

December 15, 1999

HAND DELIVERY

The Honorable David P. Boergers
Secretary
Federal Energy Regulatory Commission
888 First Street, NE
Washington, DC 20426

Re: *California Independent System Operator Corporation,*
Docket No. ER00- -000

Dear Secretary Boergers:

The California Independent System Operator Corporation (“ISO”) hereby submits an original and six copies of its informational filing pursuant to Part D of Appendix F, Schedule 1 of the ISO Tariff, Original Sheet No. 378, to present information concerning its calculation of the Grid Management Charge (“GMC”) to be effective for calendar year 2000.

As discussed below, the informational filing calculates the GMC for 2000 by incorporating operating expenses and the forecasted annual transmission volumes for 2000. The resulting GMC of \$.8300 /MWh, which is \$.0519/MWh higher than the 1999 GMC, principally due to higher operating expenses, will become effective January 1, 2000. In addition, this filing includes the 2000 Operating Budget, cost data on the ISO presented in conformance with the FERC Uniform System of Accounts, and all information presented in the ISO’s monthly financial report. In accordance with the ISO Tariff, this information provides the necessary data to set the GMC unit rate for calendar year 2000, including the criteria used to establish the projected volumes.

COMMUNICATIONS

Correspondence and other communications regarding this filing should be directed to:

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CONTENTS OF FILING

The following documents are included in this filing:

- (1) Transmittal Letter
- (2) Notice of Filing, and a computer disk with a copy of the Notice in Word Perfect
- (3) Certificate of Service
- (4) Attachment A – The 2000 GMC Calculation
- (5) Attachment B – The 2000 Budget Report to the ISO Board of Governors
- (6) Attachment C – Cost data on the ISO presented in conformance with the FERC Uniform System of Accounts, Statements AA through BK
- (7) Attachment D – ISO Budget to FERC Account Reconciliation

PROCEDURAL BACKGROUND

The ISO's Tariff requires it to make an annual filing on December 15, presenting information, cost data, and transmission volume projections to be used in the calculation of the GMC for the upcoming calendar year.¹ That requirement was imposed in connection with the settlement reached in Docket No. ER98-211-000, *et al.*, approved by the Commission on June 1, 1998² ("Settlement"). Paragraph 17 of the Settlement requires that the ISO follow certain procedural steps in developing its operating budget ("Operating Budget") because the

¹ Appendix F, Schedule 1, Part D, Original Sheet No. 378.

² *California Independent System Operator Corp., et al.*, 83 FERC ¶ 61,247 (1998).

Operating Budget forms the basis for the projection of costs used to develop the GMC for the upcoming calendar year.

This filing presents the information required by the ISO's Tariff, as well as a description of the process followed in developing the Operating Budget for 2000 in accordance with Paragraph 17 of the Settlement.

BUDGET PROCESS

In accordance with the procedures set forth in Paragraph 17 of the Settlement, the Preliminary 2000 GMC Report was made available to all stakeholders and posted on the ISO website on September 10, 1999. On October 4, 1999, the 2000 GMC Report was presented at the ISO's GMC Workshop, which was open to all stakeholders. At the workshop, stakeholders had the opportunity to discuss and comment on the proposed revenue requirement, transmission volumes, and the resulting GMC. Stakeholders also had the option to submit written questions to ISO management prior to the workshop.

The ISO established a deadline of November 5, 1999, for receiving written comments from stakeholders on the Preliminary 2000 GMC Report. No comments were received. There have been only minor changes in the proposed budget between the Preliminary 2000 GMC Report and the Proposed 2000 GMC Report (submitted herewith as Attachment B – 2000 Budget Report to the ISO Board of Governors). The changes were merely reclassifications of expenses between accounts, and the preliminary and proposed GMC of \$.8300 remained unchanged. The preliminary capital budget was estimated in the range of \$25-30 million, while the final capital budget approved by the Board of Governors was \$40.094 million. The 2000 Budget Report to the ISO Board of Governors was reviewed by the Finance Committee and the final revenue requirement, transmission volumes, and resulting GMC were approved by the Board of Governors at the November board meeting.

DESCRIPTION OF THE RATE

Attachment A to this informational filing, entitled the 2000 GMC Calculation, provides a step-by-step analysis of the determination of the GMC. Below is a summary of the key elements of the 2000 GMC revenue requirement.

The Total Operating Expense is calculated by adding the five operating expense categories:

Transmission	\$67,400,000
Customer Accounts	\$ 9,711,000
Customer Service and Informational Expenses	\$ 2,598,000
Administration and General	<u>\$53,508,000</u>
Total Operating Expense	\$133,217,000

The GMC revenue requirement is calculated by adding the Total Operating Expense, the Total Debt Service and the Coverage Requirement, and then subtracting interest and other earnings:

Total Operating Expense		\$133,217,000
Principal Reserve Funding	\$26,800,000	
Interest Reserve Funding	<u>\$11,656,000</u>	
Total Debt Service		\$ 38,456,000
Coverage Requirement		\$ 9,614,000
Interest Earnings		(\$ 1,100,000)
Other Earnings		<u>(\$ 904,000)</u>
Total GMC Revenue Requirement		\$179,283,000

The GMC rate is calculated by dividing the GMC Revenue Requirement by the projected annual transmission volume:

$$\text{GMC} = \frac{\text{Total GMC Revenue Requirement of } \$179,283,000}{\text{Forecasted Annual Transmission Volume of } 216,000,000 \text{ MWh}} = \$0.8300/\text{MWh}$$

The 2000 GMC Revenue Requirement (the numerator of the GMC calculation) is approximately 13% higher than the 1999 revenue requirement, and is partially offset by the higher annual transmission volumes in the denominator of the GMC calculation. The 2000 transmission volume is projected to increase by 11,000,000 MWh (6%) from 205,000,000 MWh in 1999 to 216,000,000 MWh in 2000, as a result of normal load growth and higher than budgeted volume in 1999. Thus, the 2000 GMC will increase by \$0.0519/MWh (6.7%) from \$0.7781 in 1999 to \$0.8300 in 2000, as shown below.

1999/2000 Grid Management Charge Comparisons

	<u>1999 GMC</u> ³	<u>2000 GMC</u>
Revenue Requirement	\$158,734,000	\$179,283,000
Transmission Volume (MWh)	204,000,000	216,000,000
Grid Management Charge (\$/MWh)	\$0.7781	\$0.8300

³ These numbers are based on the Settlement.

Copies of this filing have been served on the service list for the Settlement, Docket Nos. ER98-211-000, *et al.* Two additional copies of this filing are enclosed to be date stamped and returned to our messenger.

If anyone has questions regarding the calculations in this filing, please call Philip Leiber at the ISO. He can be reached at (916) 351-2168.

Sincerely,

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cc: Service list in Settlement, Docket Nos. ER98-211-000, *et al.*
California Public Utilities Commission