

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

California Independent System)
Operator Corporation)
)

ER01-____-000

TESTIMONY OF
MICHAEL K. EPSTEIN
ON BEHALF OF THE
CALIFORNIA INDEPENDENT SYSTEM
OPERATOR CORPORATION

1 **Q. PLEASE STATE YOUR NAME, TITLE AND BUSINESS ADDRESS.**

2 A. My name is Michael K. Epstein. I am employed by the California Independent
3 System Operator Corporation ("ISO") as Controller. My business address is 151
4 Blue Ravine Road, Folsom, CA 95630.

5 **Q. WHAT ARE YOUR DUTIES AND RESPONSIBILITIES?**

6 A. I am responsible for the ISO's corporate accounting, fixed assets, procurement,
7 payables, receivables, financial, tax and Federal Energy Regulatory Commission
8 ("FERC") reporting functions, market cash settlements, and audit coordination for
9 all the ISO's activities.

10 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL**
11 **BACKGROUND.**

12 A. I received both an MBA and a BA with a major in accounting from the University
13 of Southern California in Los Angeles, CA. I have been the Controller of the ISO
14 since 1997. From 1994 to 1997, I was Vice President (Finance) of Siskon Gold
15 Corporation, a publicly traded mining company located in Grass Valley, CA.
16 From 1989 to 1994, I was controller of the Grupe Company, a privately held
17 diversified real estate company located in Stockton, CA. From 1985 to 1989, I
18 was controller of Brush Creek Mining and Development Company, a publicly
19 traded mining company located in Auburn, CA. Prior to that, I was a Certified
20 Public Accountant in the practice of public accounting with both local and
21 international accounting firms.

22 **Q. HAVE YOU PROVIDED EXPERT TESTIMONY PREVIOUSLY?**

1 A. Yes, I have presented testimony as an expert witness in several real estate
2 valuation cases, in insurance claim matters, and in a tax and securities
3 investigation. I also submitted testimony before FERC in the pending Grid
4 Management Charge (“GMC”) proceeding, Docket No. ER01-313-000.

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

6 A. The purpose of my testimony is to explain the relationship between this
7 Informational Filing and the ISO’s November 1, 2000 application to unbundle the
8 GMC in Docket No. ER01-313-000 (“GMC Filing”).

9 **Q. PLEASE DESCRIBE THE GMC FILING.**

10 A. In the GMC filing, the ISO proposed to establish a new rate methodology in the
11 form of an unbundled GMC, for recovery of its costs through three formula rates
12 corresponding to three Service Categories, each representing specific services
13 provided by the ISO. The filing presented a detailed description of how the GMC
14 methodology was developed, as well as cost allocation information describing
15 how the various ISO costs were assigned to each of the three cost categories.

16 **Q. WHAT FIGURES WERE USED TO ILLUSTRATE THE GMC**
17 **METHODOLOGY IN THE GMC FILING?**

18 A. The ISO utilized actual figures for 1999 to illustrate the unbundled GMC. We
19 presented these figures in the form of 18 CFR § 35.13 Cost Statements, we used
20 them in our Analytical Support document in that filing (Ex. No. ISO-9) detailing
21 how costs were allocated to the three Service Categories, and both myself and
22 Philip R. Leiber utilized the 1999 actual figures in our Direct Testimony in that
23 filing. *See, e.g.*, Ex. No. ISO-1 at 27, 28-29, and 32; Ex. No. ISO-7 at 18-20.

1 **Q. WHAT IS THE PURPOSE OF THE INSTANT FILING?**

2 A. The main purpose of this filing is to meet the requirements of Appendix F,
3 Schedule 1, Part D of the ISO Tariff, that the ISO make an annual informational
4 filing on December 15 containing “such information as is required to set the GMC
5 unit rate for the following fiscal year, including the criteria used to set the billing
6 determinant volumes, and a description of the process used to allocate the ISO’s
7 total costs into the revenue requirements for each of the component charges of
8 the GMC.”

9 **Q. WHAT WAS THE ORIGIN OF THIS REQUIREMENT?**

10 A. This requirement arose from the GMC Settlement, originally filed in April of 1998.
11 The unbundled GMC methodology filed on November 1 is intended to replace the
12 GMC methodology agreed upon in the Settlement. During the unbundled GMC
13 tariff drafting process, however, it was decided that the annual informational filing
14 should still take place, even though other aspects of the Settlement that gave rise
15 to it would no longer be in effect.

16 **Q. WHAT INFORMATION IS CONTAINED IN THE INSTANT FILING?**

17 A. This filing contains Section 35.15 Cost Statements using 2001 budget figures
18 (now approved by the ISO Governing Board) together with documents that
19 support the budget; as well as the Testimony of Philip R. Leiber, consisting of a
20 description of the budgeting process, the opportunity for input provided to
21 stakeholders, and the billing determinant forecast process, and a comparison
22 and analysis of the changes in the ISO budget from the 2000 figures.

23 **Q. WHY WAS THIS INFORMATION NOT INCLUDED IN THE GMC FILING?**

1 A. As described in the Testimony of Philip R. Leiber in this filing, the 2001 budget
2 figures were not available until after November 30, 2000, when they were
3 approved by the ISO Board of Governors. The record of the Board approval of
4 the 2001 Budget is included with this filing as Attachment G. The figures
5 included in this filing represent the best approximations of the actual ISO costs
6 for 2001. Using these figures, together with the GMC methodology proposed in
7 the GMC Filing, Market Participants will be able to make reasonably accurate
8 estimates of what their share of the three Service Categories of the GMC will be.

9 **Q. THANK YOU, MR. EPSTEIN. I HAVE NOTHING FURTHER.**

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