

**UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION**

California Independent System)	Docket Nos. ER03-608-000,
Operator Corporation)	ER00-2019-006, and
)	ER01-819-002

**ANSWER OF THE
CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION
TO PACIFIC GAS AND ELECTRIC COMPANY'S AND
SOUTHERN CALIFORNIA EDISON COMPANY'S
MOTIONS FOR RECONSIDERATION**

**To: The Honorable Bobbie J. McCartney
Presiding Administrative Law Judge**

Pursuant to Rule 213 of the Commission's Rules, 18 C.F.R. §§ 385.213, the California Independent System Operator Corporation ("ISO") hereby submits this Answer to Pacific Gas and Electric Company's ("PG&E's") and Southern California Edison Company's ("SCE's") Motions for Reconsideration of the Motion of the City of Vernon ("Vernon") to Submit Supplemental Testimony. The ISO supports these motions and requests that the Presiding Judge grant these motions and deny Vernon's motion.

I. BACKGROUND

On July 25, 2003, well after the date under the procedural schedule for supplemental testimony, Vernon filed a motion in this proceeding seeking leave to file additional testimony regarding the disbursement of the proceeds of the ISO's transmission Access Charge to Participating Transmission Owners ("Participating TOs"). Vernon bases its motion on its purported lack of

knowledge prior to deadline of information that it had under-recovered its Transmission Revenue Requirement under the disbursement methodology put in place over two years ago through Amendment No. 34 to the ISO Tariff. Vernon excuses its lack of knowledge as the result of the “secrecy” under which the provisions of Amendment No. 34 were developed and the ISO’s failure to provide Vernon with certain data prior to its testimony.

The ISO had intended to file an answer to Vernon’s motion. On August 7, 2003, however, prior to the deadline for answers to Vernon’s motion, the Presiding Judge granted the motion. Subsequently, on August 11 and August 13, 2003 respectively, PG&E and SCE filed motions for reconsideration of the Presiding Judge’s order. The Presiding Judge has set the motions for reconsideration for oral argument on August 20, 2003.

II. DISCUSSION

The ISO supports PG&E’s and SCE’s motions and the arguments made therein, and will not repeat them here. In addition, in the event the Presiding Judge requests additional information regarding the ISO’s response to Vernon’s requests for data, the ISO will provide that information at oral argument. In this answer, the ISO simply wishes to provide additional information demonstrating that Vernon’s lack of knowledge is due entirely to its own negligence.

First, there was never any “secret” that the ISO had negotiated changes included with Amendment No. 34 with the Original Participating TOs. In the filing letter accompany Amendment No. 34, the ISO stated:

In the expectation that Vernon would join the ISO effective January 1, 2001, the ISO has been working both internally and with the Original

Participating TOs in developing the necessary data and changes to the billings and settlement systems to implement the new Access Charge methodology. Indeed, the ISO would like to express its sincere appreciation for the hard work of the Original Participating TOs in this regard. In a period of immense pressure on all the California Market Participants, the Original Participating TOs devoted significant time and resources to ensuring that the new Access Charge methodology could be implemented on an aggressive schedule.

In addition, the changes in the disbursement methodology were fully explained in the filing letter:

Appendix F, Schedule 3, Section 10: This is a new section being added to Appendix F, Schedule 3, that addresses concerns over how the ISO's disbursement of High Voltage Access Charge revenues are applied to the differences between actual loads and the filed and approved test year loads that, in connection with filed and approved High Voltage Transmission Revenue Requirements, are used in determining the ISO's High Voltage Access Charge.

Under traditional utility-specific rate making, increased revenues associated with a utility's load growth (i.e., differences between the utility's actual load and the test-year load used to determine current rates) fully or partially offset the utility's cost increases. This revenue effect associated with load growth tends to reduce the frequency of required rate cases. If the ISO had implemented the revenue disbursement originally proposed in Amendment 27, then the excess revenue above the test year load associated with the actual revenue would have been distributed to all of the Participating TOs in proportion to their High Voltage Transmission Revenue Requirement. This would have resulted in overpayment to Participating TOs who have recently filed for rate increases and underpayment to Participating TOs that had not recently filed for rate increases. The modified revenue disbursement methodology more closely retains this relationship between revenue and load variances under traditional utility-specific rate making and should result in few changes to a Participating TO's Transmission Revenue Requirement.

If Vernon believed that it had been unfairly excluded from negotiations or if, as Vernon asserts, it found the tariff provisions confusing, it has had over two years to pursue this issue. Although Vernon may contend that it had no reason to seek additional information because it did not know that it was under-recovering its Transmission Revenue Requirement, such a lack of knowledge is

just further evidence of Vernon's negligence. Vernon certainly knew what disbursements it received from the ISO as it gets daily settlement statements and monthly invoices, and it certainly knew its own Transmission Revenue Requirement. It would seem a fundamental requirement of responsible management to compare the two. Moreover, the under-recovery (or more appropriately the slight diminution of the overall benefit Vernon receives by joining the ISO was due to Vernon's own actual load being lower than Vernon's own test year load approved by the Commission. To remedy this mismatch, Vernon has only to file a revision to its TO Tariff updating its Gross Load. Vernon's failure to do so cannot provide good cause for the filing of supplemental testimony.

III. CONCLUSION

WHEREFORE, for the foregoing reasons, the ISO respectfully requests that the Presiding Judge grant PG&E's and SCE's Motions for Reconsideration.

Respectfully Submitted,

/s/ Michael E. Ward

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CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon each person designated on the restricted service list compiled by the Secretary in this proceeding.

Dated at Washington, D.C. this 19th day of August, 2003

/s/ Michael E. Ward

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