



Memorandum

Attachment

To: Finance Committee
From: William J. Regan, Jr., Chief Financial Officer
Philip Leiber, Director of Financial Planning and Treasurer
Michael Epstein, Controller
CC: ISO Board of Governors, ISO Officers
Date: November 17, 2000
Re: ISO Collection of FERC Fees

This memorandum requires Board action.

On October 26, 2000, the FERC issued a Final Rule in Docket No. RM00-7-000, entitled "Revision of Annual Charges Assessed to Public Utilities." 93 FERC ¶ 61, 083. This rule indicates that the fees to fund FERC's electric regulatory costs will now be levied on the ultimate providers of electric transmission service, including ISOs, where such entities are in place. The fees will be based on energy transmitted, and are to be levied on 2001 transmission, and will be payable in 2002.

Previously in California, such fees have been collected from the PTOs and other public utilities engaged in sales and transmission transactions subject to FERC jurisdiction. This order resolves uncertainty that has existed since 1998 as to whether all FERC jurisdictional entities would have to pay such fees under the preexisting regulations. If that were the case, electricity end-users could pay FERC fees two or three times on the same MWh of power--once for the PTO, once for the power exchange or scheduling coordinator, and once for the ISO. Pending resolution of this issue by FERC, the ISO and PX had been granted a temporary exemption from the FERC fees. Under the Final Rule, as the California ISO is the provider of transmission service, we are now responsible for the collection of these fees. For California electric consumers, this does not represent a net increase in fees levied by FERC, but only changes the party that collects and remits the fees to FERC.

FERC clearly states that these fees are costs that can be recovered as a legitimate cost of providing transmission service, but does not specify the billing method by which these fees are to be collected. While these charges could be collected as a component of the grid management charge, Management recommends establishing a separate charge type like other market charges and accordingly intends to file a tariff amendment to permit this. Recovering such costs through the GMC would require an amendment to the GMC Unbundling filing made on November 1, as none of the current ISO service categories set forth in that filing recover costs from parties in a manner consistent with the FERC Rule on who should pay the fees (all users of transmission on the controlled grid).

It is not anticipated that this responsibility will require significant additional efforts by the ISO, as the Settlements system produces data which allows such fees to be levied on scheduling coordinators (with certain exceptions, which will require manual work-arounds, including (1) entities that currently receive a 100% load or export exemption, and (2) our interpretation of the FERC ruling that municipal or QF load behind the meter is

exempted from such charges). Draft tariff language which establishes the charge type in the ISO settlements system to collect such fees is attached.

We have attempted to obtain information from a variety of sources (including, unsuccessfully, FERC staff) to estimate the charge per MWh of transmitted energy. Based on the calculation shown below, we anticipate it will be in the range of \$.015-\$.025 /MWh. It is our understanding that FERC will set the final actual rate after affected entities submit (in early 2002) to FERC a Form 582--an annual report of transmission volume. Because we will not know the actual rate until 2002, any over or under-collection could be applied to the subsequent year's rate, or could be collected from participants as a one time adjustment.

In order to begin collecting these fees on transmission service from January 1, 2001 forward, we need to amend our tariff to permit this new charge. As noted above, proposed draft tariff language is attached. Ideally, we would provide the 60 day advance notice required by FERC for such filings, but will be required to request a waiver of this requirement due to the timing of the FERC Ruling. Management proposes the following motion:

MOVED, that the Committee recommends that the Board approve the filing of tariff language to permit the recovery of FERC fees from users of transmission service on the ISO controlled grid, through the establishment of a charge type to collect such funds.

Calculation of Estimated FERC Fees for 2001

1998 IOU Energy Sales to Ultimate Customers (Edison Electric Institute) ¹ <i>Used as a proxy for US Unbundled Transmission subject to FERC jurisdiction (1998 figure of 2,428,021 inflated to 2001, at 3% annually)</i>	2,653,164 GWh
Divided by:	
FERC's total annual budget for electricity regulation for 2000	<u>\$55,000,000</u>
Equals:	<u>\$0.021 /MWh²</u>

Notes:

¹ The proxy noted above overstates the actual transmission that will be subject to the FERC assessment, as it includes bundled retail transmission service, which will not be subject to the fee. If we obtain better information to set the rate prior to February 2001 when we need to begin billing these charges, we will use that information to set the rate accordingly. Or, if later during 2001 we obtain better information as to what the ultimate rate will be, we will adjust the rate for the remainder of 2001 accordingly.

² We note that the FERC Reporting Require 582s submitted in 2000 by the three California IOUs for year 1999 transactions indicate that total charges of \$1.1 million were paid to FERC. Since public utilities report national transmission and sales data in their 582 filings, it is impossible to determine what percentage of FERC fees charged to other public utilities is attributable to sales and transmission in California. Based on the indicative rate information above, the ISO will pay a higher fee to FERC--approximately \$5.5 million (based on 260,000,000 MWh times \$0.021/MWh.)

