**Exh. No. ISO-34**

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

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| California Independent System Operator Corporation | ) ) ) | Docket Nos. ER01-313-000 ER01-313-001 |
| Pacific Gas and Electric Company | ) ) | Docket Nos. ER01-424-000 ER01-424-001 |

REBUTTAL TESTIMONY OF
DEBORAH A. LE VINE
ON BEHALF OF THE
CALIFORNIA INDEPENDENT SYSTEM
OPERATOR CORPORATION

**Q. PLEASE STATE YOUR NAME AND TITLE.**

A. My name is Deborah A. Le Vine. I am the Director of Contracts for the California Independent System Operator Corporation ("ISO").

**Q. HAVE YOU PROVIDED TESTIMONY PREVIOUSLY IN THIS PROCEEDING?**

A. Yes I have. I submitted testimony with the November 1, 2000 filing regarding the ISO's position with regard to certain billing determinants for the ISO's Grid Management Charge ("GMC"). Specifically, I addressed the issue of how billing the Control Area Services ("CAS") component of the GMC based on Control Area Gross Load relates to the assessment of the ISO's transmission Access Charge ("TAC") on a Gross Load basis. Exh. No. ISO-14.

**Q. SINCE YOUR DIRECT TESTIMONY IN THIS PROCEEDING, HAVE YOU PROVIDED TESTIMONY IN OTHER REGULATORY PROCEEDINGS?**

A. Yes. Since November 1, 2000, I have submitted testimony in Docket Nos. ER98-997-000, *et al*. ("QF PGA proceeding"), regarding the application of the ISO's Participating Generator Agreement to qualifying facilities ("QFs"); Docket No. ER01-66-000, *et al*. regarding Pacific Gas and Electric Company ("PG&E") Transmission Owner Tariff ("TO 5 Filing"); Docket No. ER01-839-000, *et al*. regarding PG&E's TAC implementation; Docket No. ER01-831-000, *et al*. regarding San Diego Gas & Electric Company's ("SDG&E") TAC implementation; and Docket No. ER01-832-000, *et al*. regarding Southern California Edison Company's ("SCE") TAC implementation.

**Q. HOW DOES YOUR REBUTTAL TESTIMONY RELATE TO OTHER TESTIMONY IN THIS PROCEEDING?**

A. Mr. Deane Lyon of the ISO is submitting Rebuttal Testimony today which addresses various arguments raised regarding the operational aspects of the CAS component of the GMC (the so-called "gross versus net" issue). Exh. No. ISO-29. Mr. Lyon's Rebuttal Testimony also addresses the appropriate GMC assessment for the Mohave Power Plant and specifically the GMC allocation to the joint participant Energy usage from such plant. Mr. Trent Carlson previously had testified regarding the operational aspects of the CAS component of the GMC. Exh. No. ISO-10.

**Q. AS YOU TESTIFY, WILL YOU BE USING ANY SPECIALIZED TERMS?**

A. Yes. I will be using terms defined in the Master Definitions Supplement, Appendix A of the ISO Tariff.

**Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

A. The purpose of my testimony on the "gross versus net" issue is to respond to certain issues raised in the Direct and Cross-Answering Testimony of Mr. James A. Ross on behalf of the Cogeneration Association of California and the Energy Producers and Users Coalition ("CAC/EPUC") and the Cross-

Answering Testimony of Mr. Manuel Ramirez on behalf of the California Public Utilities Commission ("CPUC") regarding costs associated with the Control Area Services component of the GMC.

Additionally, I will be responding to arguments presented by SCE witness Mark Minick and SDG&E witness S. A. Yari that indicate that past treatment of Energy associated with the other joint participants' share of the Mohave Power Plant ("Mohave Participant Energy" or "MPE") should dictate their current assessment under the unbundled GMC. I will demonstrate that the past treatment of this Energy was based on a Settlement Agreement, and thus has no bearing on how such assessment should be determined going forward under the unbundled GMC being proposed in this proceeding.

## I. GROSS VERSUS NET

**Q. MR. RAMIREZ OF THE CPUC STATES THAT WHILE HE DOES NOT AGREE THAT BEHIND-THE-METER LOAD SHOULD PAY THE ENTIRE CAS CHARGE, IT SHOULD PAY SOME AMOUNT FOR ITS RELIANCE ON THE ISO CONTROLLED GRID. EXH. NO. PUC-1 at 14-15. IS IT POSSIBLE FOR CURRENTLY UNMETERED LOADS TO PAY A SMALLER AMOUNT OF THE CAS TO REFLECT DIFFERENCES IN THE WAY THEY UTILIZE THE ISO CONTROLLED GRID?**

A. The CAS Charge encompasses numerous services. As explained in the Rebuttal Testimony of Mr. Lyon, Exh. No. ISO-29, one Load may benefit from a certain Control Area service more than another Load, which in turn may utilize some aspect of CAS to a greater degree than another Load. Prior to this point, the GMC was bundled, one charge to all based on MWH usage. The GMC is presented in this proceeding as a means to better allocate cost causation and simplify the GMC process using three service charges. Some parties may want the ISO to establish more service categories – instead of just CAS, for example, CAS might be broken into any number of different service categories. While this is not the end of the consideration of possible additional unbundling in the future, further division of the unbundled categories is not feasible at this time both for administrative reasons and for the lack of data that would be required to assign each Control Area service its own category, the data required to demonstrate the correct denominator for the charge, and the required ability to track the costs. As the GMC develops in future filings, additional service categories may be proposed, although these are likely to be limited in number to maintain the simplicity of the allocations to Scheduling Coordinators ("SCs") and to keep the administrative costs of the ISO as low as possible.

**Q. MR. ROSS ASSERTS THAT INCLUDING BEHIND-THE-METER GENERATION IN THE ISO'S COMPUTATION OF GROSS LOAD**

**RESPONSIBILITY WILL DISCOURAGE SELF-GENERATION. EXH. NOS. CAC-2 AT 3, 4 AND 21-22; CAC-4 AT 21-24. DO YOU AGREE?**

A. No. Mr. Ross portrays the ISO's inclusion of behind-the-meter Generation in its computation of Control Area Gross Load as such a burden that it will discourage new on-site Generation, but this will not be the case. In the first place, Mr. Ross' concern is misplaced: Loads and exports, not Generation, are charged the CAS component of the GMC. Particularly with regard to <u>new</u> on-site Generation, it is only the Load that the new behind-the-meter Generation may be intended to serve that will be assessed the CAS component of the GMC. If that is existing Load, then it presumably is already assessed the CAS component of the GMC and will see no change in its GMC assessment. If it is new Load, then it will have no historical expectation that it can escape the assessment of the ISO's GMC.

In support of his position, Mr. Ross lists the following as burdens that will discourage behind-the-meter Generation:

- Installation of additional metering and telemetering
- Payment for increased amount of Ancillary Services or a requirement to "self-provide" Ancillary Services
- Payment of additional transmission Access Charges and the GMC
- Scheduling self-generation from the end-use customer's Generating Unit to the customer's Load even though the power remains on-site.

Exh. No. CAC-2 at 22.

Billing the Control Area Services Charge on a gross Load basis will not cause any of the above to occur to existing behind-the-meter Generation, let alone new Generation. The only item that is relevant to the billing of the CAS component of the GMC on the basis of Load served by behind-the-meter Generation is payment of any “additional” GMC, which I believe is justified as discussed further below.

Mr. Ross apparently has confused the application of the CAS component of the GMC with the application of the terms of the ISO’s pro forma Participating Generator Agreement ("PGA") to behind-the-meter Generation and the provision of Ancillary Services based on gross Load, which are the subject of the QF PGA proceeding in Docket Nos. ER98-997, *et al*. The PGA and the ISO’s pro forma Meter Service Agreements ("MSAs") require compliance with the ISO Tariff with regard to the metering and telemetry requirements for Generation and Load. Actually, there is no ISO requirement to provide telemetry on Load to the ISO, other than for Participating Loads that qualify to participate in the ISO’s Ancillary Services markets. All Load and all Generating Units must meet metering requirements in the ISO Tariff; however, this proceeding does not address such metering requirements. Moreover, CAC/EPUC already has agreed to the ISO’s metering requirements in the Commission’s proceeding on the terms of the ISO’s pro forma MSAs, Docket Nos. ER98-1499, *et al*.

It is true that the ISO’s assessment of the CAS component of the GMC on the basis of Control Area Gross Load may mean that the SCs for behind-the-meter Loads will pay a greater portion of the CAS component of the GMC than they do currently. Any "additional" payment, however, is an amount currently charged to other entities through a cost shift. The revenue requirement used to calculate the GMC is a set amount that must be collected by the revenue neutral ISO. Under past operating practices, SCs for other entities paid for the CAS that were incurred to serve behind-the-meter Load and that benefited behind-the-meter Load. The current GMC methodology is intended to remedy this inequitable cost shift by charging SCs in relation to their gross Load based on estimates to the extent the ISO does not have schedules or meter reads for these Loads.

Regarding the transmission Access Charges, these charges are also not part of this proceeding and, in any event, are not affected by the assessment of the CAS component of the GMC.

Lastly, the requirement of Scheduling, including but not limited to behind-the-meter Generation serving on-site Load, is also not part of this proceeding. Nothing in the proposed GMC requires behind-the-meter Generation to schedule the Load that it serves. Scheduling requirements are determined by the FERC-approved ISO Tariff.

**Q. MR. ROSS PRESENTS A HYPOTHETICAL EXAMPLE IN WHICH HE ASSERTS THAT PAYMENT OF ANCILLARY SERVICES CHARGES WOULD INCREASE BY $1,400,000 IF CONTROL AREA GROSS LOAD IS**

**USED. EXH. NO. CAC-4 at 23-24. IS THIS HYPOTHETICAL RELEVANT TO THIS PROCEEDING?**

A. No. Mr. Ross' hypothetical refers expressly to "the ancillary service component of standby service charge" and makes no mention of the allocation of the CAS Charge on a Control Area Gross Load basis, which is the subject of this proceeding. As I indicate above, the matter of the allocation of the costs of Ancillary Services on a gross Load basis is already before the Commission in the QF PGA proceeding, and the issues raised by Mr. Ross' hypothetical are being addressed by the Commission based on the evidence of record in that proceeding. Thus, Mr. Ross' hypothetical is entirely irrelevant to this proceeding.

**Q. MR. ROSS ARGUES THAT EXISTING PPAS REQUIRE THAT QFs WITH EXISTING CONTRACTS CONTINUE TO BE NET METERED AND BILLED ON THE BASIS OF NET LOADS. MR. ROSS THEREFORE CONTENDS THAT THE ESTIMATE METHODOLOGY PROPOSED BY ISO WITNESS JAMES E. PRICE (EXH. NO. ISO-12) AND SUPPORTED BY MR. GROSS OF COMMISSION STAFF WOULD VIOLATE THE MATERIAL TERMS OF THEIR POWER PURCHASE AGREEMENTS ("PPAS"). EXH. NO. CAC-4 AT 20. WHAT IS YOUR RESPONSE?**

A. It is the ISO's position that the CAS component of the GMC should be allocated to all Control Area Gross Load, including behind-the-meter Load. However, the GMC is assessed to SCs rather than directly to such behind-the-meter Load. With regard to behind-the-meter Loads served by QFs with existing PPAs, the ISO has proposed to assess the CAS component to the SCs for the UDCs that provide standby service to those behind-the-meter Loads in the case where those QFs continue to be permitted to net meter their Generation with those Loads under the terms of their existing PPAs. Whether the UDCs are permitted to pass on that portion of the CAS Charge to the behind-the-meter Loads through their rates for standby service is a matter for the regulation of retail ratemaking by the CPUC.

**Q. IF LOADS SERVED BY BEHIND-THE-METER GENERATION ALREADY PAY FOR STANDBY ENERGY, DON'T THEY ALREADY PAY THE GMC FOR CONTROL AREA SERVICES?**

A. No. Mr. Ross argues that as retail customers of utilities, QFs have paid the GMC through their payments for retail standby service. Exh. No. CAC-2 at 12-14. In support of this, Mr. Ross points to the utility's Schedule PX and the incorporation of Schedule PX rates into Schedule S. Exh. No. CAC-2 at 12-14. Mr. Ross argues that Schedule PX specifically includes an amount to reflect ISO GMC charges. Events have largely overtaken Mr. Ross' specific arguments, however. In the first place, the UDCs no longer purchase power from the PX, which has filed for bankruptcy and no longer operates its markets. SCE, for example, has replaced Schedule PX with Schedule PE with regard to procured Energy. In any event, Schedule PX was not even used to determine actual charges, but instead determined the amount of the total charge that was attributed to the "Competition Transition Charge." Second, the CPUC has directed that all Generation components be removed from the Schedule S standby service rates, further undermining Mr. Ross' argument. *Order Instituting Rulemaking into Distributed Generation*, Decision 01-07-027 (CPUC).

More importantly, however, Mr. Ross' arguments assume his desired conclusion – that the GMC should be charged only according to net metered Demand, *i.e.*, according to the amount of Energy a Load receives through the ISO Controlled Grid. In his scenario, PG&E is providing standby Energy to a behind-the-meter Load and the ISO is only charging GMC according to metered Loads. *At the time PG&E is providing the Energy,* it is acting as Scheduling Coordinator for the Load, and the Demand served is metered. PG&E then passes the cost on to the Load to which it is providing the Energy through its CPUC-approved rates. The ISO assesses PG&E for GMC according to that metered Demand. Depending on the extent to which the CPUC allows PG&E to pass all or a portion of the costs of the GMC on to that behind-the-meter Load in its rates for standby service, the behind-the-meter Load may be paying only a share of GMC that reflects the period when it receives Energy from an off-site source. Yet, this Load is receiving a service from the ISO when the on-site Generation is serving the on-site Load. It would appear that Mr. Ross' position is that the on-site Load should not have to pay for this service.

As I have explained, however, the on-site Load benefits from CAS at all times that it is not physically isolated from the electric grid. Thus, if on-site Load is served by on-site Generation 95 percent of the time, under Mr. Ross' scenario, the on-site Load avoids 95 percent of its cost responsibility for CAS. Mr. Ross is simply arguing that, since in the past a QF would be assessed the GMC in the manner that Mr. Ross thinks is proper, therefore it is proper. That is a non sequitur. This argument is analogous with suggesting one only should pay for homeowner's insurance on the day one's house burns down.

## II. <u>HISTORICAL ASSESSMENT OF MOHAVE</u>

**Q. SCE WITNESS MARK MINICK STATES THAT THE FACT THAT THE ISO DID NOT ASSESS MOHAVE PARTICIPANT ENERGY A SHARE OF THE UNBUNDLED GMC "REFLECTED THE FACT THAT SUCH ENERGY WAS NOT METERED CONSUMPTION THAT WAS WHEELED OUT." EXH. NO. SCE-1 AT 6. IS THAT AN ACCURATE CHARACTERIZATION?**

A. No. The prior GMC structure was based on a Settlement Agreement, which exempted MPE from being assessed a share of the bundled GMC. Since it was based on a Settlement Agreement, the prior treatment of Mohave Participant Energy has no bearing on how the Mohave Participant Energy should be treated now that the unbundled GMC has supplanted the Settlement Agreement.

The Settlement Agreement was approved by the Commission in a letter order on June 1, 1998. The Settlement Agreement is discussed in the Direct Testimony of Michael K. Epstein. Exh. No. ISO-1 at 4-7. There are numerous items in the original GMC settlement that have been revised by the unbundled GMC, including assessing Control Area Gross Load for a component of the GMC regardless of the transmission path used by the Load. This is consistent with cost causation. As described in the Rebuttal Testimony of Deane Lyon, Exh. No. ISO-29, the Mohave Participants receive Control Area Services from the ISO and they should pay for those services. My attorneys have informed me that a Settlement Agreement such as the one that established the bundled GMC does not limit parties' ability to seek other terms or arrangements once the period of the Settlement Agreement has passed.

What was, was. The ISO is under no obligation to continue to exempt any Market Participant from GMC charges and has sought in this proceeding to charge the appropriate costs both to participants inside the ISO Control Area and to those outside the ISO Control Area that wheel into, out of, through, or that purchase from or sell into the ISO's markets.

**Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

A. Yes it does.