

**Exhibit No. ISO-7**

<b>END USER'S COMPROMISE PROPOSAL</b>
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**Methodology:**

- 10 year transition for high voltage<sup>1</sup> transmission from TAC Area to ISO Grid-wide; low voltage transmission remains Utility-specific
- Triggered based on one Governmental Entity executing the Transmission Control Agreement (TCA)
- New high voltage transmission systems and capital additions included in ISO Grid-wide component of the Access Charge calculation

**New Participating Transmission Owner:**

- Execute the TCA
- All transmission assets turned over to ISO Operational Control
- Comply with all ISO Tariff/Protocols and applicable Agreements
- Convert Existing Contract rights and owned rights to FTRs (1 FTR = 1 MW)
- Scheduling Coordinator function performed by New PTO or its designee (but not the Responsible PTO)

**Mitigation:**

- Maximum impact to Original PTOs during 10 year transition: \$32/32/8 Million (approximately 0.4 mill increase to Load)
- Billed Loads and exports pay for Access Charge and GMC
- No cost increase to New PTOs (net burden (high voltage Access Charge and/or GMC), if any, paid by IOUs)
- Apply benefits to reduce high voltage Transmission Revenue Requirement in the following years, i.e., assume for TRR purposes that the PTO applied the benefits to buy down its investment in high voltage transmission assets.
- Re-evaluate the mitigation three years after implementation to determine if a change needs to be made by the ISO Governing Board
- Uniform treatment of all PTOs including operation, participation and market rules after the 10 year transition period

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<sup>1</sup> High Voltage transmission is 200 kV and above, and supporting facilities, low voltage transmission is below 200 kV.

**Details:**Ultimate High Voltage Access Charge Principle, After the Transition Period:

- One ISO Grid-Wide Regional Access Charge rate for all ISO Controlled Grid users.
- Uniform treatment of all PTOs including operation, participation and market rules.
- All Existing Contract and owned transmission rights of New PTOs are turned over to ISO Operational Control and comply with ISO Tariff, Protocols and applicable Agreements.

High Voltage Access Charge Transition:

- Transition starts after a New PTO executes the Transmission Control Agreement.
- All Existing Contract and owned transmission rights of a New PTO are immediately turned over to ISO Operational Control and comply with ISO Tariff, Protocols and applicable Agreements.
- Phase in the ISO Grid-wide High Voltage Access Charge, subject to mitigation discussed below.
- A ten-year transition (10% per year) from TAC Area High Voltage Access Charges to an ISO Grid-Wide High Voltage Access Charges (generally 200 kV and above).
- New transmission systems and capital additions of existing transmission systems that are high voltage facilities will be entirely recovered on an ISO Grid-Wide basis when such charge is implemented.
- Low Voltage Access Charge (below 200 kV) remains utility-specific.

Mitigation:

- To ensure no rate increase for New PTOs, Original PTOs would compensate New PTO's for the increased exposure they face for increased GMC and/or Access Charge due to implementation of GMC and/or Access Charge based on billed Load and exports, net of revenues received through the High Voltage Access Charge transition.
- The result is no cost increase to New PTOs for the High Voltage Access Charge or GMC.
- During the transition period, to protect Original PTOs against rate shock, the increase in rates to each Original PTO as a result of the mitigation and change in Access Charge methodology would be limited each year to \$32million for PG&E and Edison, and \$8 million for SDG&E.

Reevaluation of Mitigation

- If, three years after implementation, a member of the ISO Governing Board believes that the end result of the mitigation as implemented is unjust and unreasonable, based on an unanticipated change in the balance of benefits and burdens, then that member may make a request that the ISO Governing Board adjust the mitigation.
- The member must supply the Board with sufficient information to demonstrate the unanticipated change in circumstances, the resulting unjustness and unreasonableness, and a proposed adjustment to the mitigation. No adjustment may be made without ISO Governing Board approval and, if an adjustment is made, such adjustment shall be filed with FERC for acceptance and/or approval. If the mitigation plan is adjusted pursuant to this provision, any New PTO that may be adversely impacted by the adjustment shall be entitled to withdraw as a PTO effective the same date as the implementation of the change in the mitigation plan (30-day window), and shall be entitled to resume operation under any Existing Contract that has not expired.

Reduce TRR

- Requires New PTO to keep a running total of the net benefit it receives and include in subsequent years a TRR deduction equal to what it could achieve by using the amount to amortize its high voltage transmission investment.
- Objective is to converge rates of all PTOs during the transition period.
- New PTO has a number of options including:
  - Use the benefit money to recall some bonds or buy bonds in the open market and retire them; or
  - Establish a sinking fund to segregate the money to make required payments to bondholders, creating an asset on the New PTOs books to offset a portion of the liability to the bondholders.

Existing Contracts:

- Conversion - required when TCA is executed
  - FTRs given for Existing Contract and owned rights, one for one on all paths. If the Operating Transfer Capability in the forward market is less than the rated transfer capability, the FTR will be reduced on each path on a pro rata basis.
  - If an Existing Contract were a network contract, specific paths would have to be agreed to by the New PTO, the Original PTO and the ISO.
  - May auction FTR but not required to auction during transition period
  - Net FTR auction revenue, Usage Charges paid for Existing Contract or owned right, and Usage Charge revenue against TRR
- Financial obligations of Existing Contracts remain intact, unless terminated.
- Responsible PTO is not required to serve as SC for Existing Contract holder after holder becomes a New PTO.
- Operational requirements are in accordance with ISO Tariff/Protocols/Agreements (i.e. Operating Reserve, Regulation, scheduling, dispatch, metering, congestion management, settlement, etc.)

RMR

- Each PTO is responsible for the costs associated with Reliability Must-Run (RMR) generating units located in its Service Area or as the Responsible Utility or Utilities whose Service Area is benefiting from the RMR generation.

Metered Subsystems

- For geographically contiguous system of a New PTO within the ISO Control Area within a single congestion zone.
- Ability to control its own generation through a System Unit (subject to requirements applicable to all generating units under the PGA to avoid a System Emergency).
- Schedule gross Generation, imports, exports and gross Load, through the ISO scheduling systems.
- Be metered at interface points and Generators using ISO certified revenue-quality meters.
- Participate in ISO markets for Ancillary Services and Supplemental Energy on a System Unit basis, subject to all requirements of the ISO Tariff for such participation.
- Pay cost for relieving intra-zonal congestion only internal to the MSS, between the ISO Controlled Grid and the MSS, and for its use of the ISO Controlled Grid.
- UFE would be calculated for each MSS
- Be responsible for and bear the cost of reliability measures within the MSS such as intra-zonal congestion, RMR generation, transmission line outages and voltage support.

Facilities to be Turned Over

- Facilities that are to be placed under the ISO's operational control would be based on FERC's seven-factor test supplemented as required to permit satisfaction by the ISO of its responsibility for reliable operation of the grid consistent with WSCC, low voltage reliability requirements and the initial guidelines established for PTOs.
- Applicant shall submit a designation of transmission facilities, and entitlements in facilities, that it proposes to place under the operational control of the ISO, together with an enumeration of all facilities over 200 kV (to assist in determining low voltage versus high voltage facilities), or entitlements in such facilities and enumerate the transmission facilities or entitlements to facilities not proposed for operational control by the ISO.
- ISO will publish the submittals on its Web site and following the submission of comments by the public and decision by the ISO Governing Board, the ISO will notify the applicant, and the public, either that the submitted designation is acceptable, or that it would be acceptable if modified as proposed by the ISO (which modifications could include either additions or deletions to the designation).

- Applicant may indicate its acceptance of the modified designation, file a complaint with FERC challenging the consistency of the modified designation with the designation guidelines, or withdraw its application.
- If the ISO accepts the applicant's initial designation, or the applicant accepts the ISO's modifications to that designation, the TCA parties shall negotiate the TCA and the ISO shall file the TCA upon execution.
- If any affected party desires to challenge any portion of the TCA filing, it shall do so before the FERC whose decision will be binding upon the parties.
- Upon FERC acceptance, the ISO shall assume full operational control of the facilities agreed to by it and the applicant.

#### Wheeling

- Wheeling Access Charge for "high voltage" Scheduling Points contained within a single TAC Area will be the High Voltage Access Charge for the TAC Area; "low voltage" Scheduling Points will also pay the applicable Low Voltage Access Charge.
- Wheeling Access Charge for joint facilities will be the average High Voltage Access Charge for each PTO weighted by the capacity entitlement at that Scheduling Point, and the Low Voltage Access Charge, if applicable.
- ISO collects total Wheeling revenues (wheeling-out and wheeling-through).
- ISO allocates the revenues to each PTO based on whether the Scheduling Point is a High Voltage Transmission Facility or a Low Voltage Transmission Facility:
  - All PTOs at Scheduling Point in the Same TAC Area: On the ratio of each PTO's total High Voltage or Low Voltage Transmission Revenue Requirement (TRR) to the sum of all PTO's Transmission Revenue Requirements.
  - All PTOs at Scheduling Point are not in the Same TAC Area: The disbursement will first be weighted based on the capacity the PTOs in a specific TAC Area have at the Scheduling Point and then ratio of each PTO's total High Voltage or Low Voltage Transmission Revenue Requirement (TRR) to the sum of all PTO's Transmission Revenue Requirements.
- Once the Access Charge has fully transitioned to ISO Grid-Wide, the Scheduling Points that exit the ISO Control Area will be deemed to be high voltage transmission facilities.

#### Billing and Settlement

- Bill High Voltage Access Charge based on \$/MWh to SCs, UDCs or MSSs.
- ISO billing structure does not preclude SCs, UDCs or MSSs from having a different retail rate design
- ISO bill High Voltage Access Charge on a net basis to PTOs who are UDCs or MSS
- Credit worthiness is similar to existing requirements

- All Scheduling Coordinators would have neutrality limited to \$0.095/MWH if all governmental entities join. Limit can only be raise with ISO Governing Board approval.

Revenue Requirement Approval

- Jurisdictional PTOs file proposed rates at FERC for acceptance and/or approval
- Non-jurisdictional PTOs transmission revenue requirement review will be done by an independent Revenue Review Panel in accordance with procedures approved by the ISO Governing Board
- All parties can participate in the Revenue Review Panel process
- Procedures for the Revenue Review Panel will be developed and approved by the ISO Governing Board.