

February 20, 2001

The Honorable David P. Boergers
Secretary
Federal Energy Regulatory Commission
888 First Street, N.E.
Washington, D.C. 20426

Re: Pacific Gas and Electric Company
Docket No. ER01-66-000

Dear Secretary Boergers:

Enclosed for filing please find an original and seven copies of the answering testimony of the California Independent System Operator Corporation ("ISO") filed in the above-referenced docket.

The ISO's answering testimony consists of: (1) the Prepared Answering Testimony of Deborah A. Le Vine On Behalf of the California Independent System Operator Corporation (Exhibit No. ISO-1); and (2) the ISO's Proposed Guidance for Participating Transmission Owners That Must Divide Their Transmission Revenue Requirements Between High Voltage and Low Voltage Components (Exhibit No. ISO-2). With regard to Exhibit No. ISO-1, the ISO has also included a faxed copy of a declaration page signed by Ms. Le Vine. The ISO will file the original of the declaration page as soon as it is received.

An additional copy of the enclosed answering testimony is provided to be time-stamped and returned to our messenger. Thank you for your assistance in this matter.

Respectfully submitted,

Michael E. Ward
Swidler Berlin Shereff Friedman, LLP
Counsel for the California
Independent System Operator
Corporation

EXHIBIT NO. ISO-1 AND SIGNED DECLARATION

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

Pacific Gas and Electric Company) Docket No. ER01-66-000

Prepared Answering Testimony of
Deborah A. Le Vine
On Behalf of the California Independent System Operator Corporation

Q. PLEASE STATE YOUR NAME, TITLE, AND BUSINESS ADDRESS.

A. My name is Deborah A. Le Vine and I am the Director of Contracts for the California Independent System Operator Corporation ("ISO"). My business address is 151 Blue Ravine Road, Folsom, California 95630.

Q. AS YOU TESTIFY, WILL YOU BE USING ANY SPECIALIZED TERMS?

A. Yes. I will be using terms defined in the Master Definitions Supplement, Appendix A to the ISO Tariff.

Q. PLEASE DESCRIBE YOUR PRESENT RESPONSIBILITIES AT THE ISO.

A. As the Director of Contracts for the ISO, I am responsible for negotiation and administration of all *pro forma* agreements executed by Market

Participants and reliability agreements executed by certain Generators or Load.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL BACKGROUND.

A. I received a Bachelor of Science degree in Electrical Engineering from San Diego State University in San Diego, California in May 1981. In May 1987, I received a Master in Business Administration from Pepperdine University in Malibu, California. Additionally, I am a registered Professional Electrical Engineer in the State of California.

Q. HAVE YOU PREVIOUSLY TESTIFIED IN REGULATORY PROCEEDINGS?

A. Yes. I have previously submitted testimony on behalf of the ISO in Docket Nos. ER98-1057-000, *et al.*, concerning the ISO's Responsible Participating Transmission Owner Agreements; in Docket Nos. ER98-992-000, *et al.*, pertaining to the ISO's Participating Generator Agreements; in Docket Nos. ER98-1499-000, *et al.*, involving the ISO Meter Service Agreements for Scheduling Coordinators and ISO Metered Entities; in Docket Nos. ER00-2019-000, *et al.*, involving the ISO's transmission Access Charge filing as required by California State legislation; in Docket Nos. ER98-997-000, *et al.*, pertaining to the ISO's Qualifying Facility Participating Generator Agreement; and in Docket No. ER01-313-000,

concerning the ISO's unbundled Grid Management Charge. I have also testified in Pacific Gas and Electric Company ("PG&E") Docket No. ER00-2360-000 concerning supports PG&E's proposal to recover its local reliability costs from customers under its TO Tariff. Additionally, I have filed testimony with the Public Utilities Commission of the State the State of California in Docket No. R. 99-10-025, concerning an Order Instituting Rulemaking into Distributed Generation (Phase 2).

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to address certain issues concerning the filing by Pacific Gas and Electric Company ("PG&E") of proposed rate changes for wholesale and retail electric transmission rates as set forth in Appendices II and III of PG&E's Transmission Owner Tariff ("TO 5 Filing"), which PG&E submitted in the above-referenced docket on October 6, 2000.

Q. PLEASE SUMMARIZE YOUR TESTIMONY.

A. My testimony addresses ISO concerns that PG&E's filing in the instant docket is inconsistent with the successor transmission Access Charge proposed by the ISO in Amendment No. 27 to the ISO Tariff, which was filed in Docket No. ER00-2019-000. PG&E's TO 5 Filing utilizes a methodology for allocating high and low voltage revenue requirements that is inconsistent with the methodology proposed in Amendment No. 27.

Q. WHAT IS THE ISO?

A. The ISO is a non-profit public benefit corporation organized under the laws of the State of California and responsible for the reliable operation of a grid comprising the transmission systems of PG&E, San Diego Gas & Electric Company, and Southern California Edison Company, as well as for the coordination of the competitive electricity market in California.

Q. PLEASE DESCRIBE THE ISO'S TRANSMISSION ACCESS CHARGE.

A. On March 31, 2000, the ISO filed Amendment No. 27 to the ISO Tariff to propose a new methodology for determining transmission Access Charges through which the embedded costs of the transmission facilities comprising the ISO Controlled Grid are recovered. The filing, submitted in Docket No. ER00-2019-000, was required by state law and by the Commission's October 30, 1997 order, *Pacific Gas and Electric Company, et al.*, 81 FERC ¶ 61,122.

Prior to Amendment No. 27, the ISO's Access Charge methodology consisted of three separate rates based on the revenue requirements of the Participating Transmission Owners ("Participating TOs"). Each Participating TO determined the Access Charge applicable to Market Participants withdrawing Energy from the ISO Controlled Grid in its Service Area, based on the costs of its transmission facilities and

Entitlements, in accordance with its Transmission Owner Tariff, and bills the Market Participants.

Under Amendment No. 27, this prior methodology will continue in effect until a new Participating TO joins the ISO. At that point, the Access Charge for the recovery of costs associated with and allocable to High Voltage Transmission Facilities included in the ISO Controlled Grid would initially be based on the Transmission Revenue Requirements ("TRRs") of all Participating TOs in each of the TAC Areas, corresponding to each of the former Control Areas that were combined to form the ISO Control Area. Over ten years, the High Voltage Access Charges for these TAC Areas would be combined to form a single ISO Grid-wide High Voltage Access Charge. The Access Charge for the recovery of costs of Low Voltage Transmission Facilities would continue to be Participating TO-specific.

Q. HAS A NEW PARTICIPATING TRANSMISSION OWNER SOUGHT TO JOIN THE ISO?

A. Yes. On August 1, 2000, the City of Vernon, California, submitted an application to join the ISO and become a Participating TO. On August 30, 2000, Vernon submitted a petition for a declaratory order with the Commission concerning Vernon's proffered Transmission Revenue Requirement and TO Tariff. On October 25, 2000, the Commission issued

an order, *City of Vernon, California*, 93 FERC ¶ 61,103, conditionally accepting Vernon's Transmission Revenue Requirement and directing "Vernon and the ISO to work together on the appropriate tariff necessary for Vernon to become a viable Participating TO as of January 1, 2001."

The City of Vernon, California has executed the Transmission Control Agreement and a Utility Distribution Company Operating Agreement. These filings are pending with the Commission, which has placed them on the agenda for its meeting on February 21, 2001. In filing the amended Transmission Control Agreement and Utility Distribution Company Operating Agreement, the ISO requested waiver to make them effective as of January 1, 2001. Thus, the ISO hopes that the Commission will accept the filings, placing the new Access Charge methodology into effect as of the beginning of this year.

Q. YOU STATED THAT AMENDMENT NO. 27 SEPARATES RECOVERY OF TRANSMISSION EXPENSES BETWEEN HIGH VOLTAGE AND LOW VOLTAGE FACILITIES. HOW ARE HIGH VOLTAGE TRANSMISSION FACILITIES AND HIGH VOLTAGE TRANSMISSION REVENUE REQUIREMENT DEFINED?

A. As defined in Amendment No. 27, a "High Voltage Transmission Facility" is:

A transmission facility that is owned by a Participating TO or to which a Participating TO has an Entitlement that is represented by a Converted Right and that operates at a voltage at or above 200 kilovolts, and supporting facilities, and the costs of which are not directly assigned to one or more specific customers.

The term High Voltage Transmission Revenue Requirement is defined as “[t]he portion of a Participating TO's TRR associated with and allocable to the Participating TO's High Voltage Transmission Facilities and Converted Rights associated with High Voltage Transmission Facilities.”

Q. HAS THE COMMISSION ACTED ON AMENDMENT NO. 27?

A. By order dated May 31, 2000, *California Independent System Operator Corporation*, 91 FERC ¶61,205, the Commission conditionally accepted Amendment No. 27 and made it effective June 1, 2000, subject to refund. The Commission set for hearing the proposed Access Charge methodology and related tariff changes, but held the hearing in abeyance pending efforts to reach a consensual resolution of the issues under the auspices of the Chief Judge acting as a settlement judge.

Q. WITH WHAT ASPECTS OF PG&E'S PROPOSAL DO YOU DISAGREE?

A. PG&E's TO 5 Filing may serve as the support for PG&E's High Voltage Transmission Revenue Requirement under the ISO's new Access Charge. One of the issues that has been raised in the Amendment No. 27 settlement proceedings concerns the methodology Participating TOs

should use to allocate their Transmission Revenue Requirements between the high voltage and low voltage components. This allocation methodology is particularly important with respect to mixed use facilities such as transmission towers or substations that may contain certain equipment rated above 200 kV and other equipment rated below 200 kV.

PG&E's TO 5 Filing utilizes a methodology for allocating high and low voltage transmission revenue requirements based on settlements of its prior TO Tariff rate cases. PG&E considers the following facilities to be high voltage:

- (1) All network transmission lines rated above 200 kV;
- (2) System interconnections between PG&E's former Control Area and other Control Areas regardless of their voltage rating (for example, PG&E's interconnections with Sierra Pacific and PacifiCorp, while rated at 115 kV, are considered to be high voltage facilities); and
- (3) All substation facilities with high-side voltages of 500 kV.

See PG&E's TO 5 Filing, Exhibit PGE-2 at 17-18. In addition, PG&E adds a Local Facilities Adjustment Factor ("LFAF") to apply to customers who take service at voltages above 200 kV. *Id.* at 17. The LFAF is equal to 10 percent of the low voltage Transmission Revenue Requirement. *Id.* at 19.

Q. HAS THE ISO CONTESTED PG&E'S ALLOCATION METHODOLOGY PREVIOUSLY?

A. No. The ISO did not contest PG&E's use of this allocation methodology for purposes of the prior settlements of PG&E's utility-specific rates, and consistent with those settlements, does not oppose PG&E's use of this allocation methodology to determine its revenue requirements until such time as the ISO's successor transmission Access Charge is implemented.

Q. WHY THEN IS THE ISO CONTESTING THE METHODOLOGY IN THIS FILING?

A. Under the new transmission Access Charge, the costs of transmission facilities should be allocated on as consistent a basis as possible, taking into account variations in prior cost accounting systems among the Participating TOs. The failure to do so could unjustly shift costs from persons using one Participating TO's low voltage facilities to paying the ISO's TAC Area-wide or grid-wide high voltage Access Charge while not doing so for users of another Participating TO's low voltage facilities.

Amendment No. 27 adopted a "bright line split" at 200 kV. Therefore, PG&E's proposed inclusion of the 115 kV interconnections with Sierra Pacific and PacifiCorp as high voltage facilities is not consistent with the ISO Tariff definition. Moreover, the ISO is concerned that the use of a

LFAF may not result in an accurate division of the High and Low Voltage Transmission Revenue Requirements.

Q. DOES THE ISO PROPOSE AN ALTERNATIVE ALLOCATION METHODOLOGY?

A. Yes. The ISO's proposed methodology for allocating Transmission Revenue Requirements between the high and low voltages is summarized in Exhibit No. ISO-2.

The ISO believes that its proposed methodology can be applied in a consistent manner among the existing Participating TOs and if additional entities join the ISO. The consistency in approach should mitigate against improper cost shifting.

Q. HAS THE ISO'S PROPOSED ALLOCATION METHODOLOGY BEEN DISCUSSED WITH THE PARTICIPATING TRANSMISSION OWNERS?

A. Yes. The ISO believes that both San Diego Gas & Electric Company and Southern California Edison Company used the ISO's proposed allocation methodology in their TO Tariff filings for the Access Charge methodologies in Docket Nos. ER01-831-000 and ER01-832-000, respectively.

Q. THANK YOU. THERE ARE NO FURTHER QUESTIONS.

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing documents upon each person designated on the restricted service list compiled by the Secretary in this Docket No. ER01-66-000, in accordance with the requirements of Rule 2010 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.2010.

Dated at Washington, D.C. on this 20th day of February, 2001.

Michael E. Ward