



## Memorandum

To: Grid Reliability/Operations Committee  
From: Beth Emery, Vice President and General Counsel  
Deborah Le Vine, Director of Contracts & Compliance  
CC: ISO Board of Governors; ISO Executives  
Date: October 19, 1999  
**Re: Access Charge - Proposed Methodology**

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### EXECUTIVE SUMMARY

***This memorandum requires Board action.*** Both AB 1890 and the November 1996 Federal Energy Regulatory Commission Order required the ISO to implement an Access Charge within two years of start-up. A Transmission Access Charge Working Group comprising Market Participants and ISO representatives has been meeting regularly with the goal of developing a consensus Access Charge methodology. Management is seeking Board action on the four key policy issues listed below in order to finalize a detailed proposal for Board approval in November.

- What is the appropriate design methodology for the Access Charge?
- Should the rate be implemented immediately or phased in, and if the latter, how?
- Should the rate be demand and volume-based, demand-based only, or solely volumetric?
- If there are rate increases from the new rate methodology, notwithstanding phase-in, should they be mitigated, and if so, how?

An overarching issue in devising an Access Charge is its relationship to the issues surrounding full participation by Governmental Entities<sup>1</sup> in the ISO. Because the Governmental Entities that will become the new Participating Transmission Owners ("New PTOs") generally have newer, higher-cost transmission facilities, most traditional transmission rate designs would result in substantial transmission rate reductions per kW or kWh for these New PTOs. Although customers of the three investor-owned utility ("IOU") PTOs would see a corresponding dollar-for-dollar increase in their transmission rates, the per kW or kWh effect would be much smaller given the relative sizes of the PTOs and New PTOs.

In considering options, Management has sought to balance the Board-set goal of expanding the ISO within California with the Board-approved strategic objective to "allocate cost fairly." It is important to note, however, that the Access Charge creates a one-time opportunity to "expand the pie" and then allocate costs and benefits of full ISO participation among a larger group of parties. That opportunity will be lost if the Access Charge is decided in isolation from the related issues of Grid Management Charge ("GMC"), Existing Contract conversion, Metered Subsystem ("MSS"), and the like. The current proposal is intended to link and resolve these issues. The proposed

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<sup>1</sup> Governmental Entities means municipal utilities, state agencies and federal agencies that own or have contractual rights to transmission.

June 1, 2000 effective date recognizes the significant work required to integrate New PTOs, which is not practicable to complete by the target March 31, 2000 date set forth in AB 1890.

With respect to overall design methodology, the working group considered a variety of proposals including keeping the Access Charge utility-specific, going to a grid-wide Access Charge, dividing the rate into a "local" charge and a "regional" or grid-wide charge, and variations on each. Management proposes, as the ultimate design after a phase-in, a two-part Access Charge comprising utility-specific "local" rates for ISO Controlled Grid facilities below 200 kV and a grid-wide rate for ISO Controlled Grid facilities at 200 kV and above. There is no significant dispute over this concept of a "regional-local split" among any stakeholders.

The working group considered a variety of proposals to phase in the new Access Charge, including having continued utility-specific rates, two zones, and other variations. Management proposes a "TAC Area" rate, a compromise among the various proposals presented by stakeholders. Initially, there would be three "TAC Areas" (the former control areas of PG&E, SCE, and SDG&E) and, should it join, a fourth TAC Area for LADWP's control area for regional transmission. The regional "TAC Area" rate would transition to an ISO Grid-Wide rate over a five-year period that would start when a "critical mass"<sup>2</sup> of New PTOs join the ISO, bringing a defined amount of additional import capacity to constrained interfaces. The working group also considered whether to continue the traditional demand-based transmission rates (costs allocated based on peak demand or kW) or to move to a commodity-based rate (costs allocated based on throughput, or kWh). Management recommends charging the Access Charge (charged to Utility Distribution Companies ("UDCs") or MSSs) based on accumulated gross hourly Load, a \$/MWh value. This commodity-based charge is consistent with how the ISO currently charges Scheduling Coordinators for Wheeling, as well as the entire energy-based market structure in California, including congestion pricing.

Finally, the working group has attempted to identify and quantify the types of cost increases and savings each party will experience under an Access Charge/New PTO scenario. Some values are more easily verified than others: for example, the rate increases and decreases from a rolled-in transmission rate vs. the expected savings from eliminating the Existing Contract "two pipe" model and its phantom congestion charges. In recognition of the differences in accuracy of the estimated costs and benefits, Management is seeking authority to develop a mitigation plan to be used during a transition period. Management believes key principles of such a plan would include that any PTO with a rate benefit on Transmission Revenue Requirements "share" a percentage of its incremental benefit, adjusted for increases in GMC, to reduce costs to other customers. Although Management's current straw proposal would take the "shared" amount and (1) prepay outstanding ISO tax-exempt bonds and then (2) prepay that PTO's transmission debt, the details are still being developed and discussed with Stakeholders.

Management proposes the following motion:

***MOVED, that the Committee recommends that the Board:***

- ***adopt the Access Charge methodology using Utility-Specific rates for ISO Controlled Grid Facilities below 200 kV and ultimately an ISO Grid-Wide rate for facilities at 200 kV and above, all based on \$/MWh, to be filed and effective June 1, 2000;***

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<sup>2</sup> Management proposes to define "critical mass" as an increase in import transmission capacity of 3,500 MW of additional new firm use transmission participating from three or more New PTOs cumulatively on the following paths: California-Oregon Intertie, Nevada-Oregon Border, Palo Verde, and Path 15.

- *provide that facilities at 200 kV and above be charged initially in three or four interim “TAC Areas” and transitioned 20% per year into a ISO Grid-Wide charge, commencing when a critical mass of New Firm Use import transmission capacity is obtained;*
- *adopt a plan for mitigating the rate increases and decreases among New PTO and existing PTO customers; and*
- *direct Management to provide Tariff language for Board approval in November.*

## BACKGROUND

AB 1890 requires the ISO to recommend for approval to the Federal Energy Regulatory Commission (“FERC” or “Commission”) no later than two years after the initial operation date, a rate methodology for the grid Access Charge which has been approved by the ISO Governing Board. The ISO Governing Board must adopt principles for the charge including, but not limited to, an equitable balance of costs and benefits; a definition for the transmission facility costs which shall be rolled in to the transmission service rate and spread equally among all ISO users; and which transmission facility costs should be assigned to a specific utility’s service area.<sup>3</sup> If there is no ISO Governing Board decision, the rate methodology shall be determined following the Alternative Dispute Resolution (“ADR”) process in Section 13 of the ISO Tariff.<sup>4</sup> If no ADR decision is rendered, the default rate methodology specified in AB 1890 is a uniform regional transmission Access Charge and a utility-specific local Access Charge. For the default methodology, regional transmission facilities are defined to be 230 kV or above plus an appropriate percentage of facilities operating below 230 kV; however, the default methodology may not be implemented until termination of the competitive transition costs (CTC) recovery or March 31, 2000, whichever is later.<sup>5</sup>

The Commission, in its Order of November 26, 1996, stated:

Regardless of the procedural process, the ISO-recommended rate methodology is to be filed with the Commission at least sixty days before the end of the two-year period. If the ISO Governing Board recommended or the ADR-recommended rate methodology is accepted, the rates are proposed to go into effect when the two-year period ends. The default rate methodology is proposed to become effective on the latter of the end of the two-year period or the termination of the stranded cost recovery period.

The ISO has been working with stakeholders since December 1998 on this issue. The discussions in the working group meetings and data received in the working group are subject to confidentiality rules similar to those used in settlement discussions, although individual parties may chose to make their positions public.

We distributed a request for proposed methodologies in December 1998, with responses ultimately received in February 1999. Five main Access Charge methodologies were initially proposed and extensively discussed among the stakeholders: (1) utility-specific regional and local; (2) regional ISO Grid-Wide and local utility-specific; (3) ISO Grid-Wide regional and local; (4) power flow-based pricing; and (5) regional transmission Access Charge (TAC) Area and local utility-specific. The complete proposal provided to the working group by ISO Management is provided in **Attachment A**. More details on the confidential positions of parties and cost implications of the proposals (based on cost information provided confidentially) are contained in the separate Executive Session materials. We note that approval is not sought for all details in Attachment A; rather the attachment is provided for informational purposes.

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<sup>3</sup> §9600(a)(2)(A)

<sup>4</sup> §9600(a)(2)(B)

<sup>5</sup> §9600(a)(2)(C)

## ISSUE STATEMENT

Although AB 1890 set out three specific questions for the Board to answer (detailed above), we believe the policy issues that need to be addressed by the Board are better stated as four questions:

- What is the appropriate design methodology for the Access Charge?
- Should the rate be implemented immediately or phased in, and if the latter, how?
- Should the rate be demand and volume-based, demand-based only, or solely volumetric?
- If there are rate increases or decreases from the new rate methodology, notwithstanding phase-in, should they be mitigated, and if so, how?

The Access Charge is required by FERC and AB 1890 to be filed no later than 60 days before March 31, 2000, if it is to be effective within two years of start-up. Management believes the filing needs to be approved and completed by year-end (requiring Board action on actual Tariff changes in November) if we are to meet the filing timeline required by the FERC order addressed above. Although we will ask FERC to make the Access Charge effective June 1, 2000, we believe it is important to file on time and receive an early indication from FERC that the approach will be permitted to go into effect, given the substantial work that will be required for any New PTO, as well as by the PTOs, to support their inputs to the formula rate and file any necessary changes to their TO Tariffs. We also need time to change settlement and billing software and development and implement procedures to accommodate the new charge.

The proposed schedule for implementing the new Access Charge is as follows:

10/28/99	Board approves Policy Direction
11/18/99	Board approves Tariff language
12/15/99	ISO files Access Charge with FERC
1/1/00	Potential PTOs must declare intent to join the ISO
2/15/00	FERC issues an Order on the Access Charge filing
3/15/00	Agreements for New PTO must be negotiated and executed
4/1/00	Agreements for New PTO are filed with FERC along with new PTO's Transmission Revenue Requirements
4/1/00	Existing PTOs file updates to Transmission Revenue Requirements and Loads. If an update is not filed by this time then the existing FERC approved values will be used in the ISO's formula rate for the Access Charge
6/1/00	TAC Area/Utility-Specific Access Charge effective

Because the new Access Charge is equivalent to the current charges, until there is a New PTO, we believe this schedule meets the letter of FERC's Order and better achieves the policy behind it because the timing reflects stakeholder requests. Additionally, any delay in decisions by the Board would trigger the ADR process required in the legislation, in addition to violating FERC's Orders. This also results in taking the decision-making process out of the Board's hands and placing the decision in the hand of an arbitrator or eventually, FERC.

## OPTIONS TO SOLVE PROBLEM OR DEAL WITH THE ISSUE

The four key policy issues and the options for each are described below.

### What is the appropriate design methodology for the Access Charge?

Currently the Access Charge is based on a utility-specific rate for both regional and local transmission. Each existing PTO at FERC promulgates such utility-specific Access Charge. Regional transmission is generally defined as transmission at 200 kV and above and local transmission is below 200 kV. Today Load pays the Access Charge based on where the Load is served. Export pays wheeling rates based on the point at which the export exits the ISO Controlled Grid. The rates for ISO Controlled Grid regional transmission in 2000 will vary as follows:

- \$1.93/MWh for PG&E,
- \$2.40/MWh for SCE,
- \$3.19 for SDG&E.

If a New PTO joined the ISO under the existing methodology, its Access Charge would also be utility-specific if it is "Self Sufficient" as defined in Section 7.1.2 of the ISO Tariff. A "Dependent Participating TO" would pay pancaked charges specified in Section 7.1.3. The Governmental Entities view the current methodology as a significant barrier to joining the ISO. Moreover, tracking and administering 31 Access Charges within the State of California, which would occur if all Governmental Entities joined the ISO, is not practical.

Five Access Charge methodologies were discussed at length during the stakeholder process: (1) utility-specific regional and local; (2) regional ISO Grid-Wide and local utility-specific; (3) ISO Grid-Wide regional and local; (4) a power flow model; and (5) regional TAC Area and local utility-specific. Of the proposals presented in the working group, not surprisingly, each proposal would most benefit its proponent and was unacceptable to one or more of the other stakeholder representatives.

Management considered proposing an ISO Grid-Wide rate because there is a single California market, but concluded that the initial cost shifts were unacceptably large. To advance the ball, Management put forth a compromise using "TAC Areas" based on the four principal control areas that existed prior to the ISO – PG&E, SCE, SDG&E, and LADWP, which are the same areas used today as the basis of the present utility-specific rates.<sup>6</sup>

Grouping transmission charges by the old control areas recognizes the manner in which the transmission system was built in California. Generally, the IOU facilities were the backbone of a majority of the municipal and governmental systems, except for the LADWP system, and supported many of the facilities built by the Governmental Entities. The municipal and governmental systems depended upon the IOUs for interconnection to what is now the ISO Controlled Grid. Only in recent years did municipal utilities build their own major transmission systems. Eventually, the TAC Area rates would transition into a single ISO Grid-Wide rate for facilities at or above 200 kV.

There are two important and beneficial elements of this methodology. First, the method dispenses with the "self sufficiency" test. Second, the New PTO must immediately convert its Existing Transmission Contract rights ("ETCs") and its own transmission to ISO scheduling rules, and thus facilitating the elimination of the "two pipe" model for congestion management, which produces phantom congestion, and higher energy prices. New PTOs will accept FTRs, in place of their ETCs and for owned transmission lines. The ISO will issue the appropriate number of FTRs to each New PTO, who may hold them for its own use or sell them in the primary FTR auction.

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<sup>6</sup> Imperial Irrigation District has not participated in the Access Charge development process.

Each TAC Area would include as the basis of the regional TAC Area rate the Transmission Revenue Requirement of all participating IOUs and Governmental Entities within that area. Specifically, the TAC Area Access Charge would be based on the sum of the Transmission Revenue Requirements of all PTOs in that area for facilities at or above 200 kV, divided by the sum of each utility's gross hourly Load. As the Access Charge transitions to an ISO Grid-Wide rate, the Transmission Revenue Requirements for all PTOs Grid-Wide would be combined and all UDCs and MSSs in the ISO Control Area would pay a single regional ISO Grid-Wide rate.

Under either the TAC Area or the ultimate Grid-Wide rate, the ISO would bill and collect the Access Charge from the UDCs and MSSs and forward the applicable Transmission Revenue Requirement to the applicable PTOs. (If the UDC and PTO were the same entity, the Access Charge payment and allocation would be netted.) Transmission Revenue Requirements for facilities under 200 kV would be recovered by a utility-specific local Access Charge developed and billed directly by the PTO to the UDCs or MSSs. The rate design to the end-user would be subject to state or local regulation, but subject to applicable FERC preemption principles.

**Should the rate be implemented immediately or phased in, and if the latter, how?**

Management proposes ultimately to merge the regional TAC Areas into an ISO Grid-Wide rate; such transition will commence when "critical mass" has been attained. This transition recognizes that if a New PTO joins, it will in most circumstances enjoy a significant savings immediately by rolling its Transmission Revenue Requirements into those of the applicable TAC Area, which is likely to reflect lower average costs for its end-users. The benefits that customers of the IOUs get from New PTOs' participation come from reductions in the GMC and savings from increased market efficiencies. Those efficiencies are gained by elimination of the "two pipe" model for Congestion management needed to honor Existing Contracts and are realized in large measure when sufficient new transmission is available to the entire market structure. For that reason, Management proposes starting the transition to an ISO Grid-Wide regional rate when "critical mass" is reached -- a minimum amount of additional new firm use import transmission capacity on the existing congested paths in the ISO Controlled Grid.

The definition of "critical mass" is still being finalized, but Management has proposed to use the following definition: when three or more New PTOs provide 3,500 MW of additional new firm use import capacity cumulatively on the California-Oregon Intertie, the Nevada-Oregon Border, Palo Verde, and/or Path 15, critical mass is attained. These paths were chosen because they are the four paths most frequently congested based on total quantity congested in MW. When critical mass is reached, the TAC Area-based Access Charge will begin a five-year transition (20% per year) to ISO Grid-Wide pricing. The trigger of 3,500 MW represents greater than 50% of the Existing Contract transmission capacity on the cited paths.

**Should the rate be demand and volume-based, demand-based only, or solely volumetric?**

Although it was not the subject of extensive debate in the working group meetings, another fundamental policy issue for the Board is whether the Access Charge should be demand-based (\$/MW), commodity based (\$/MWh), or some combination. Typically, transmission was built based on the need for additional transfer capability, and consequently the rate was demand based. However, the new market structure (including congestion pricing) is entirely commodity based and all wheeling is also commodity based. Moreover, there was little stakeholder support for anything other than volumetric charges. Management therefore proposes a commodity rate, based on gross hourly Loads in the UDC or MSS and Exports.

**If there are rate increases or decreases from the new rate methodology notwithstanding phase-in, should they be mitigated, and if so, how?**

Using a utility-specific access charge as the starting point, any other Access Charge methodology adopted will by definition appear to shift costs between PTOs. As more fully discussed in the Executive Session materials,

the potential annual rate decrease to some New PTOs is substantial and other PTOs, including the three IOUs, will see corresponding increases in their customers' rates.

The issue is whether the ISO should establish a formula to mitigate rate increases and decreases among the various parties by having the New PTO "share" some of the benefits of lower transmission rates achieved by ISO participation over some transition period. Absent such a provision, the New PTO would presumably use its transmission cost savings either to reduce rates or, to the extent permitted by local law, to offset costs in other areas.

The working group has attempted to identify and quantify the types of cost increases and savings each existing and New PTO will experience under the proposed TAC Area Access Charge. Some values are more easily verified than others; for example, the cost-shift from a rolled-in transmission rate (a benefit to the New PTO) is easily forecasted. The increase or the decrease in GMC is also easily calculated. What is more difficult to calculate is "hard dollars" associated with increased market efficiencies due to increased ISO participation. These entail decreases in PX energy prices, decreases in Ancillary Service costs if sources increase with additional participation, and congestion cost decreases. Management has estimated that the ratepayers of California could benefit by more than \$200 million annually,<sup>7</sup> the IOU customers by \$135 million, if all Transmission Owners join the ISO and convert their Existing Contracts.

We must, however, take account of the difference in accuracy of the estimated costs and benefits. The key is a "bigger pie" and the promise of savings in market efficiencies. Though difficult to quantify precisely, they are the foundation for reaching a settlement all concerned can live with. To "allocate costs fairly", Management believes that a mitigation proposal can assist, during a transition period, in balancing the "hard" and "soft" dollars. The key principal would be that a portion of the revenues reflecting substantial opportunity for transmission rate reductions (net of increased GMC) should be used to reduce costs for all ISO customers as a further way to enhance the "soft" dollar potential benefits. This is particularly so since all customers benefit from the "soft" dollar market efficiencies.

Management has provided a potential mitigation plan in its latest straw proposal, detailed in **Attachment A**. A key portion of the proposal is the plan to use funds to prepay ISO infrastructure financing. This approach arguably offers the biggest "bang for the buck" for two reasons. First, prepayment would further decrease the GMC for all customers. Second, we believe it offers the opportunity to further decrease costs by facilitating expansion of the ISO regionally by mitigating the "too costly" arguments. We estimate that the period for repayment of debt would be 2-3 years if this portion of the mitigation straw proposal were in place.

This proposal is still being refined. Management proposes to bring the specifics to the Board in November, based on further Stakeholder discussions.

## **PROS AND CONS OF EACH OPTION**

### **What is the appropriate design methodology for the Access Charge?**

**Management proposes an ISO Grid-Wide rate for facilities at or above 200 kV.**

**Pros:** Remaining with a utility-specific Access Charge, coupled with the self-sufficiency test, is seen as a barrier to entry by other Transmission Owners in California and administering 31 utility-specific Access Charges (if

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<sup>7</sup> This calculation assumes changes in GMC due to increased participation; a \$0.25/MWH decline in PX energy costs; a 15% decrease in Ancillary Service Costs due to increased supply; increased Ancillary Service sales opportunities for New PTOs; and decreased congestion costs.

all potential Transmission Owners joined the ISO) for the State is impractical. Additionally, Management believes that all users eventually should pay the same for the grid service on the high voltage system. Maintaining utility-specific rates is not consistent with our vision of a regional grid and does not obtain the efficiencies possible with an ISO Grid-Wide rate.

**Cons:** Any shift from a utility-specific Access Charge would initially shift costs to Edison and PG&E end-users. However, the TAC Area proposal mitigates those shifts. Other benefits of increased participation (reduced GMC costs, increased market participation which should decrease Ancillary Service prices and PX energy prices, and reduced administrative burden of Existing Contracts), provide the basis for an equitable balance of costs and benefits.

**Should the rate be implemented immediately or phased in, and if the latter, how?**

**Management proposes immediate implementation of a TAC Area rate initially, with a phase-in to a ISO Grid-Wide rate over five years once critical mass is obtained.**

**Pros:** The creation of TAC Areas is a compromise proposal that should increase participation in the ISO by utilities with transmission facilities and Existing Contracts. The primary benefits of creating TAC Areas is that it mitigates the increases in rates to IOU customers that would occur with other methodologies. It also simplifies the Access Charge ratemaking associated with the addition of large New PTOs to the ISO, by permitting the creation of a new TAC Area for any New PTOs with substantial control areas. This approach thus is consistent with FERC's policy in favor of expanded regional transmission organizations.

The benefits to the ISO Controlled Grid and the market structure include: additional New Firm Use transmission due to conversion of Existing Contracts and New PTOs joining the ISO; increased market efficiencies; decreased congestion; and decreased GMC. With one ISO Controlled Grid, Management believes that ultimately there should be one Access Charge.

**Cons:** An ISO Grid-Wide Access Charge results in further rate increases to IOU and other Transmission Owner's customers. These incremental shifts are mitigated, however, by the benefits associated with the availability of additional capacity for New Firm Uses and are likely to be reduced by future transmission expansion costs.

**Should the rate be demand and volume-based, demand-based only, or solely volumetric?**

**Management is proposing a commodity-based charge.**

**PROS:** A commodity-based charge (\$/MWh) is consistent with the ISO's market structure and the data is easily attainable for billing purposes. Gross Loads should pay for the Access Charge because all Loads are supported by the regional grid system. Some Stakeholders favor a peak/off peak structure. Given current congestion patterns, this is not appropriate. Management does believe the peak/off-peak question should be revisited until after we have data for some period after Critical Mass is obtained, when congestion patterns could change.

**Cons:** Typically transmission has been priced based on demand (\$/MW) and rates for End-Users is both demand and commodity based. The concern that has been raised is that if the ISO establishes a commodity-based charge, then the UDCs and MSSs would be required to revise their rate structure to only commodity charges.



**If there are rate increases and decreases from the new rate methodology, notwithstanding phase-in, should they be mitigated, and if so, how?**

Management proposes a mitigation plan that allows a PTO to keep percentage of the incremental benefits resulting from the rate change and assigns a percentage to reduce (1) ISO infrastructure financing to in turn reduce the GMC; and (2) the transmission costs of that PTO by prepayment of debt.

*Pros:* Cost shifts should be mitigated to allow fair treatment of end-users. Ideally, the total costs and benefits can be “win-win”. A mitigation plan to direct where some or most of the savings a PTO gets from a rolled-in rate can help balance the costs and benefits. Moreover, it would facilitate getting savings to end-users by limiting the ability of Governmental Entities (who are not regulated by FERC or the CPUC) from using the savings for non-transmission expenses.

*Cons:* This approach mandates what the Governmental Entities must spend their transmission revenue on, a directive that is not palatable to them. They also contend that, unless they continue to charge their customers based on stand-alone transmission costs, rather than the lower TAC Area Access Charge, there will be no excess revenues that can be used for mitigation.

## **PROJECTED COST OF PERSONNEL AND IMPLEMENTATION**

The ISO was aware of implementation of the Access Charge for regional transmission, and monthly billing of such charge to the Scheduling Coordinators representing UDCs or MSSs and monthly distribution of revenues to PTOs at the time that the budget for FY 2000 was developed. Consequently, such software and labor costs have already been included in the FY 2000 budget. It should be noted that the Board has not approved the budget at this time.

## **POSITIONS OF THE PARTIES**

The Access Charge stakeholder process used a parallel path method with both public and confidential meetings and discussions. The Market Issues Forum participants have been briefed monthly as to the status of the Access Charge development. Market Participants in that process took no positions.

A Transmission Access Charge Work Group met to discuss the various proposals and implementation details of the Access Charge under a confidentiality agreement that is akin to the privilege afforded settlement negotiations. If the Access Charge discussions were held in public session, any information, position or discussion could be used against anyone of the parties in the FERC litigation. Management believed that frank discussion needed to take place if there was any hope for a consensus on the Access Charge. Additionally, without the ability for parties to provide data on a confidential basis, responses to the ISO's data requests for specific breakdowns of information might not be forthcoming. This stakeholder process depends on the submission of data by Market Participants, some of which have indicated their reluctance to submit data except on a confidential basis.

A description of the parties' confidential positions is included in the Executive Session documents.

## **MARKET ANALYSIS OPINION**

The Brattle Group has had the lead for the ISO on the economic and financial analysis in support of the Access Charge project, and on the development of many of the details of the present proposal. The scope of the DMA's comment is therefore limited to the larger structural principles and design features of Management's Access Charge proposal.

The DMA supports Management's vision of the ultimate Access Charge structure – a single ISO Grid-Wide charge to cover all transmission facilities at or above 200 kV, and utility-specific charges to cover facilities below 200 kV,

applied to gross Loads and Exports on a \$/MWh basis. We also support a gradual transition to this structure from the present utility-specific structure, during which a mitigation plan could be used to balance the relative costs and benefits.

Several of the more detailed elements of the Access Charge proposal remain to be fully worked out, including the conversion of Existing Contract capacity to FTRs, an issue we believe merits careful attention to ensure the internal consistency required for a highly liquid market for FTRs. The DMA will continue to participate in the working group as this process continues and to provide input on this and other details of the proposal.

## **MANAGEMENT RECOMMENDATION**

Management recommends that the Board approve in concept an initial TAC Area Access Charge to be filed in December with the following components:

- a requested June 1, 2000 effective date;
- initial use of a TAC Areas Access Charge for regional ISO Controlled Grid Facilities, 200 kV and above;
- transition to an ISO Grid-Wide Access Charge, triggered when critical mass in the form of additional import transmission capacity from New PTOs is attained;
- maintain utility-specific charges for ISO Controlled Grid facilities below 200 kV;
- rate to be commodity-based and paid based on gross Load and Exports; and
- requiring mitigation criteria for those PTOs who benefit the most from the change in rates.

This approach is a compromise between the various proposals. It mitigates the rate changes better than any other proposal, while setting the stage for an increased number of Participating Transmission Owners and a more efficient and reliable California electric system.

***Additional information regarding cost impacts will be provided to the Board in Executive Session.***