

Memorandum

To: ISO Board of Governors
From: William J. Regan, Jr., CFO & VP of Corporate Services
Ben Arikawa, Senior Consultant
Date: August 29, 2007
Re: Briefing on October 1, 2007 Grid Management Charge Rate Adjustment

This memorandum is provided for the Board's information and does not require Board action.

At the July Board meeting, the Board was briefed on the August 1, 2007 GMC rate adjustment for Market Usage. In the briefing memorandum, Management also informed the Board that Core Reliability Services volumes (and revenues) were 8 percent below forecast through April 2007 and Congestion Management volumes (and revenues) were 8 percent above forecast through April. Management advised the Board that, if the trend of the first four months of the year continued, adjustments to the rates for Core Reliability Services and Congestion Management would be likely required later in the year per Appendix F, Schedule 1 of the CAISO Tariff.

These adjustments are made on a prospective basis to restore collections in subsequent months to the budgeted amount and do not increase collections beyond the budgeted revenue requirement of \$189 million. As such, the adjustments do not recover any shortfall from previous months. Any shortfall in the current year must be recovered by an increase in the revenue requirement in a subsequent year. Management forecasts that these adjustments will increase net collections by \$0.3 million over the fourth quarter of 2007.

Finance has reviewed actual settlement data through June 2007. As shown in Table 1, of the six GMC components, two, Core Reliability Services and Market Usage, continue to show negative variances of greater than 5 percent¹. Another, Congestion Management, shows a positive variance of 10.7 percent². Revenues through June 2007 are approximately \$4.5 million below forecast, with the majority of the shortfall due to lower-than-forecasted revenues for Market Usage, which are approximately \$3.4 million below forecast through June.

¹ The Market Usage revenues do not yet reflect the rate increase that was implemented on August 1, 2007.

² The bill determinant, customer-months, and revenue collected for Settlements, Metering and Client Relations also exceeds the forecast by more than 5 percent. However, this rate is fixed by the Tariff at \$500 and cannot be adjusted absent a change in the Tariff.

| GMC Component | Forecast | Actual | Difference | Percent Difference |
|---|---------------|---------------|----------------|--------------------|
| Core Reliability Services | \$22.9 | \$21.3 | (\$1.5) | -6.7% |
| Energy Transmission Services | \$39.9 | \$39.5 | (\$0.4) | -1.0% |
| Forward Scheduling | \$4.3 | \$4.4 | \$0.1 | 2.9% |
| Congestion Management | \$6.2 | \$6.9 | \$0.7 | 10.7% |
| Market Usage | \$16.0 | \$12.6 | (\$3.4) | -21.0% |
| Settlements, Metering & Client Relations | \$0.4 | \$0.4 | \$0.0 | 6.5% |
| Total | \$89.6 | \$85.2 | (\$4.5) | -5.0% |
| Note: Revenues do not reflect the increase in Market Usage rates to be effective August 1, 2007. | | | | |

Though settlements data is not yet available through the summer months, Management anticipates revenues for Congestion Management will continue to be more than 5 percent above the forecast for the full year.

Management expects volumes and revenues for Core Reliability Services to be approximately 7 percent below the forecast for the full year given the relatively mild summer conditions through August. The previous expectation in June that increased demand for electricity in the summer months would increase Load-related volumes to be within the prescribed limits by year end is not being realized. Mild weather conditions have continued into the early summer months and have contributed to lower than forecast energy demand on the grid.

Table 2 shows a comparison of the year-to-date forecast and actual revenues for Core Reliability Services rate components through June. The three component rates to Core Reliability Services are Peak Demand, Off-Peak Demand and Energy Exports. Revenues for all three components are lower than forecast, for the most part, due to weather-related impacts. In particular, the lack of significant rain or snowfall this winter and spring led to less runoff and less energy available for export.

| CRS Component | Forecast | Actual | Difference | Percent Difference |
|---|----------------|----------------|-----------------|--------------------|
| Peak Demand (CT 4501) | \$ 19.2 | \$ 18.3 | \$ (1.0) | -5.0% |
| Off-Peak Demand (CT 4502) | \$ 0.7 | \$ 0.7 | \$ (0.0) | -5.8% |
| Energy Exports (CT 4503) | \$ 2.9 | \$ 2.4 | \$ (0.5) | -17.7% |
| Total | \$ 22.9 | \$ 21.3 | \$ (1.5) | -6.7% |
| Note: The component rates of Core Reliability Services are calculated jointly. | | | | |

NEED FOR RATE ADJUSTMENT

Pursuant to Appendix F, Schedule 1, Part B of the Tariff, a rate adjustment is required if the estimated billing determinant volumes for a component rate are less than 95% or greater than 105% of that used to set the rate in the annual posting on the ISO's website. With the lower than expected Core Reliability Services volumes this year and the greater than expected increases in Congestion Management volumes, Management anticipates that the full year volumes for these GMC components will vary more than 5 percent of the fall 2006 forecast that was used to set the rate. Based on a forecast for the full year, the rates related to Core Reliability Services and Congestion Management will be adjusted as shown in Table 3³.

| Rate Component | January – September | October – December (Adjusted) |
|---|------------------------|----------------------------------|
| Peak Demand (CT 4501) | \$90.0289 per MW-month | \$93.1881 per MW-month |
| Off-Peak Demand (CT 4502) | \$59.4213 per MW-month | \$61.5046 per MW-month |
| Energy Exports (CT 4503) | \$0.5010 per MWh | \$0.6292 per MWh |
| Congestion Management (CT4522) | \$0.1050 per MWh | \$0.0956 per MWh |
| Note: The component rates of Core Reliability Services are calculated jointly. | | |

As mentioned previously, rate adjustments are made on a prospective basis in order to restore collections in subsequent months to the budgeted amounts. This rate adjustment is forecast to increase collections for Core Reliability Services by \$0.6 million in the last quarter, though collections will still be under budget for the year. The decrease in the Congestion Management rate is forecast to decrease collections by \$0.3 million in the last quarter.

CONCLUSION

As required by the Tariff, the CAISO will proceed with a rate adjustment to be effective October 1 to the Core Reliability Services Charge Types: CT 4501 (Peak Demand), CT 4502 (Off-peak Demand), and CT 4503 (Energy Exports). The Congestion Management rate (CT 4522) will be reduced. Management will brief stakeholders on the rate adjustment at the Stakeholder Budget Day Workshop scheduled for September 18. A market notice will be issued in September prior to implementation.

³ The rates for the components of Core Reliability Services are jointly calculated per Appendix F, Schedule 1 of the Tariff. For example, the Off-Peak Demand rate is set at 66 percent of the Peak Demand rate. Also, costs allocated to Energy Exports are a function of the Peak and Off-Peak Demand rates.