

Memorandum

To: ISO Board of Governors
From: Ben Arikawa, Senior Consultant
William J. Regan, Jr., Chief Financial Officer & Vice President, Corporate Services
Date: October 9, 2007
Re: Decision on Extension of the Grid Management Charge Settlement into 2008

This memorandum requires Board action.

Since 2004, the California ISO has been under a Settlement Agreement (“GMC Settlement”) concerning the Company’s administrative charges, the Grid Management Charge. The GMC Settlement established the design of the GMC rates, while the actual charges are the product of the application of this rate design to the ISO Revenue Requirement each year. This Settlement was approved by the Federal Energy Regulatory Commission (FERC) in February 2005 and was extended by agreement and with Board and FERC approval to the earlier of MRTU startup or December 31, 2007. As MRTU startup has been delayed into 2008, a further extension of the Settlement rate design is required to preclude a costly, and potentially contentious, Section 205 rate filing with the FERC to cover the four-month period prior to MRTU startup.

Management initiated a stakeholder process to address the GMC under MRTU in 2006, and has been working with stakeholders over the past year¹. During much of this process, Management anticipated a single FERC filing that would both extend the current GMC rate design until MRTU startup, and implement the new post-MRTU rate structure. Due to stakeholder concerns about the timing of this single filing and their request for more time to consider the post-MRTU rate structure, Management now recommends two separate FERC filings. The first filing would be for an extension of the GMC Settlement into 2008 prior to MRTU startup. Management requests in this memorandum Board approval to make this filing in October 2007.

Stakeholders were informed of Management’s proposal to separate the filings on an October 2 conference call. No party on the call, or parties subsequently contacted, raised any objection to this revised schedule. As of October 8, we have received a letter in support of this change from the Modesto Irrigation District². We also have received a letter from the law firm of Alcantar and Kahl, which represents the Cogeneration Association of California/Energy Producers

¹ An updated matrix of outstanding stakeholder issues and comments is shown in Attachment A.

² The Modesto Irrigation District includes in its comments additional issues that concern it. As noted in this memorandum, Management is using the additional time to attempt to resolve these issues.

and Users, supportive of the stakeholder process in general³. The concerns raised in these letters are referenced in Attachment A.

The second filing would implement the changes in the GMC structure for the portion of 2008 after MRTU startup. Management will defer this FERC filing until December 2007 or January 2008, in response to stakeholder requests for additional information concerning the actual level of rates that would apply post-MRTU startup, and to provide additional time to resolve outstanding issues as detailed in the stakeholder matrix presented to the Board at its September 6 meeting. Management continues to work to address concerns related to the application of GMC on flows over the Southwest Power Link, specifically, and to Transmission Ownership Rights (TORs) generally. The Federal Energy Regulatory Commission (FERC) in its June 25, 2007 Order directed the California ISO to address this issue in the current GMC process. Management believes that additional time spent with stakeholders prior to the filing will result in a better outcome, and will reduce the likelihood of a contested filing. Management will bring forward its proposal to implement the GMC structure for the portion of 2008 after MRTU startup separately, most likely at the ISO Board of Governors meeting in December 2007.

With respect to the pre-MRTU GMC, Management sought stakeholder agreement on an extension of the current GMC rate design into 2008, and we have reached general agreement with the stakeholders on the terms of the extension. Management proposed, and stakeholders agreed, to an extension of the GMC rate design until MRTU startup with a continuation of the current revenue requirement trigger of \$195 million. (If the revenue requirement trigger for 2008 were exceeded, the California ISO would be required to file for approval of its revenue requirement with the FERC under Section 205.) The necessary changes to the California ISO Tariff affect only the dates referenced in one paragraph in Appendix F, Schedule 1, Part D – Information Requirements. Once filed and approved by the FERC, the termination date of the current rate design will be the earlier of MRTU implementation or December 31, 2008. No stakeholder has expressed opposition to the proposed extension of the current GMC rate design into 2008. Management will work with interested stakeholders on the form of the transmittal letter to the FERC in order to address any concerns prior to filing.

In order to present the stakeholder-supported California ISO proposal to extend the currently effective provisions of the GMC rate design into 2008 with the FERC by November 1, 2007, we request the Board's approval of the filing. Management anticipates returning to the Board for approval of the GMC under MRTU rate design in December after further discussions with stakeholders have taken place.

MOTION

Moved,

That the ISO Board of Governors authorizes Management to make all necessary and appropriate filings with the Federal Energy Regulatory Commission to implement the proposed extension of the currently effective GMC rate design, as outlined in the memorandum dated October 9, 2007.

³ The letter from Alcantar and Kahl also includes comments supportive of Management's revised MRTU GMC rate structure proposal, which was discussed on the October 2 conference call.