This change was inadvertently omitted from the filed tariff language, but is corrected in the errata that is also being filed today.

The CPUC has protested that the ISO is seeking to change Section 8.5 of the ISO Tariff so that overcollections are only used to offset the following years GMC to the extent that the overcollections exceed a certain amount. The CPUC states, "In contrast, the 2001 GMC filing provides that the operating and capital reserve account always offsets the following year's rates regardless of level."[112] The CPUC is also troubled that the "proposal" allows the ISO Board to set the level at which point the reserve account will be determined to be full.[113]

The CPUC's concerns appear to arise from a misunderstanding that the ISO is making a substantive change to its operating and capital reserve account, the terms governing which are *not* a proposal, but rather are already a part of the Commission's ISO Tariff. Since the institution of the operating and capital reserve account in 1998, there has always been a minimum level that must be in the account before excess funds would be used to reduce the following year's rates. This level has been 15 percent of the following year's Operating and Maintenance budget. For example, in his testimony, Mr.

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112 CPUC at 8.

113 Id.

Leiber states that the operating and capital reserve account was fully funded as of December 31, 2000,[114] and accordingly, the 2001 revenue requirement was reduced by $7.23 million due to these excess funds. As noted, the changes proposed in the 2002 GMC are limited to a change of the name of the account and a change which will permit the return of funds on a quarterly rather than only an annual basis, allowing overcollections to be returned to ratepayers on a more expedited basis than was previously available.

G. As a Non-Profit Revenue Neutral Entity, the ISO's Request for Surcharge Authority is Just and Reasonable.

The ISO is a non-profit entity with no shareholders and no rate base on which to collect a rate of return on its investment. As discussed more fully below, where the Commission has found that changes should be made to a rate's design, it has a long-standing policy of ordering that those changes be made prospectively and without refund. The ISO is concerned, however, that despite the extensive support provided for the ISO's unbundled rate in the 2002 filing and the largely intact provisions of the 2001 filing, that a specific cost could be found by the Commission to have been imprudently incurred and a refund ordered. In that situation, the ISO is requesting surcharge authority for any such monies, given that it has no retained earnings or profits from which to draw.

1. A Change to the Rate Design, e.g. Reallocations

The Commission's long standing policy over at least the last two decades has been that where a change in rate design is ordered, it should only be ordered prospectively and without refunds "because retroactive implementation may result in undercollections by the company and may be unfair to the customers who cannot alter

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114 Exh. No. ISO-1 at 72.

their past demands in light of the new rate design."[115] The CEOB argues that surcharge authority would only "make sense" for purposes of reallocating costs in situations where the Commission finds that there has been a misallocation, i.e. some parties have underpaid and some have overpaid,[116] However, given the well established position of the Commission, if it determines that elements of the ISO's 2002 GMC rate design are unjust and unreasonable, *e.g.* if the allocations of certain costs should be changed in some manner, the Commission should follow over two decades of precedent and order that such a change is to go into effect only prospectively and without refunds. In such a situation, a surcharge would be unnecessary. Of course, if for any reason the Commission should order such a change in allocation to be applied retrospectively, the ISO would request any necessary surcharge authority to make up for any required refunds.

2. <u>A Change in the ISO's Over-All Rate or Revenue Requirement</u>

Several intervenors object to various aspects of the request for surcharge authority for purposes of paying refunds if ordered by Commission after it has found a given cost to be unjust and unreasonable.[117]

The ISO is neither attempting to perpetuate unjust and unreasonable costs[118] nor to undermine the Commission's refund authority[119] with its request for surcharge authority

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[115] *Commonwealth Edison Company*, 25 FERC ¶ 61,323 at 61,732, citing *Connecticut Light and Power Company,* 15 FERC ¶ 61.056 (1981), *aff'd sub nom. Second Taxing District of the City of Norwalk v. F.E.R.C.*, 683 F.2d 477 (D.C. Cir. 1982); *Commonwealth Edison Company*, 8 FERC ¶ 61,277 (1979), *aff'd sub nom. Cities of Batavia v. F.E.R.C.,* 672 F.2d 64 (D.C. Cir. 1982);

[116] CEOB at 6.

[117] *See e.g.*, MID at 19-21, SMUD at 8-9, CEOB at 6.

[118] CEOB at 6.

in the event that refunds are ordered. Rather, the ISO is attempting to suggest ways to fit the ISO's non-traditional utility form into a statutory and regulatory scheme that assumes a utility will have shareholders and profits or a rate base and related rate-of-return on investment from which to make refunds.

As a non-profit entity, the ISO does not have the same profits-per-share motivation that gives a traditional utility an incentive to recover and maximize profits. Neither does the ISO have a rate base on which to earn a rate-of-return on its investments. The ISO does have a Commission approved operating and capital reserve designed to keep it financially solvent in the event of unexpected contingencies such as the default or bankruptcy of a Market Participant or a regulatory order which causes the ISO to incur unforeseen costs. Because of the recent upheavals in the California markets and a downgrade from A to D in its bond rating, the ISO has had to turn to its reserve to fund a portion of its capital costs as well. In the event of a refund, the ISO has only one means from which to pay it, from those monies collected from its ratepayers. The ISO could therefore make a refund payment from its operating and capital reserve account (to the extent that funds were available), but would prefer not to as this could put in peril the ISO's day-to-day financial health, and in any event would result in higher rates in subsequent years than otherwise would have been the case. Or, the ISO could pay refunds from a surcharge structured as the Commission sees fit.

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[119] SMUD at 8-9.

While courts have stated that FERC has wide latitude in determining a remedy and is not bound to impose refunds,[120] the ISO's request for surcharge authority is the ISO's suggestion as to how to fit its non-traditional utility form into a statutory and regulatory scheme that assumes some funds from which to pay refunds if ordered.

H. The ISO's 2002 GMC is Well Supported, Just and Reasonable and Should Be Accepted and Made Effective January 1, 2002

1. The ISO's 2002 GMC is Well-Supported, Just and Reasonable and Should Not be Suspended.

As explained above, the ISO has submitted a comprehensive rate filing detailing the basis of all of its budgeted costs for 2002, as well as the basis upon which that budget was developed, including testimony about the safeguards the ISO has in place to ensure that the ISO costs are all necessary and prudently incurred. In addition, in this Answer, the ISO has addressed protests and comments made by intervening parties and further demonstrated the justness and reasonableness of its 2002 GMC rates. Further, the 2002 GMC represents only minor changes to the 2001 unbundled GMC, which was accepted by the Commission and made effective subject to refund on January 1, 2001. Many of the changes from the 2001 to 2002 GMC are improvements that were developed as a result of the 2001 GMC proceeding. The ISO respectfully submits that its 2002 GMC

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[120] *See e.g. Commonwealth Edison* Company, 25 FERC ¶ 61,323 at 61,722 *citing*: *Placid Oil Company v. F.P.C.*, 483 F.2d 850 (5th Cir. 1973), *aff'd* 417 U.S. 283 (1974); *Cities of Batavia v. F.E.R.C.*, 672 F.2d 64 (D.C. Cir. 1982); *See also Union Electric Co.,* 71 FERC ¶ 61,229 at 62,876 and fn. 8 (1995). ; *Southern Company Services,* 64 F.E.R.C. ¶ 61,003(FERC stated in "cases involving rate design, however, the Commission often has exercised its discretion and not ordered refunds"), *citing, e.g., Southern California Edison Company*, 50 FERC P61,138, at pp. 61,408-09 n.22 (1990); *Commonwealth Edison Company*, 25 FERC P61,323, at p. 61,732 & 61,733 n.3 (1983), reh'g denied, 26 FERC P61,099 (1984); *see also Union Electric Company v. F.E.R.C.*, 890 F.2d 1193, 1198, 1201 (D.C. Cir. 1989).

rates are therefore just and reasonable and should not be suspended, even for a nominal period.

Certain intervenors[121] request that the filing be suspended for the full five month period permitted under Section 205 of the Federal Power Act.[122] In support of its position, MID attempts to lean upon the Commission's holding as set out in *West Texas Utilities Co.*, 18 FERC ¶ 61,189 (1982), and states that the Commission does not have enough information to make a *West Texas Analysis* and that "it is impossible for the Commission to make a finding, based on the data contained in the November 2, 2001 filing herein, that the proposed rates are not more than 10% excessive".[123]

As an initial matter, the ISO has submitted a comprehensive filing detailing the development of its budget and supporting each of its costs for 2002. The filing includes both Period I and Period II data, a cost support and cost allocation matrix document, testimony regarding each cost center, allocations, and how the GMC has changed from the initial unbundled GMC filed in 2001. The ISO has addressed two minor errors made in its cost statements identified by Cities/M-S-R above, but these are insignificant and do not impede the Commission's ability to make an initial analysis of the ISO's 2002 GMC under its *West Texas* standard. MID's argument that the 2002 GMC filing is insufficient for the Commission to make such an analysis is wholly unsupported and should be rejected.

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[121] *See e.g.* MID at 22, Cities/M-S-R at 39.

[122] 18 U.S.C. § 824(d).

[123] MID at 22.

As the ISO has demonstrated, its rates are just and reasonable and should not be suspended. However, even if the Commission on its initial review believes that there is a possibility that some portion of the ISO's 2002 GMC may not be just and reasonable, the 2002 GMC should only be suspended for the nominal period of one day and set for hearing.

The standard for suspension set out in *West Texas*, is not met in the instant filing. In *West Texas*, the Commission explained that, upon initial review, where the Commission found a rate to be to be unjust and unreasonable *as well as* likely to produce "substantially excessive revenues",[124] the rate would be suspended for five months. However, in *American Electric Power Service Corporation*, 96 FERC ¶ 61,277 at 62,055 (September 13, 2001)("AEP"), the Commission again clarified that if upon initial review a rate appears unjust and unreasonable but is unlikely to yield substantially excessive revenues, the rate would be suspended at most for a "nominal" period.

There are two reasons the ISO's 2002 GMC rates should not be suspended under the *West Texas* standard. First, no intervenor has made a credible showing that any of the ISO's rate, much less "more than 10 percent" of the ISO's rate increase, is in any way unjust or unreasonable. As the ISO does not earn profits or rates of return, the GMC is comprises only its costs. No intervenor has stated that the ISO has undertaken tasks that it should not. No intervenor has identified any instance where the ISO incurred costs

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[124] In *West Texas,* the Commission explained what it meant by "substantially excessive revenue":

> Under our restated electric rate suspension policy, a utility's increased rates will be suspended for only one day instead of the five month maximum in those cases where our preliminary analysis indicates that no more than ten percent of the increase appears to be excessive.

18 FERC at 61,375.

imprudently or unnecessarily. The ISO, on the other hand, has provided a filing that details its costs and the development of its 2002 budget in detail. In the face of a comprehensive and detailed filing that from a cost standpoint does not have the ISO increasing its overall spending and from a documentation standpoint, provides even better support than the 2001 filing, as well as the fact that no specific costs have been identified by any intervenor as unjust and unreasonable, there is absolutely no foundation for MID's statement that "it is impossible for the Commission to make a finding, based on the data contained in the November 2, 2001 filing herein, that the proposed rates are not more than 10% excessive".[125]

Second, in the context of the non-profit ISO that returns over-collections to ratepayers, the concept of "excessive revenue" simply has no place. In addition, as described above, as long as the ISO's Commission-approved operating and capital reserve account is "full," revenues that are collected in excess of the ISO's actual costs are returned to ratepayers in the form of a credit on the next year's GMC.[126] The ISO is, therefore, unable to collect and keep revenues in excess of its costs and does not have any incentive to collect revenues in excess of costs. MID's argument is simply not applicable in the context of a non-profit, public benefit entity such as the ISO.

Finally, the Commission must take into account the effect of any suspension on the ISO. The ISO must continuously recover its costs in order to remain in operation. The ISO has no ongoing profits from operation from which it could even temporarily fund

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[125] MID at 22.

[126] The changes to the ISO Tariff being submitted contemporaneously with this filing would allow the ISO to refund excess funds in the Operating Reserve and Capital Account on a quarterly, as opposed to annual basis.

ongoing performance of its obligations in the event of a suspension of the 2002 GMC filing. Any suspension of the ISO's adjusted 2002 rate could subject the ISO to serious financial harm.

The ISO therefore respectfully requests that the Commission reject unsupported requests for suspension and accept its rate effective January 1, 2002.

2. The 2002 GMC Should Be Accepted as Filed and Set for Hearing if Necessary

Several Intervenors also request that this filing be set for hearing. While the ISO believes that its 2002 GMC is just and reasonable and well supported, the ISO does not oppose setting the 2002 GMC for hearing if deemed necessary by the Commission.

IV. Conclusion

For the foregoing reasons, the ISO respectfully requests that the Commission accept the proposed unbundled 2002 Grid Management Charge as filed.

Respectfully submitted,

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