

ATTACHMENT C

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

California Independent System)
Operator Corporation)
)

Docket No. ER02-_____-000

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

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

A. My name is Deborah A. Le Vine. I am the Director of Contracts for the California Independent System Operator Corporation ("ISO"). My business address is 151 Blue Ravine Road, Folsom, California 95630.

Q. PLEASE DESCRIBE YOUR PRESENT RESPONSIBILITIES AT THE ISO.

A. As the Director of Contracts, I am responsible for negotiation and administration of all *pro forma* agreements executed by Market Participants and reliability agreements executed by certain Generators and/or Loads. Additionally, I have been tasked with a number of special projects for the corporation.

Q. DO YOU HAVE ANY OTHER RESPONSIBILITIES AT THE ISO?

A. Yes. Since October 1998, I have been the project leader for the ISO's development of a new transmission Access Charge that California Assembly Bill 1890 required be developed.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL BACKGROUND.

A. I received a Bachelor of Science degree in Electrical Engineering from San Diego State University in San Diego, California in May 1981. In May 1987, I received a Master in Business Administration from Pepperdine University in Malibu, California. Additionally, I am a registered Professional Electrical Engineer in the State of California.

Q. HAVE YOU PROVIDED TESTIMONY IN OTHER REGULATORY PROCEEDINGS?

A. Yes. I have submitted testimony in Docket No. ER98-1057-000, *et al.* concerning the ISO's Responsible Participating Transmission Owner Agreements; Docket No. ER98-992-000, *et al.* pertaining to the ISO's Participating Generator Agreements ("PGA"); Docket No. ER98-1499-000, *et al.* involving the ISO Meter Service Agreements for Scheduling Coordinators and ISO Metered Entities; 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. EL99-93-000, *et al.* regarding the Turlock Irrigation District and Modesto Irrigation District complaint; Docket No. ER01-66-000, *et al.* regarding Pacific Gas and Electric Company's ("PG&E") Transmission

Owner ("TO") Tariff ("TO 5 Filing"); Docket No. ER00-2019-000, et al. involving the ISO's transmission Access Charge filing as required by California State Legislation; Docket No. ER00-2360-000, et al. regarding the PG&E Reliability Service Tariff; Docket No. ER01-839-000, et al. regarding PG&E's transmission Access Charge implementation; Docket No. ER01-831-000, et al. regarding San Diego Gas & Electric Company's ("SDG&E") transmission Access Charge implementation; Docket No. ER01-832-000, et al. regarding Southern California Edison Company's ("SCE") transmission Access Charge implementation, (collectively referred to as the "Implementation Dockets") and Docket No. ER01-313-000, et al. regarding the ISO's position with regard to certain billing determinants for the ISO's Grid Management Charge ("GMC"). Additionally, I have testified in a number of proceeding before the California Public Utilities Commission.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of this testimony is to describe revisions to the ISO Tariff for the Access Charge that are needed to implement refunds ordered by the Commission, clarify a confusion as to who is charged for the Access Charge versus who is charged the Wheeling Access Charge, and ensure uniformity in adjustments to the Transmission Revenue Balancing Account.

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 ACCESS CHARGE?

A. The Access Charge is a charge paid for use of the ISO Controlled Grid that is collected by the ISO to allow Participating Transmission Owners ("Participating TOs") to recover their Transmission Revenue Requirements of ISO Controlled Grid facilities. These are the operating and carrying costs associated with the Participating TOs' transmission facilities and Entitlements. (The costs of operating the ISO itself are not recovered through the Access Charge; these costs are recovered through the Grid Management Charge.)

Q. PLEASE DESCRIBE THE CURRENT MANNER IN WHICH THE ACCESS CHARGE IS ASSESSED?

A. As of January 1, 2001, the Access Charge consists of four components, the High Voltage Access Charge, the Low Voltage Access Charge, the High Voltage Wheeling Access Charge and the Low Voltage Access Charge. The High Voltage Access Charge and the Low Voltage Access Charge

Q. WHEN DID THE ISO FILE THE ACCESS CHARGE?

A. The ISO filed the Access Charge as Amendment No. 27 to the ISO Tariff on March 30, 2000.

Q. PLEASE DESCRIBE THE ISO'S ACCESS CHARGE PROPOSAL AS REFLECTED IN AMENDMENT NO. 27.

A. Under Amendment No. 27, the original utility-specific Access Charge methodology, in which each Participating TO's Access Charge is

determined under its TO Tariff, would remain in effect until a new entity qualifies as a Participating TO by executing the Transmission Control Agreement and placing its transmission facilities and Entitlements under the ISO's Operational Control. This occurred effective January 1, 2001 when the City of Vernon, California became a Participating TO.

Upon the addition of a new Participating TO, the new Access Charge methodology was implemented. The Access Charge for the recovery of Participating TOs' costs associated with and allocable to High Voltage Transmission Facilities (the "High Voltage Access Charge" or "HVAC"), defined as facilities at 200 kV and above, together with supporting facilities, will be collected with the Transition Charge to mitigate cost shifts during the transition period under the ISO Tariff on the basis of TAC Areas. Each TAC Area will consist of the High Voltage Transmission Facilities of the Participating TOs in each of the TAC Areas that were combined into the ISO Control Area. The HVAC for a TAC Area will be based on the combined High Voltage Transmission Revenue Requirements and gross Load of the Participating TOs in the TAC Area.

For the withdrawal of the Energy from a low voltage transmission facility within each TAC Area, an additional low voltage access charge (the "Low Voltage Access Charge" or "LVAC") would apply. The LVAC would be designed to recover costs associated with and allocable to the low voltage transmission facilities of the Participating TO that owns the facilities at the point of withdrawal. This charge would continue to be collected by each Participating TO under its Transmission Owner Tariff, based on the

Transmission Revenue Requirement associated only with its own Low Voltage Transmission Facilities and Entitlements (*i.e.*, this charge remains utility-specific).

Q. HOW LONG WOULD THE ISO UTILIZE TAC AREAS?

A. The separate TAC Area High Voltage Access Charges would transition via a phase-in to a single ISO Grid-wide High Voltage Access Charge over a ten-year period, following the addition of the first new Participating TO. This began in 2001, thus the ISO is in the second year of the ten-year transition. This would be accomplished by blending the individual TAC Area High Voltage Transmission Revenue Requirements with the sum of the High Voltage Transmission Revenue Requirements of all Participating TOs. The blended average High Voltage Access Charge in each year is an increasing fraction of the ISO Grid-wide rate, starting at ten percent in the first year (2001) and increasing by ten percent each year. In year ten, the ISO Grid-wide portion is 100% and TAC Areas have been dissolved. This should create a smooth transition from disparate TAC Area rates to a single ISO Grid-wide rate over ten years.

In addition, capital investments by any Participating TO in new High Voltage Transmission Facilities and in capital additions to existing High Voltage Transmission Facilities would immediately be included in the ISO Grid-wide component of the High Voltage Access Charges. This will increase the pace at which the High Voltage Access Charges converge into a single charge and hopefully incent the construction of new High Voltage Transmission Facilities. At the end of the ten-year transition

period, a single High Voltage Access Charge would apply to the withdrawal of Energy at any point on the ISO Controlled Grid.

Q. WHAT IS THE STATUS OF AMENDMENT NO. 27?

A. The Commission accepted Amendment 27 and set it for hearing, held the hearing in abeyance subject to a settlement proceeding. The settlement proceeding is currently before the Chief Administrative Law Judge Curtis L. Wagner.

Q. WHY DO YOU NEED TO REVISE THE ACCESS CHARGE AT THIS TIME?

A. The Commission has recently approved the settlement of a number of dockets, on July 26, 2001 the Commission approved the PG&E TO5 Filing, and on December 21, 2001, in the Implementation Dockets, SCE, SDG&E, and PG&E submitted an offer of settlement to the presiding Administrative Law Judge. The presiding Administrative Law Judge certified the offer of settlement to the Commission as an uncontested offer of settlement. *San Diego Gas & Electric Company, et al.*, 98 FERC ¶ 63,015 (2002). The Commission approved the settlement on February 27, 2002.

Additionally, SCE has revised its Transmission Revenue Requirement which has been accepted by the Commission and will be effective September 1, 2002. SDG&E has also revised their Transmission Revenue Requirement which is pending before the Commission.

Q. WHAT MAKES THESE COMMISSION DECISIONS CRITICAL FOR THE CORRECT ACCESS CHARGE IMPLEMENTATION?

A. The TO5 settlement, approved by the Commission on July 26, 2001, requires that the ISO refund the Wheeling Access Charge to the Wheeling customers which is inconsistent with the rate stabilization plan in Appendix F, Schedule 3 of the ISO Tariff.

Q. WHAT IS THE RATE STABILIZATION PLAN AND HOW DOES IT WORK?

A. The ISO Tariff as filed in Amendment 27 and 34 contemplated rates that were modified twice annually on January 1, and July 1. This was intended to give Market Participants some rate stability. The rate stabilization program in Appendix F, Schedule 3, Section 8 states that if rates were made effective or approved by the Commission during a six-month period the revision would be included in the following six month period, including interest at the FERC interest rate, in accordance with 18 CFR 35.19(a). Assuming that the rate is a rate increase, the ISO could be under collecting in the six-month period in which it is made effective by the Commission, and over collecting in the subsequent six-month period. But the Market Participants would know the rate in advance of use of the ISO Controlled Grid and there would be a set period of time when the rate would be constant. With the potential of a significant number of Participating TOs, the Market Participants were concerned with the rate changing multiple times in a given year.

Q. COULD YOU PLEASE ILLUSTRATE THE RATE STABILIZATION PLAN?

A. Exhibit A illustrates how the rate stabilization plan would work just considering PG&E's TO5 filing in 2001, not the impact of the Implementation Dockets. In the period from January 1 through June 30, the ISO uses the rate that is in effect as of December 1, 2000 for PG&E, namely \$1.3766/MWh. Thus using the 90/10 split of the Access Charge methodology, the Northern TAC Area rate was \$1.4128/MWh based on the December PG&E rate. PG&E TO5 then goes into effect on May 6 at a filed rate of \$1.7021/MWh, subject to refund. If the ISO had revised the TAC Area rate, the Northern TAC Area rate would have increased from \$1.4128/MWh to \$1.7210, but it did not because of the rate stabilization plan. Thus, in the period from May 6 through June 30, 2001, there is an under collection by the ISO because the rate stabilization plan allows the ISO to revise the Access Charge, including the Wheeling Access Charge, on January 1 and July 1, not when the Commission made PG&E's TO5 effective on May 6. Then from July 1 through December 31, 2001 there is an over collection associated with the PG&E TO5 filed rate, including the under collection from May 6 to June 30 and interest from the under collection period. In the period from July 1 to December 31 the ISO is charging \$1.7700/MWh when the PG&E rate in effect was \$1.7021/MWh. If rates are relatively constant and settled quickly, then any under or over collection is resolved in the next six-month period with interest. For the July 1, 2001 biannual adjustment, the Commission had not approved the TO5 settled rate, consequently the ISO used the TO5 filed rate in the Access Charge calculation. With the Commission approval of the TO5

settlement at a rate of \$1.5518/MWh on July 26, 2001, the first time the settled rate could be included in the ISO's Access Charge calculation based on the rate stabilization plan was January 1, 2002. Thus there was an over collection for the period from July 26 to December 31 because the ISO was charging the Northern TAC Area a rate of \$1.7700/MWh for use of the ISO Controlled Grid when it could have been charging \$1.5808/MWh.

Q. WHY DOESN'T THE RATE STABILIZATION PLAN WORK WITH THE PROPOSED SETTLEMENT?

A. The issue that arises from the settlement discussed above for TO5 is that the Wheeling customers, both High Voltage and Low Voltage are to receive a refund based on the settled rate. The disconnect in 2001 would be that the Wheeling customers were not charged \$1.5518/MWh from May 6 through June 30, they were charged \$1.3766/MWh. Additionally, by refunding to the Wheeling customers but not the UDC and MSS in a Participating TO Service Area, from the ISO's perspective, the different class of customers would be paying different rates for the same service, this is not contemplated by the ISO Tariff.

Q. CAN YOU GIVEN AN EXAMPLE OF THIS INEQUITY?

A. Yes, by way of an example, the Commission approved the settlement in TO5 on July 26, 2001, if the ISO had implemented the revised rate for the Wheeling customers on August 1, 2001, the Wheeling customers would pay \$1.5518/MWh for the same service the ISO would be charging the UDC in the Service Area of the Participating TO \$1.7700/MWh.

Additionally, going forward, in the next six month period the UDC would be at a different rate because of the over collection in the entire six month period.

Q. DID THE ISO CONTEMPLATE THIS TYPE OF REFUND IN THE ISO TARIFF?

A. The ISO Tariff specifically states in Section 8.2 of Schedule 3 of Appendix F that :

. . . For service provided by a Participating TO following the Transition Date, any refund associated with a Participating TO's Transmission Revenue Requirement that has been accepted by FERC, subject to refund, shall be included in the Transmission Revenue Balancing Account, unless otherwise ordered by FERC.

Thus, while FERC has the ability to order otherwise, all refunds should be included in the Transmission Revenue Balancing Account. Thus, the overcollection is returned as a reduction on future rates, not a cash refund to some and a reduction on future rates to others.

Q. YOU ALSO MENTIONED A CONFUSION WITH WHO PAYS THE HIGH VOLTAGE AND LOW VOLTAGE ACCESS CHARGE VERSUS THE WHEELING ACCESS CHARGE, CAN YOU EXPLAIN THIS?

A. Yes, the ISO actually has eight UDCs and no MSSs at the moment. Four of the eight UDCs are Participating TOs. The intention of the ISO Tariff is to only charge UDCs in the Service Area of Participating TOs the Access Charge based on Gross Load. UDCs who are not in the Service Area of a Participating TO are charged the Wheeling Access Charge based on use

of the ISO Controlled Grid. If the ISO had MSSs, a MSS would be charged the same as a UDC.

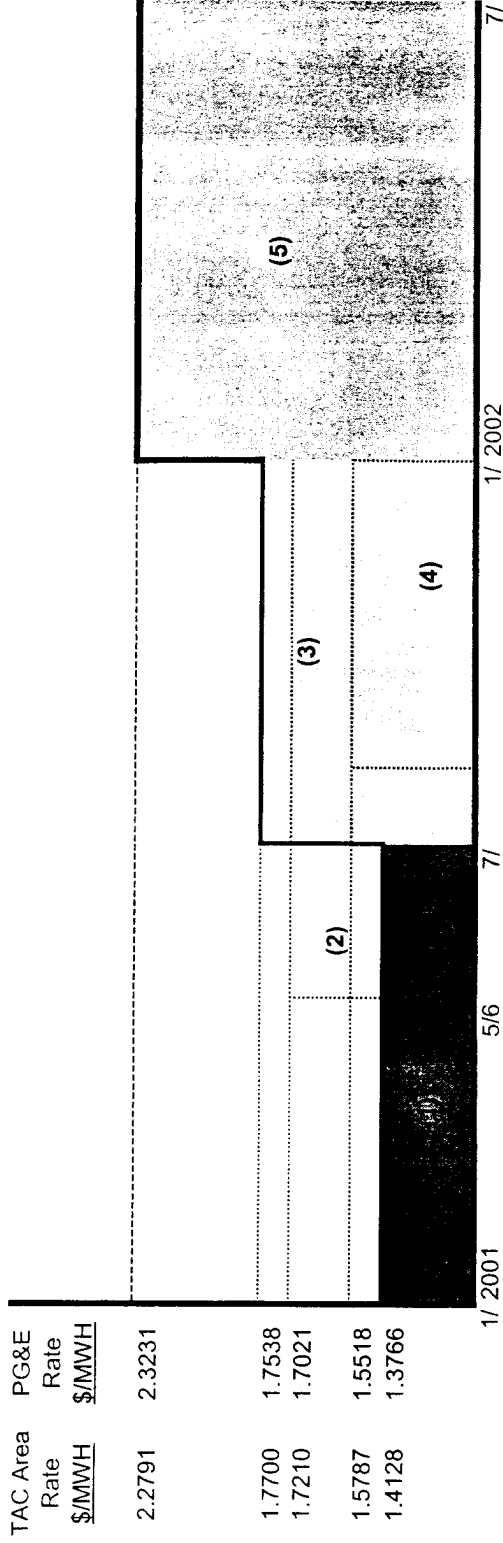
Q. REGARDING THE TRANSMISSION REVENUE BALANCING ACCOUNT, WHAT CHANGES ARE NEED TO THE TARIFF TO ENSURE UNIFORMITY?

A. While the Tariff contemplates revisions to the TRBA, it does not establish a specific timeline for such adjustments. It was discovered in the January 2002 rate adjustment, that the investor-owned utilities had agreed that the TRBA adjustment would be made annually on January 1 using data from the previous October 1 to September 30 period. However, as this is not specifically stated in the Tariff, the City of Vernon believed it could adjust its TRBA at any time. Thus to specifically establish the timing for the TRBA adjustment, so that all existing and future Participating TOs are consistent, an amendment to the Tariff must be made. This should also reduce the number of times annually that the Access Charge and Wheeling Access Charge would change.

Q. THANK YOU. I HAVE NO FURTHER QUESTIONS.

Pacific Gas and Electric Company Transmission Rates and CAISO Access Charges

Exhibit A



Assumptions:

(A) The ISO began the new Access Charge methodology effective January 1, 2001 with a split of 90% TAC Area and 10% ISO Grid-wide. This methodology is based on Amendment 27 to the ISO Tariff in FERC Docket No. ER00-2019-000.

Notes:

- (1) PG&E TO4 rate in effect on January 1, 2001 was \$1.3766/MWh. The TAC Area Rate for the Northern Area was \$1.4128/MWh.
- (2) PG&E filed TO5 and it became effective May 6, 2001. The TO5 rate as filed was \$1.7021/MWh.
This results in an undercollection from May 6 through June 30, 2002.
- (3) On July 1, 2001 the ISO revised the Access Charge in accordance with the rate stabilization plan. The rate with interest from May 6 to June 30 for the Northern Area was \$1.77/MWh. The PG&E rate for the same period was \$1.7538/MWh, thus the ISO's filed rate is an overcollection as compared to PG&E's rate to effectuate the rate stabilization.
- (4) On July 26, 2001, the PG&E TO5 settled rate was approved by the Commission. The settled rate was \$1.5518/MWh, thus causing a significant overcollection for the bi-annual period. The TAC Area rate for the Northern Area should have been \$1.5787/MWh.
- (5) On January 1, 2002, with a decrease in the TRR due to the TO5 settled rate, but a significant increase due to the Transmission Revenue Balancing Account Adjustment, the revised PG&E rate is \$2.3231/MWh. The bi-annual TAC Area rate is \$2.2791/MWh.

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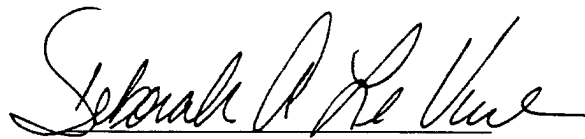
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City of Folsom)
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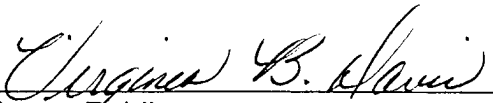
I, Deborah A. Le Vine, being duly sworn, deposes and says that she has read the foregoing questions and answers labeled as her testimony; that if asked the same questions her answers in response would be as shown; and the facts contained in her answers are true and correct to the best of her knowledge, information, and belief.

Executed on this 26 day of June, 2002.



Deborah A. Le Vine

Subscribed and sworn to before
me this 26 day of June, 2001.



Notary Public
State of California

