CALIFORNIA ISO

California Independent
System Operator

NEWS RELEASE

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MAJOR ISSUES RESOLVED AT CALIFORNIA ISO BOARD OF GOVERNOR'S MEETING

(Folsom, CA) The California Independent System Operator (California ISO) Board of Governors took action on two significant market participation issues today, March 22, 2000. In an historic vote, the Board amended the formula for computing the transmission Access Charge, laying down the welcome mat for municipal utilities, and state and federal agencies to enter the ISO's Control Area as new Participating Transmission Owners (New PTOs). The Board also approved a recommendation by ISO Management to uphold a price cap of $750 per megawatt in the ISO markets for ancillary services capacity, imbalance energy and adjustment bids.

New Transmission Access Charge Moves Forward

The Board voted 16 to 5, with one abstention, to direct the ISO to finalize and file at the Federal Energy Regulatory Commission (FERC) by March 31, 2000 the Access Charge Tariff amendments that will lead to a revision to the Access Charge methodology. The California ISO is required under state and federal directives to file an Access Charge within two years of start-up. The Access Charge is the fee users pay for use of the ISO-controlled Grid. This revenue pays Participating Transmission Owners for their revenue requirement. Currently, transmission owners are paid based on Utility-specific rates.

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An overarching issue in devising an Access Charge was its relationship to the issues surrounding full participation by Governmental Agencies (municipal utilities, and state and federal agencies). Because the Governmental Entities generally have newer, higher-cost transmission facilities, most traditional transmission rate designs would result in substantial transmission rate reductions for the new PTOs, and corresponding higher costs for original PTOs. For 15 months during 1999, the ISO worked with market participants through the Market Issues Forum and the Transmission Access Charge Work Group (TACWG) to discuss and try to resolve various Access Charge issues. In its approval of the new Access Charge, the Board validated a compromise reached on the following policies:

- The Access Charge to high-voltage lines (200kV and above) will be based on four regions in the state and the low-voltage lines (below 200 kV) will be a Utility-specific rate, transitioning over 10-years to a High-Voltage ISO Grid-wide rate and a Low-Voltage Utility-specific rate.
- The TAC Area rate will be initiated when one New PTO executes the Transmission Control Agreement (TCA) and turns over all transmission assets and rights to the ISO.
- New transmission facilities will be included initially in the ISO Grid-wide component of the High Voltage Access Charge.
- Maximum annual impact to original PTOs during 10-year transition will be $32 million for Pacific Gas & Electric and Southern California Edison, and $8 million for San Diego Gas & Electric Company.
- The New PTOs will be “held harmless” for rate increases due to billings based on Gross Load for the High Voltage Access Charge and the Grid Management Charge and benefits are to be used to reduce transmission asset debt.
- Gross Load will be billed the Access Charge through Utility Distribution Companies and, where applicable, Metered Subsystems, except for exports or Load not associated with a MSS or UDC, which will be billed to Scheduling Coordinators.
- All PTOs will be treated uniformly including operation, participation and market rules after the transition period.

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Incorporating more transmission facilities into the ISO is expected to ease congestion in the state because of the additional transmission capacity available, increase supply and potentially decreased prices. Ultimately, one ISO Grid-wide rate for all high voltage ISO-controlled facilities should also improve the efficiency of transactions across the grid.

Price Cap To Remain at Current Level for Summer 2000

The current price caps of $750 per megawatt will remain unchanged through the summer 2000 peak demand season after the Board voted to keep the price caps in place rather than lower them to $500 per megawatt (MW), an option spelled out in a past decision by the Board. In August 1999, the Board voted to raise price caps from $250/MW to $750/MW effective September 30, 1999, with the provision that the Board would reduce the caps to $500/MW effective June 1, 2000 if it determined that:

(a) the markets are not workably competitive,

(b) there are not practicable demand side management options in place, or

(c) the Investor-Owned Utility Distribution Companies have sought and not obtained practicable options to self-provide Ancillary Services and applicable hedging products in the Power Exchange consistent with the California Public Utilities Commission Preferred Policy Decisions.

The Board directed Management to report to the Board no later than this month whether the above conditions merited retaining the price cap level. Even though the ability to exercise market power exists during very high load hours, Management concluded that the conditions had been met to maintain the price caps. Additionally, the Board agreed with Management that higher price caps are likely to:

- Attract import supply into California during peak hours
- Provide greater incentive for customers to bid into markets (offering energy curtailments or “negawatts”)
- Collect better empirical evidence on market performance
- Create market signals that facilitate progress toward an uncapped market price regime

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