



**AGENDA**

*GMC Unbundling Steering Committee  
Monday, December 7 1998*

*Offices of the California ISO  
151 Blue Ravine Road – Executive Conference Room  
Folsom, California*

- 8:30 – 9:00 Continental Breakfast
- 9:00 – 9:30 Welcome and Introductions
- 9:30 – 10:30 Establish a schedule leading to the filing
- 10:30 – 12:00 Discuss ISO preliminary analysis
- 12:00 -- 1:00 Lunch
- 1:00 – 3:00 Discuss future analysis to use in settlement discussions
- #/type of buckets
  - billing determinants
  - recovery of under collection of cost

December 7, 1998

Folsom Office (Executive Conference Room)

Mike Epstein

GMC Steering Committee Meeting Sign-In Sheet

| Name                   | Company                           | Business Number | Fax Number     | E-Mail                          |
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| Name                | Company   | Business Number | Fax Number     | E-Mail                |
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|                     |           |                 |                |                       |
|                     |           |                 |                |                       |



## GMC Steering Committee Meeting Minutes

12/7/98

List of attendees:

Michael Epstein, California ISO  
David Cohen, RMI  
Trent Carlson, California ISO  
Romulo Barreno, California PX  
Deanne Nelsen, California ISO  
Michael Werner, California Dept. of Water Resources  
Anne Selting, National Economic Research Associates  
Brian Jobson, SMUD  
Tony Braun, CMUA  
Gene Waas, California PX  
Denice Cazalet, APX  
Alexis Wodtke, CAC/EPUC  
Judy Nickel, California ISO  
Phil Leiber, California ISO  
Carolyn Kehrein, California ISO Board  
Don Fuller, California ISO  
Jan Cogdill, California ISO  
Michelle Windmiller, California ISO  
Ed Lucero, SEMPRA  
Steve Greenleaf, California ISO  
Michelle Winn (via telephone)  
Linda Walsh, Howrey & Simon (via telephone)  
Susan Schneider, California ISO  
Ziad Alaywan, California ISO

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Susan Schneider: GMC to expire 7/1/99. Prior to reformulation, testing, rate papers, etc., the concept will have to be presented to the Board at the 3/99 meeting and approved. Therefore, 3/1/99 will have to be the cutoff for discussion for the FERC filing. If we are to allow a one month period for discussion, the analytic work that will form the basis of the discussion will need to be completed by 2/1/99. The analytic work that was done earlier has essentially consisted of estimates; no real detailed work papers, etc. have been done. Vendor records are insufficient or non-existent; record-keeping was not required in the original contracts. MCI has not been very cooperative in sharing actual costs. ABB costs were not segregated; we do not have high confidence in their numbers. We will give the Committee all the information we have, but there are definite limitations to it.

Attendee: Did ISO ask contractors to keep data in a manner that was usable?

Susan Schneider: By the time we got to the settlement agreement, the infrastructure had already been set up. Most of the work was done prior to start-up (prior to 4/98).

Tony Braun: It's important we get it done and get some type of unbundling—get a finished product.

Susan Schneider: Yes, it's a trade-off when dealing with limitations. We need Market Participants to tell us in advance what is wanted. What are the numbers, methods, options you want us to look at? Just because limitations exist, doesn't mean it can't be done.

David Cohen: With the 2/1/99 analysis completion date, will we be planning some type of Stakeholder meeting in January? or will it be afterwards, e.g. February or March?

Susan Schneider: Yes, we will plan to have a Stakeholder meeting and use other communication methods (such as email) to solicit input.

Romulo Barreno: Will the ultimate decision be made by the ISO?

Susan Schneider: Yes.

Brian Jobson: Is the rate design filing the only issue before FERC, then?

Susan Schneider: Yes. The issue will be "*How to build the revenue requirement*", not "*What the rate requirement is.*"

Mike Epstein: The filing on 12/15 will be for the bundled rate.

Tony Braun: Will the 1.7 million trust interest be in there? Will there be any new surprises?

Phil Leiber: No.

Susan Schneider: (Itemizing handouts:

Agenda

Established Schedule  
Small Schematic (8.5x11)  
Large Schematic (11x17)  
Draft of Unbundling Framework)

Steve Greenleaf: We would like to classify these documents as private and confidential. The ISO plans to abide by FERC Rule 602 on an ongoing basis. Settlement documents so classified cannot be used in litigation.

Tony Braun: I'm not sure we should have constraints on documents that should be publicly available.

Attendee: I'm not understanding the difference between Settlement Discussions and the Stakeholder Process? In order to explain issues to Stakeholders, some of the information would have to be available to them.

Steve Greenleaf: True, however the ISO doesn't want this information coming back in litigation.

Attendee: So, this isn't really a Settlement Discussion?

Steve Greenleaf: No.

Attendee: I would like to see it clearly stated when the documents are to retain the "private and confidential" designation.

Carolyn Kehrein: It should be stated in the future as it is stated in today's format: A "confidential" stamp on the document, and notes explaining the rationale for the confidentiality.

Mike Epstein: How does the Committee feel we need to arrive at the 2/99 full roll-out?

Mr. Lipson: Perhaps we should have one more Stakeholder meeting in 1/99?

Don Fuller: Based on last year's experience, most are not going to become involved until they realize the importance to them directly.

Mike Epstein: What do you think about the next Steering Committee meeting to be held 1/99, and a Stakeholder meeting to be held 2/99?

Don Fuller: Is that enough time?

Susan Schneider: If we decide the parameters today, I don't see a reason why they couldn't be circulated and commented upon in that timeframe.

Attendee: In the past, there has been a concern that participants have been rushed through the process. The GMC schedule has already been extended once. Having no further discussion of methods after today may not be consistent with good public communication.

Susan Schneider: I would like to accomplish this today: Establishing the options that we need to look at (not *how* we're going to calculate the GMC). Then we can communicate the options to the larger group, and they will have the opportunity to comment upon them. What I really want to avoid is getting hung up with more and more unending recommendations or major new options that should have been raised earlier in the process.

Attendee: Will there be opportunity for the public to comment on the buckets?

David Cohen: One person we haven't heard from regarding bucket descriptions is Ellen from Enron.

Don Fuller: Ellen expressed concern about the buckets prior to the last meeting.

David Cohen: We need to be sure that these meetings are well noticed.

Susan Schneider: We know that she has been given the information, so I am assuming she would have voiced any potential objections by this time.

(Referring to unbundling framework handout): What are some of the different options we may want to look at regarding Billing Determinants?

- How should we design rate?
- How many buckets will we have and what are they?
- Under/over-recovery. Right now, the money goes back. We have to decide what we would like to happen if we have more than one bucket and over/under-recovery in a particular area. We don't want to allocate more and more costs in a small area.

Attendee: We don't want to have buckets drive market behavior.

Carolyn Kehrein: We want the incentive to be correct. If the incentive is bad, we have make a mistake in the methodology.

Brian Jobson: I think in the past we have erred by trying to anticipate too much how the market might react early in the process. If huge impacts are made to the market, let's deal with it as it happens; not try to resolve every possible scenario up front.

David Cohen: The Committee felt a good foundation could be laid. Functionality and Cost Causation are most important to us. The rate design issue will be changing that part. Mitigation is important in the short term; Cost Causation in the long term. You may wish to look at mitigation in all of these areas.

Michelle Winn (via telephone): There are going to be people who object, regardless of the design. We need to recognize the probability that there will be disagreements and other positions.

David Cohen: So, is there going to be a January '99 Stakeholder meeting?

Susan Schneider: Would distributing information about the options, and offering time to comment, still necessitate a Stakeholder meeting in January '99? Or can we get this done with a Steering Committee meeting in January? If we give the numbers out in January, could we have a Stakeholder meeting in February geared toward trying to reach agreement in Settlement?

Attendee: Who will make the decision whether the analysis will incorporate other suggested buckets?

Susan Schneider: The Steering Committee would decide.

Phil Leiber: These decisions would require many groups' input at the ISO. It would be very difficult, and delay the process significantly.

Susan Schneider: I am hoping that by disseminating information and feedback given, that the Steering Committee will be able to make the decision.

David Cohen: Regarding the Six Buckets: Any objections/deletions/additions?

Romulo Barreno: I think number 3 is very important in that it mitigate risks.

Susan Schneider: Regarding: Establishing a Schedule... let's resolve this issue.

Attendee: Some still think there is a need for a January Stakeholder meeting. A February date would take place after everything has already been decided upon.

David Cohen: Ok, we're hearing a significant number of people feel a need for an earlier Stakeholder meeting. What about the Market Issues Forum meeting? Could we incorporate Stakeholder participation in that?

Susan Schneider: I strongly feel that the group should agree today as to what the buckets are (e.g. What would you like us to consider regarding the unbundling framework #1-3?). I don't want to lose a month by waiting until January to start the analysis.

Attendee: The Stakeholder response last time was equivalent to "sticker shock". I think we need to address the issues in January with the Stakeholders.

Susan Schneider: Let's add number four: Is there any mitigation we can add up front to look at for analysis?

David Cohen: Regarding Unbundling: The result can be maintained or improved upon. The study that's done will be good, but will not necessarily mean the work is over.

Susan Schneider: The timeframe we should be thinking of is December 2000. We will live with these until then.

Linda Walsh (via telephone): April 30 will have to be the filing date at FERC in order to allow the necessary sixty days.

Susan Schneider: Ok, let's conclude on a meeting date in 2/99 for Stakeholders.

Don Rubin: The information should be handed out two weeks prior to the meeting.

Consensus:

- Today develop broad outline of options
- Disseminate information
- 1/6/99: Discuss at Market Issues Meeting, and solicit input
- 1/8/99 (8:30am Conference Call): Steering Committee discussion of further input received from Market Issues meeting. Nail down the structure of the analysis to be done, and the options to be looked at.
- 2/2/99 (9:30am @ ISO) Steering Committee meets prior to larger Stakeholder meeting (with numbers)
- 2/9/99 Stakeholder Meeting

Mike Epstein: Moving on to Functionalization and Cost Allocation...

David Cohen: The muni's have posed the question: Can you break out the cost of scheduling?

Phil Leiber: A/S touched both Market Function and Grid Ops.

Michelle Winn (via telephone): What if I want to self-provide? I don't want to pay for something I'm not using.

Carolyn Kehrein: Speaking on behalf of Barbara, we are assigning dollars to buckets. We want to be sure we are not creating inappropriate incentives or being precisely inaccurate. There is a concern that we not create "nonsense" numbers.

David Cohen: Regarding Existing Contracts: Municipals were not the only examined, correct? Rather, *all* Existing Contracts that the ISO inherited?

Phil Leiber: Correct. All Existing Contracts were used.

Michelle Winn (via telephone): I would like definitions for Market Function and Grid Ops with respect to the six categories.

Phil Leiber: The definitions were those used in the Rutton Report.

David Cohen: Any new categories to propose or define? Any objections?

Phil Leiber: Lets discuss the definitions of the six buckets/categories. The directors were asked to split their costs between categories. Job descriptions and mission statements were used to document their decisions. For example, SCADA/EMS had two components: 1) Salary costs split; and 2) Everything else (consultants, training, etc.). All decisions were based on the judgement of the department head.

Mike Epstein: We can modify data to annotate rationale behind allocating to specific buckets.

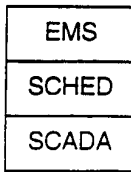


[Mike: This is where Ziad gave his presentation, but I didn't catch most of it because of trying to locate a tape recorder. The blanks will need to be filled in! Rebecca]

Ziad Alaywan: Distinguishing between Market Ops (Day ahead, Hour ahead) and Grid Ops (transmission dispatch, generation dispatch, scheduling coordination, interties)

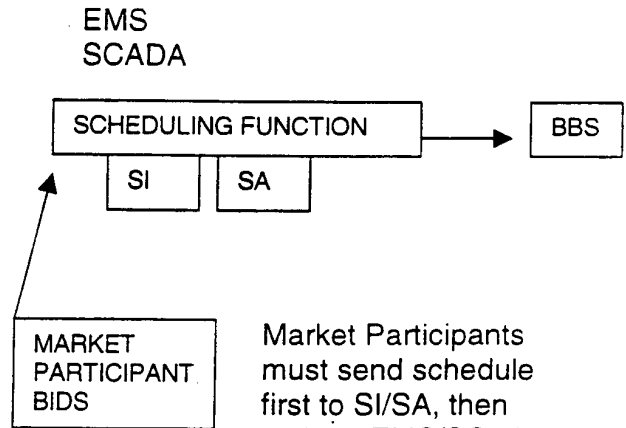
Overview of the System: Old Days (i.e. last year) vs. New Days

OLD DAYS



People used this to schedule in ISO area.

TODAY



Market Participants must send schedule first to SI/SA, then goes to EMS/SCADA

- congestion
- ASM
- Security Analyst
- voltage
- BEEP



2) Can someone besides MCI design a new system from scratch? It would be advisable to hire a contractor with experience doing this.

Phil Leiber:

Client Services: ISO staff has spent a large part of funds dealing with manual work-arounds.

Contracts/Compliance, Client Relations, Application Services (IT Support), Computing Services: There is not as much backup rationale in these areas. We need more validation. The numbers were shown to Ziad without negative reactions, but they still need more refining, especially SI/SA.

The infrastructure breakdown percentages were tied to milestones completed in the contracts and what systems the milestones were tied to.

General Discussion of Options to Consider on Unbundling Framework

Billing Determinants (by bucket)

|                       |                   |  |   |                          |
|-----------------------|-------------------|--|---|--------------------------|
| Grid Ops/Reliability: | <u>MW Hours</u> : | (of load?)<br>(across grid?)<br>(metered demand?)<br>(scheduled demand?)<br><br>(control area vs. control grid?)<br>(gross vs. net?) | → | <b>of metered energy</b> |
|-----------------------|-------------------|--|---|--------------------------|

Scheduling: Service Hours: Generation and demand are netted out, as if the state was it's service area.

MW Hours Metered

Number of Schedules: include mitigation?  
charge SC's for inaccurate schedule?  
on/off peak scheduling price

Congestion: MW Hours of new Firm Transmission use

Net vs. Gross

FTR's (with or without)

Total MW Hours of metered demand

Market: MW Hours sold into market vs. MW Hours bought out

Revenue Tax Consideration: % of dollars sold or purchased in ISO Markets (supplemental, adjustment bids, A/S)

Metered Load

Settlements/Billing: Number of Statements

Charges per line of service (transaction charges, not a measure of complexity of bill)

Existing Contracts:

Contracted Hours

Number of Contracts

MW scheduled

Susan Schneider: As an alternative to the six buckets, we will also ~~look~~<sup>look</sup> at the two bucket configuration. Per request, mitigation alternatives will be examined for those effected at 30% of their current bill.