

Exhibit No. ISO-1

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

California Independent System)
Operator Corporation)
)

Docket No. ER00-2019-000

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

- 1 **Q. PLEASE STATE YOUR NAME, TITLE, AND BUSINESS ADDRESS.**
- 2 A. My name is Deborah A. Le Vine and I am the Director of Contracts for the
- 3 California Independent System Operator (ISO). My business address is
- 4 151 Blue Ravine Road, Folsom, California 95630.
- 5 **Q. IN WHAT CAPACITY ARE YOU EMPLOYED?**
- 6 A. As the Director of Contracts, I am responsible for negotiation and
- 7 administration of all *pro forma* agreements executed by Market
- 8 Participants and reliability agreements executed by certain Generators
- 9 and Loads. Additionally, I have been assigned a number of special
- 10 projects for the corporation.

1 **Q. HAVE YOU HAD SPECIFIC RESPONSIBILITIES AT THE ISO IN**
2 **CONNECTION WITH THE TRANSMISSION ACCESS CHARGE?**

3 A. Yes. I was the project leader for the ISO's development of a new
4 transmission Access Charge, which was filed as Amendment No. 27 to the
5 ISO Tariff. I continue to have responsibility for amendments to, and
6 litigation concerning, the ISO Tariff provisions regarding the transmission
7 Access Charge. In addition, I am responsible for the ISO's
8 implementation of the transmission Access Charge and assist the
9 Settlements Department in any implementation issues.

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

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

17 **Q. HAVE YOU TESTIFIED PREVIOUSLY BEFORE THIS COMMISSION?**

18 A. Yes. I have previously submitted testimony on behalf of the ISO in Docket
19 No. ER98-1057-000, et al., concerning the ISO's Responsible
20 Participating Transmission Owner Agreements; Docket No. ER98-992-
21 000, et al., pertaining to the ISO's Participating Generator Agreements;
22 Docket No. ER98-1499-000, et al., involving the ISO Meter Service
23 Agreements for Scheduling Coordinators and ISO Metered Entities;
24 Docket Nos. ER98-997-000, et al., ("QF PGA proceeding"), regarding the
25 application of the ISO's Participating Generator Agreement to qualifying

1 facilities ("QFs"); Docket No. EL99-93-000, et al., regarding the Turlock
2 Irrigation District and Modesto Irrigation District complaint; Docket No.
3 ER01-66-000, et al., regarding Pacific Gas and Electric Company's
4 ("PG&E") Transmission Owner ("TO") Tariff ("TO 5 Filing"); Docket No.
5 ER00-2019-000, et al., involving the ISO's transmission Access Charge
6 filing as required by California State Legislation; Docket No. ER00-2360-
7 000, et al., regarding the PG&E Reliability Service Tariff; Docket No.
8 ER01-839-000, et al., regarding PG&E's transmission Access Charge
9 implementation; Docket No. ER01-831-000, et al., regarding San Diego
10 Gas & Electric Company's ("SDG&E") transmission Access Charge
11 implementation; Docket No. ER01-832-000, et al., regarding Southern
12 California Edison Company's ("SCE") transmission Access Charge
13 implementation, (collectively referred to as the "Implementation Dockets");
14 Docket No. ER01-313-000, et al., regarding the ISO's position with regard
15 to certain billing determinants for the ISO's Grid Management Charge
16 ("GMC"); and Docket No. ER02-2192-000, et. al., modifying the rate
17 stabilization plan of the transmission Access Charge and clarifying what
18 Scheduling Coordinators pay the ISO Access Charge. Additionally, I have
19 testified in a number of proceedings before the California Public Utilities
20 Commission.

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

22 A. The purpose of this testimony is, first, to describe the objectives that the
23 ISO and the ISO Governing Board sought to achieve in developing a
24 revised transmission Access Charge methodology and explain how the
25 transmission Access Charge methodology supported by the ISO fulfills

1 these objectives. Second, I will explain the extensive stakeholder process
2 used by the ISO to develop a revised Access Charge methodology. Next,
3 I will discuss the transmission Access Charge methodology supported by
4 the ISO in detail, including the various amendments to the transmission
5 Access Charge methodology that have been filed with the Commission
6 since Amendment No. 27 was accepted and their status. Finally, I will
7 identify the various modifications to the current transmission Access
8 Charge methodology that the ISO, in light of the extensive settlement
9 discussions in this proceeding and three years experience implementing
10 the revised Access Charge, believes would be reasonable at this time.

11 **Q. WHAT WILL THE REMAINDER OF YOUR TESTIMONY CONSIST OF?**

12 A. The remainder of my testimony consists of the following sections:

- 13 I. A summary of the revised transmission Access Charge
14 methodology and the rationale for its adoption by the Commission.
15 II. A detailed description of the objectives that the ISO is seeking to
16 advance through the revised Access Charge methodology, why
17 these objectives are important, and how the revised Access Charge
18 methodology advances these objectives.
19 III. A description of the original Access Charge methodology that was
20 put into effect at the time the ISO began operations, and some of
21 the reasons why the ISO developed a revised methodology.
22 IV. A description of how a revised Access Charge methodology was
23 developed, the objectives that guided the process, the process
24 itself, the parties that participated in the process, and the issues
25 that were identified in the process.

- 1 V. A detailed description of the revised Access Charge methodology
2 that is reflected in Amendment No. 27.
- 3 VI. A description of additional ISO Tariff Amendments that have been
4 filed with the Commission since Amendment No. 27 was filed, the
5 status of such Amendments and how they interact with Amendment
6 27.
- 7 VII. A description of further modifications that the ISO proposes to
8 make to the Access Charge methodology based on the experience
9 it has gained implementing the methodology in the last three years,
10 and based on settlement discussions.

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

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

14

15 **I. SUMMARY OF THE TRANSMISSION ACCESS CHARGE**
16 **METHODOLOGY AND THE RATIONALE FOR ITS ADOPTION**
17 **BY THE COMMISSION.**

18 **Q. WHAT IS THE ACCESS CHARGE?**

- 19 A. The Access Charge is a charge paid by entities serving Loads on the
20 transmission and distribution systems of Participating TOs to recover each
21 Participating TOs' Commission approved Transmission Revenue
22 Requirement ("TRR"). The Wheeling Access Charge is paid by exports
23 and Loads of Scheduling Coordinators who are not Participating TOs.
24 The Participating TOs TRRs comprise the operating and carrying costs
25 associated with the Participating TOs' transmission facilities and

1 Entitlements. (The costs of operating the ISO itself are not recovered
2 through the Access Charge; these costs are recovered through the Grid
3 Management Charge.)

4 **Q. PLEASE PROVIDE A DESCRIPTION IN SUMMARY OF THE**
5 **TRANSMISSION ACCESS CHARGE METHODOLOGY SUPPORTED**
6 **BY THE ISO.**

7 **A.** A full description of the transmission Access Charge methodology that
8 was filed in Amendment 27 is set forth in Section V of my testimony.
9 Sections VI and VII set forth the changes to that methodology that have
10 been filed with the Commission since Amendment 27 was filed and the
11 additional changes that the ISO proposes to make based on its
12 experience implementing the methodology and on settlement discussions
13 that took place in this proceeding. In summary, however, the key features
14 of the methodology are as follows:

- 15 • An Access Charge for High Voltage Transmission Facilities will recover
16 the combined High Voltage Transmission Revenue Requirement
17 (“High Voltage TRR” or “HV TRR”) of all Participating TOs within “TAC
18 Areas”; the three major former Control Areas that were combined into
19 the ISO plus, should the Los Angeles Department of Water and Power
20 (“LADWP”) become a Participating TO, an additional TAC Area
21 representing the Control Area of LADWP.
- 22 • Over a ten-year transition period, the High Voltage Access Charge
23 (“HV Access Charge,” or “HVAC”) for these TAC Areas is combined
24 gradually to form a single ISO Grid-wide HV Access Charge. This is
25 accomplished by blending the aggregated High Voltage TRR for each

- 1 TAC Area with the sum of all Participating TOs' High Voltage TRR.
2 The blended average HVAC in each year is an increasing fraction of
3 the ISO Grid-wide rate, starting at 10 percent in the first year and
4 increasing by 10 percent each year.
- 5 • The TRR for New High Voltage Facilities will be incorporated
6 immediately in the ISO Grid-wide component of the High Voltage
7 Access Charge.
 - 8 • A Transition Charge will be in effect, for the duration of a ten-year
9 transition period, that will: (1) limit the cost shift burden that the
10 methodology could impose on the Load of the Original Participating TO
11 to an annual amount of \$32 million for PG&E and SCE and \$8 million
12 for SDG&E; (2) assure that Loads of the three Original Participating
13 TOs bear their collective cost shift burden in proportion to these limits;
14 and (3) ensure that the Load of any New Participating TO is held
15 harmless from any cost shift burdens that may be imposed by the
16 methodology.
 - 17 • An Access Charge for Low Voltage Transmission Facilities ("Low
18 Voltage Access Charge" or "LVAC") will apply to recover the TRR of
19 Low Voltage Transmission Facilities of each Participating TO.

20 **Q. HOW WOULD YOU CHARACTERIZE THE ACCESS CHARGE RATE**
21 **METHODOLOGY AND ITS BENEFITS?**

- 22 A. The Access Charge methodology was designed to achieve several
23 objectives which I will discuss later in my testimony. It reflects a clear
24 vision of the "end state" for the Access Charge, the establishment of a
25 single charge for access to the High Voltage Transmission Facilities of the

1 ISO Controlled Grid, based on the costs of facilities owned by Participating
2 TOs in the region. If Transmission Owners who currently do not
3 participate in the ISO structure decide to join, then the transmission
4 revenue requirements of such New Participating TOs would also be
5 included in the ISO's Access Charge.

6 At the same time, the proposed Access Charge methodology is
7 best understood as a compromise among the interests of the different
8 classes of stakeholders that are affected by the manner in which the costs
9 of the transmission facilities that make up the ISO Controlled Grid are
10 recovered and is a delicate balance of benefits and burdens. The
11 compromise is reflected in a number of inter-related provisions of
12 Amendment No. 27, which are discussed in further detail in section V of
13 my testimony. They include provisions that provide incentives for entities
14 that own transmission facilities that could be included in the ISO
15 Controlled Grid (or have contractual entitlements to use such facilities) to
16 become New Participating TOs. They also include provisions that are
17 designed to prevent or limit abrupt shifts in the costs paid by customers for
18 access to the ISO Controlled Grid during the transition toward a single rate
19 for access to the ISO Controlled Grid's High Voltage Transmission
20 Facilities.

21 As with any compromise, the proposed Access Charge
22 methodology will necessarily appear imperfect when viewed from the
23 standpoint of any particular stakeholder or class of stakeholders. Also, the
24 compromise Access Charge methodology is not a perfect means of
25 achieving any single objective. For example, as I will explain, one of the

1 ISO's principle objectives was to develop an Access Charge methodology
2 that would encourage entities with transmission facilities and contractual
3 entitlements to become New Participating TOs. The ISO nevertheless
4 recognizes that this negotiated compromise Access Charge methodology
5 cannot and does not ensure that all such entities will immediately place
6 their transmission facilities and entitlements under the ISO's Operational
7 Control.

8 Thus, while the proposed Access Charge methodology does not
9 satisfy fully the concerns of any stakeholder or class of stakeholders or
10 achieve fully the objectives of any class of stakeholders, the ISO believes
11 that it represents a fair and equitable means of recovering the costs of the
12 transmission facilities included in the ISO Controlled Grid. The ISO also
13 believes that it has selected appropriate objectives for an Access Charge
14 methodology and that the proposal embodied in Amendment 27 as
15 subsequently amended, as described in section VI of this testimony, and
16 with the modifications I discuss in section VII of this testimony, represents
17 a reasonable compromise among those objectives.

18

19 **II. OBJECTIVES OF THE ACCESS CHARGE METHODOLOGY**

20 **Q. WHAT OBJECTIVES DID THE ISO SEEK TO ADVANCE THROUGH**
21 **THE ACCESS CHARGE METHODOLOGY?**

22 **A.** The ISO developed the Access Charge rate methodology proposed in
23 Amendment No. 27 in order to advance six principal objectives: (1) the
24 establishment of an Access Charge that creates an equitable balance of
25 costs and benefits among the various affected classes of stakeholders; (2)

1 the development of an Access Charge rate methodology that was
2 acceptable to the largest possible majority of the members of the ISO
3 Governing Board; (3) the establishment ultimately of a single rate for
4 access to the High Voltage Transmission Facilities forming the backbone
5 of California's regional transmission grid; (4) the treatment of all
6 Participating TOs on the same basis; (5) the creation of incentives for,
7 removal of barriers to, additional entities including their transmission
8 facilities and contractual entitlements in the regional grid controlled by the
9 ISO; and (6) the strengthening of the ISO's independence by increasing
10 the extent to which the design of charges for transmission access is
11 incorporated in the ISO Tariff.

12 **Q, PLEASE DISCUSS THE FIRST OBJECTIVE YOU MENTIONED, THE**
13 **DEVELOPMENT OF AN ACCESS CHARGE METHODOLOGY**
14 **ACCEPTABLE TO THE ISO GOVERNING BOARD.**

15 **A.** Certainly. In the orders it issued prior to the start-up of the ISO, the
16 Commission recognized that the initial design of the Access Charge was
17 subject to review under the terms of the California electricity restructuring
18 legislation (A.B. 1890). As I describe in more detail below, that legislation
19 directed the ISO to recommend to the Commission, within two years of its
20 initial operation, a new rate methodology "determined by a decision of the
21 Independent System Operator governing board."

22 While the restructuring legislation provided for a number of fallback
23 mechanisms if the ISO Governing Board failed to reach a decision

1 (including alternative dispute resolution and a default rate methodology),
2 the ISO believed strongly that the Governing Board, if at all possible,
3 should rise to the challenge presented to it by the California legislature.
4 Accordingly, one of the key objectives of the ISO was to develop an
5 Access Charge methodology that was acceptable to a large number of
6 members of the ISO Governing Board. Because the members of the ISO
7 Governing Board were elected by different classes of stakeholders, this
8 objective in turn required that the Access Charge methodology represent a
9 fair compromise among the interests of the different groups of
10 stakeholders.

11 **Q. PLEASE DISCUSS THE SECOND OBJECTIVE YOU MENTIONED,**
12 **ASSURING THAT THE ACCESS CHARGE METHODOLOGY RESULTS**
13 **IN AN EQUITABLE DISTRIBUTION OF COSTS AND BENEFITS.**

14 **A.** The California restructuring legislation that I mentioned specified that a
15 rate methodology determined by the ISO Governing Board be “based on
16 principles approved by the governing board including, but not limited to, an
17 equitable balance of costs and benefits.” The ISO interpreted this to
18 require an equitable balance of costs and benefits among the different
19 classes of stakeholders whose interests are affected by the Access
20 Charge methodology. The proposed Access Charge methodology does
21 result in an equitable balance of costs and benefits, albeit a delicate
22 balance, to the various affected stakeholder classes. This balance is the

1 product of the integrated operation of the different provisions of
2 Amendment 27, as discussed further below.

3 This objective is closely related to the first objective I mentioned,
4 developing an Access Charge methodology that could win the support of a
5 large majority of the ISO Governing Board. Plainly, obtaining the support
6 of Board members representing a broad range of stakeholder groups
7 required an Access Charge methodology that resulted in an equitable
8 allocation of the costs and benefits to all users of the ISO Controlled Grid.
9 Basically, the proposed Access Charge methodology recognizes that
10 expanded participation in the ISO by New Participating TOs has the
11 potential to benefit all Market Participants through reduced charges for the
12 recovery of the ISO's expenses, reduced Congestion costs through the
13 elimination or reduction of phantom Congestion, and potentially lower
14 market prices for Energy and Ancillary Services due to increased supply.
15 (These benefits are described in further detail in Section IV of this
16 testimony. Moreover, the testimony of Mr. Keith Casey documents the
17 ongoing nature of the problem of phantom congestion.) In recognition of
18 these benefits, the proposed Access Charge methodology allows for
19 increases in the Access Charges paid by customers of the Original
20 Participating TOs, with the amount of the increases dependent upon the
21 extent of increased participation by New Participating TOs. In addition, in
22 acknowledgement of the fact that many of these benefits are difficult to

1 quantify precisely, the potential increases in transmission costs are
2 capped at levels that are considered reasonable by the members of the
3 ISO Governing Board, including representatives of the End-User sector
4 that will pay the increased charges. (The increases that would be paid by
5 customers of the Original Participating TOs, and the limits on these
6 increases are described in further detail in Section V of this testimony and
7 in the testimony of Mr. Johannes Pfeifenberger.)

8 **Q. PLEASE DISCUSS THE THIRD OBJECTIVE YOU MENTIONED, THE**
9 **ESTABLISHMENT OF A SINGLE CHARGE FOR ACCESS TO THE**
10 **HIGH VOLTAGE TRANSMISSION SYSTEM.**

11 A. The ISO believes that it is appropriate ultimately to assess the same rate
12 for access to the High Voltage Transmission Facilities that form the
13 backbone of the ISO Controlled Grid, regardless of where the customer is
14 located. The ISO was established to separate control of transmission
15 facilities, including control of access to transmission facilities, from the
16 interests of the utilities that own those facilities and to foster broad and
17 open competitive markets for electricity. The high voltage backbone
18 transmission facilities play a key role in enabling Market Participants
19 throughout the region to engage in trade and in permitting consumers
20 throughout the region to reap the benefits of competitive markets. Since
21 customers and Market Participants throughout the region benefit from
22 these facilities and rely on them, the ISO believes it is appropriate that

1 ultimately their costs be recovered through a uniform Access Charge that
2 does not vary with the location of the customer or Market Participant. To
3 mitigate the changes in Access Charges that would result from the
4 adoption of a single "postage stamp" transmission rate, the uniform rate is
5 phased in over ten years and all New High Voltage Facilities and capital
6 additions to Existing High Voltage Facilities are immediately included in
7 the ISO Grid-wide component of the High Voltage Access Charge.

8 **Q. PLEASE DISCUSS THE FOURTH OBJECTIVE YOU MENTIONED,**
9 **RELATING TO AFFORDING THE SAME TREATMENT TO ALL**
10 **PARTICIPATING TOS.**

11 A. The ISO believes that it must afford comparable treatment not only to
12 transmission customers that rely on the ISO Controlled Grid, but also to
13 Participating TOs that place their facilities under the ISO's Operational
14 Control. If the ISO's Access Charge methodology affords special
15 treatment for some Participating TOs, without substantial reasons for
16 doing so and without limiting the extent and duration of the special
17 treatment, Transmission Owners will be discouraged from contributing
18 their facilities to the ISO Controlled Grid. Accordingly, while the proposed
19 Access Charge methodology does include provisions that afford benefits
20 for New Participating TOs that the Original Participating TOs do not enjoy,
21 fidelity to this objective led the ISO to limit the extent and duration of such
22 benefits through the phase-in period and a cost-shift cap.

1 **Q. PLEASE DISCUSS THE FIFTH OBJECTIVE YOU DESCRIBED,**
2 **EXPANDING PARTICIPATION IN THE ISO BY ENTITIES WITH**
3 **TRANSMISSION FACILITIES AND CONTRACTUAL RIGHTS.**

4 A. In Order No. 2000, the Commission recognized that a regional
5 transmission organization should have a sufficient scope and appropriate
6 configuration to enable competitive electricity markets to function
7 efficiently on a regional basis. The Commission also affirmed the
8 importance of voluntary participation in regional transmission
9 organizations by all entities with transmission facilities that constitute a
10 part of the regional grid.

11 The ISO recognized that the methodology through which charges
12 for access are determined can have a significant impact on the willingness
13 of entities to include their transmission facilities and contractual rights
14 among those it controls on a regional basis. Entities that are prospective
15 Participating TOs would seek assurance that their transmission costs
16 would receive fair and appropriate recognition in the development of
17 Access Charges. In addition, if costs incurred by those entities might
18 increase as a result of a decision to relinquish control of their transmission
19 facilities and entitlements to the ISO, they would want protection against
20 those increases. If these conditions are not satisfied for a particular entity,
21 then it would decline to participate. To relieve this issue, features were
22 included in the Access Charge that include the movement toward a

1 uniform High Voltage Access Charge, which benefits higher cost
2 Transmission Owners that have not yet decided to join the ISO. In
3 addition, the Access Charge methodology includes provisions to hold New
4 Participating TOs harmless during a transition period against cost
5 increases that they might otherwise experience associated with the
6 Access Charge.

7 Of course, it is also necessary to find a balance between the
8 objective of encouraging additional Transmission Owners to become
9 Participating TOs and the adverse impacts to customers of the existing
10 Participating TOs. An example of this balance is the incorporation of the
11 cost-shift cap, the proportionality component of the cap, and the potential
12 for increased supply of Energy and Ancillary Services. While the ISO
13 believes in encouraging the Non-Participating TOs, it also believes that it
14 should not impose excessive costs on the Original Participating TO's
15 customers.

16 **Q. IS THERE ANY REASON WHY ENCOURAGING PARTICIPATION IS**
17 **ESPECIALLY IMPORTANT IN CALIFORNIA?**

18 A. Yes. The restructuring legislation that required the state's investor-owned
19 utilities to place their transmission facilities under the ISO's Operational
20 Control exempted California's publicly-owned utilities from such a
21 requirement, although the Legislature expressed an intention that publicly
22 owned utilities also transfer Operational Control of their transmission

1 facilities to the ISO. Publicly owned utilities own transmission facilities that
2 constitute approximately twenty-five percent of the transfer capability
3 between the ISO Control Area and other Control Areas. Combining the
4 operation of those facilities with the facilities currently controlled by the
5 ISO would increase the efficiency of the regional grid, reduce transmission
6 congestion, and provide other benefits to the marketplace.

7 In addition, decisions by publicly owned utilities to convert their
8 existing transmission rights to ISO transmission service would reduce the
9 costs created by the phantom congestion that I discussed previously,
10 benefiting all Market Participants and relieving congestion on scarce
11 import paths to California.

12 **Q. PLEASE DISCUSS THE LAST OBJECTIVE YOU DESCRIBED,**
13 **INCREASING THE EXTENT TO WHICH THE DESIGN OF ACCESS**
14 **CHARGES IS DETERMINED UNDER THE ISO TARIFF.**

15 A. The previous Access Charge methodology gave Participating TOs
16 substantial latitude in the design of charges for access to the ISO
17 Controlled Grid. This latitude arises from the fact that absent the ISO's
18 Access Charge, Access Charges were collected under the Transmission
19 Owner Tariffs filed by each Participating TO. So, for example, one
20 Participating TO (PG&E) has designed separate charges for the recovery
21 of the costs of its high voltage transmission facilities and its low voltage
22 transmission facilities. Two other Participating TOs (SCE and SDG&E), in

1 contrast, have designed single Access Charges for the recovery of the
2 costs of all their transmission facilities. Consistent with the Commission's
3 determination, in Order No. 2000, that the regional transmission
4 organization, rather than the owners of the transmission facilities it
5 operates, should determine the design of rates charged for access to
6 those facilities (subject, of course, to review by the Commission), the ISO
7 has endeavored in the proposed Access Charge methodology to increase
8 the extent to which the design of Access Charges is determined under the
9 ISO Tariff, rather than under the Participating TOs' individual TO Tariffs.
10 This step increases the ability of the ISO to exercise control, subject to
11 Commission review, over the design of Access Charges.

12 **Q. HOW DOES THE PROPOSED ACCESS CHARGE METHODOLOGY**
13 **ADVANCE THE OBJECTIVES YOU HAVE DISCUSSED?**

14 **A.** The proposed Access Charge methodology advances each of these
15 objectives through a balanced and integrated package of provisions that
16 implement an overall compromise.

17 First, the proposed Access Charge methodology did receive the
18 support of a large majority of the ISO Governing Board, which approved
19 the proposal reflected in Amendment No. 27 by a 16-5 vote, with one
20 abstention. The resolution of the Board is provided as Exhibit No. ISO-2.
21 While complete consensus was not possible, the proposed Access

1 Charge methodology was supported by Board members representing
2 numerous stakeholder classes.

3 Second, the proposed Access Charge methodology does result in
4 an equitable balance of costs and benefits, albeit a delicate balance, to
5 the various affected stakeholder classes. The balance is the product of
6 the integrated operation of the different provisions of the proposed Access
7 Charge methodology which are described in detail in section V of this
8 testimony. Basically, the proposed Access Charge methodology
9 recognizes that expanded participation in the ISO by New Participating
10 TOs has the potential to benefit all Market Participants through reduced
11 Congestion costs, through the elimination or reduction of phantom
12 Congestion, and through potentially lower market prices for Energy and
13 Ancillary Services. In recognition of these benefits, the proposed Access
14 Charge methodology allows for increases in the Access Charges paid by
15 customers of the Original Participating TOs, with the amount of the
16 increases dependent upon the extent of increased participation by New
17 Participating TOs. In addition, in acknowledgement of the fact that many
18 of these benefits are difficult to quantify precisely, the potential increases
19 in transmission costs are capped at levels that were considered
20 reasonable by members of the ISO Governing Board, including
21 representatives of the End-User sector that will pay the increases charges.
22 Other components of the proposal described in section V of this testimony
23 further mitigate cost shifts that could result from its implementation.

1 Third, the proposed methodology does ultimately result in a single
2 charge for access to the High Voltage Transmission Facilities included in
3 the ISO Controlled Grid. To mitigate the changes in Access Charges that
4 would result from the adoption of a single "postage stamp" transmission
5 rate, the uniform rate is phased in over ten years. Additionally, all New
6 High Voltage Facilities and capital additions to Existing High Voltage
7 Facilities are immediately included in the ISO Grid-wide component of the
8 High Voltage Access Charge.

9 Fourth, the proposed Access Charge methodology specifies that,
10 after the ten-year transition period is completed, all Participating TOs will
11 receive uniform treatment with respect to the determination of Access
12 Charges and other tariff provisions. To be sure, the proposed
13 methodology includes provisions that treat the Original Participating TOs
14 differently from New Participating TOs during the transition period. Those
15 accommodations, however, are necessary for a circumscribed period to
16 balance other objectives with the objective of equal treatment.

17 Fifth, the proposed Access Charge methodology includes a number
18 of feature as incentives for utilities, including publicly owned utilities in
19 California, to become Participating TOs and removes certain
20 disincentives. These features include the movement toward a uniform
21 High Voltage Access Charge, which benefits higher cost Transmission
22 Owners that have not yet decided to join the ISO. In addition, the Access
23 Charge methodology includes provisions to hold New Participating TOs
24 harmless during a transition period against cost increases associated with
25 the Access Charge they might otherwise experience.

1 Finally, the new methodology would determine the Access Charges
2 for the recovery of the costs of Participating TOs' High Voltage
3 Transmission Facilities under the ISO Tariff, rather than the individual
4 Transmission Owner's Tariffs. This step increases the ability of the ISO to
5 exercise control, subject to Commission review, over the design of Access
6 Charges.

7 **Q. HAVE ALL OF THE ISO'S OBJECTIVES BEEN FULFILLED**
8 **COMPLETELY?**

9 A. No. As I have explained, the proposed Access Charge methodology
10 reflects a package of compromises. In addition, because some of the
11 objectives I have described were in tension with others, some objectives
12 could not be achieved completely unless other objectives were sacrificed.
13 As a result, a number of the ISO's objectives, as well as the objectives of
14 the different stakeholder classes, are fulfilled only in part. That is the
15 essence of compromise.

16 For example, the proposed Access Charge methodology defers the
17 adoption of a uniform Access Charge for ten years. This result reflects a
18 compromise between those stakeholders who wanted a uniform High
19 Voltage Access Charge implemented immediately and others who were
20 concerned that any blending of the transmission revenue requirements of
21 different Participating TOs would create unacceptable cost shifts.

22 In a similar vein, the proposed Access Charge methodology does
23 not assure each entity that it will incur no cost increases at all as a result
24 of a decision to become a Participating TO. The proposal also
25 incorporates limitations on the pace at which a New Participating TO with

1 relatively higher transmission costs can obtain contributions toward those
2 costs from customers on the systems of other Participating TOs. The ISO
3 recognizes that these aspects of the proposal may cause some entities to
4 conclude that it is not in their interests to become Participating TOs at this
5 time. However, the ISO and the ISO Governing Board determined
6 through the extensive stakeholder and negotiating processes that it was
7 not possible to satisfy fully all of the concerns of prospective New
8 Participating TOs without allowing for some trade-offs between important
9 objectives, including the principle that costs and benefits should be
10 distributed equitably and the goal of limiting the extent to which any
11 Participating TO received treatment more favorable than that of another
12 Participating TO.

13
14 **III. THE ORIGINAL ISO TRANSMISSION ACCESS CHARGE**

15 **Q. PLEASE DESCRIBE HOW THE ACCESS CHARGE WAS ASSESSED**
16 **PRIOR TO THE COMMISSION'S ACCEPTANCE OF AMENDMENT**
17 **NO. 27 FOR FILING.**

18 A. In accordance with California's electric restructuring legislation (A.B. 1890)
19 and as approved by the Commission, the Access Charge was
20 implemented on a "utility-specific" basis when the ISO began operation on
21 March 31, 1998. The three Original Participating TOs were PG&E, SCE,
22 and SDG&E. Each filed, with the Commission, transmission rates for their
23 specific PTO Service Area based on their individual Transmission
24 Revenue Requirements and their individual end-use Load. The three
25 utilities billed these rates to their End-Use Customers and wholesale

1 customers not served under Existing Contracts. In addition, the ISO billed
2 Scheduling Coordinators for Wheeling charges, which were based on the
3 Scheduling Points from which the Wheeling transaction exited the ISO
4 Controlled Grid.

5 **Q. DID THE UTILITY-SPECIFIC ACCESS CHARGE RESULT IN**
6 **“PANCAKED” RATES?**

7 A. No. Eligible customers paid an Access Charge based on the rolled-in
8 embedded cost of the Participating TO's transmission system in whose
9 former Service Area the scheduled power left the ISO Controlled Grid.
10 Therefore, for example, Load in SCE's Service Area that was served from
11 resources in the Pacific Northwest paid only SCE's Access Charge for
12 transmission over the ISO Controlled Grid. With respect to Wheeling, the
13 ISO Tariff provided that where two or more Participating TOs owned the
14 facilities at a Scheduling Point, the charge would be the weighted average
15 Access Charge of all Participating TOs at that exit point. Wheeling
16 revenues were treated as Transmission Revenue Credits to the
17 Participating TOs Transmission Revenue Requirement, thereby reducing
18 their utility-specific rates. Accordingly, customers of the Original
19 Participating TOs had access to the entire ISO Controlled Grid at non-
20 pancaked rates.

21 **Q. WERE THERE ANY OTHER SIGNIFICANT FEATURES OF THE**
22 **PREVIOUS ACCESS CHARGE?**

23 A. Yes. The ISO Tariff applied a "Self-Sufficiency test" to all
24 Participating TOs. The ISO Tariff defined a "Self-Sufficient" Participating
25 TO as one for which the sum of the Dependable Generation within its

1 Service Area (regardless of ownership) and the Firm Import
2 Interconnection Transmission Capacity (including transmission rights) to
3 the Participating TO's Service Area was greater than or equal to the
4 monthly peak Demand for the Participating TO's Service Area plus
5 resources necessary to meet WSCC Minimum Operating Reliability
6 Criteria. In other words, a Self-Sufficient Participating TO was one whose
7 internal generation and import capability, combined, were enough to serve
8 the Load on its system reliably. Conversely, Dependent Participating TOs
9 were those entities whose sum of generation and transmission import
10 capability was less than its monthly peak Demand plus the resources
11 necessary for it to meet WSCC Minimum Operating Reliability Criteria.

12 Prior to and up to the time when Amendment No. 27 was filed,
13 there were no Dependent Participating TOs (i.e., there were dependent
14 Transmission Owners, but none had executed the Transmission Control
15 Agreement to become Participating TOs). However, if there had been, the
16 Dependent Participating TOs would have been charged a transmission
17 access fee that would have included a portion of the Access Charge of the
18 Participating TO to which the Dependent Participating TO was
19 interconnected. Specifically, a Dependent Participating TO would have
20 paid to the Participating TO to which it was physically interconnected an
21 Access Charge equal to (i) the product of the Non Self-Sufficient Contract
22 Demand Rate of that Participating TO and the Non Self-Sufficient Contract
23 Demand of that Dependent Participating TO; plus (ii) the Transmission
24 Revenue Balancing Account adjustment charges as provided in Section
25 5.5 of the Participating TO's TO Tariff. The Non Self-Sufficient Contract

1 Demand Rate was equal to the interconnected Participating TO's Base
2 Transmission Revenue Requirement divided by the sum of the highest
3 hourly system demand for each month of the year used by that other
4 Participating TO for rate development.

5 **Q. HAD ENTITIES INDICATED CONCERNS WITH THIS SELF-**
6 **SUFFICIENCY REQUIREMENT?**

7 A. Yes. As noted in the Commission's October 1997 Order conditionally
8 authorizing operation of the ISO, a number of parties claimed that the
9 definition of Firm Import Interconnection Transmission Capacity was too
10 narrow because it included only that transmission import capacity that is
11 directly connected with a Transmission Owner's system and therefore
12 excluded certain transmission assets that were not directly connected.
13 Parties also claimed that the definition of Dependable Generation did not
14 give full credit for generating capacity that was available to such Party.
15 The self-sufficiency test was cited by Non-Participating TOs as one of the
16 matters that they considered created a barrier to their becoming
17 Participating TOs.

18 **Q. ARE THERE OTHER ASPECTS OF THE UTILITY-SPECIFIC ACCESS**
19 **CHARGE THAT WERE PERCEIVED AS A POTENTIAL BARRIER TO**
20 **ISO PARTICIPATION?**

21 A. Yes. The fact that a Participating TO's own Transmission Revenue
22 Requirement was recovered from its own End-Use Customers
23 represented a concern for potential Participating TOs that provided
24 transmission service to the End-Use Customers of other Participating TOs
25 without having significant amounts of their own End-Use Customer Load.

1 The Western Area Power Administration - Sierra Nevada Region
2 ("Western"), for example, does not serve many End-Use Customers
3 directly. It is a provider of preference power to a number of municipal
4 utilities and to Department of Energy facilities, many of which are End-Use
5 Customers of other Participating TOs. Thus its transmission service
6 customers are primarily wholesale customers. Western pointed out to the
7 ISO that under the then current utility-specific Access Charge
8 methodology, Western's Transmission Revenue Requirement would be
9 recovered from its direct connected End-Use Customers only, placing on
10 them an undue burden. In the alternative, Western would have to impose
11 transmission charges on its wholesale customers in addition to the utility-
12 specific Access Charges such customers would be paying as End-Use
13 Customers of a different Participating TO. Western argued that, if it were
14 to become a Participating TO, the latter option would cause "pancaked"
15 transmission rates by imposing charges on customers for Western's power
16 who already would have had to pay the Access Charge of the Participating
17 TO that was their retail service provider. This concern pointed out by
18 Western would also have represented a problem for any future
19 Participating TOs (such as merchant transmission lines or independent
20 transmission companies) that might have few, or no, End-Use Customers.
21 As I will discuss later, while Amendment No. 27 resolved this issue by
22 aggregating Participating TOs into area rates, the ISO favors further
23 changes to clarify treatment of future Participating TOs with respect to all
24 New High Voltage Facilities.

1 **Q. WHY DID THE ISO DEVELOP A REVISED ACCESS CHARGE**
2 **METHODOLOGY?**

3 A. California's restructuring legislation included a requirement that the ISO
4 recommend to the Federal Energy Regulatory Commission, no later than
5 two years after the ISO Operations Date, a revised rate methodology for
6 the Access Charge. In its Orders of November 1996 and October 1997
7 conditionally authorizing establishment and operation of the ISO, the
8 Commission confirmed the requirement that the ISO file a successor
9 Access Charge methodology no later than sixty days in advance of the
10 second anniversary of the ISO Operations Date. The Commission
11 subsequently granted the ISO motions to extend the date for the ISO's
12 filing until March 31, 2000.

13 **Q. HOW WERE THE PRIOR ACCESS CHARGE NEGOTIATIONS**
14 **REFLECTED IN THE RESTRUCTURING LEGISLATION?**

15 A. The restructuring legislation reflects the fact that negotiations regarding an
16 appropriate Access Charge methodology had been going on among the
17 interested stakeholders for some time, but had not reached an acceptable
18 resolution. The stakeholders were willing to agree to the former "utility-
19 specific" Access Charge structure, but only as a temporary solution, as
20 long as they had the assurance that the issue would be revisited by the
21 ISO Governing Board two years after the ISO Operations Date.

1 **Q. DID CALIFORNIA STATE LAW, THE COMMISSION ORDERS, OR THE**
2 **ISO TARIFF REQUIRE THE ADOPTION OF A SPECIFIC ACCESS**
3 **CHARGE METHODOLOGY?**

4 A. No. Under the California restructuring legislation there were three
5 possible procedural outcomes for determining the ISO's Access Charge
6 methodology. First, if the ISO Governing Board adopted a new Access
7 Charge methodology, the ISO was to use this new methodology in its
8 submission to the Commission. The Governing Board was to base its
9 decision on principles approved by the Board, including an equitable
10 balance of costs and benefits. The Board was also required to define
11 which transmission facility costs, if any, were to be rolled in to the
12 transmission service rate and spread equally among all ISO transmission
13 system users and which transmission facility costs, if any, should be
14 assigned to a specific utility's Service Area. Accordingly, the ISO
15 Governing Board had latitude with respect to the selection of a particular
16 Access Charge methodology. As I will explain, the ISO Governing Board
17 has adopted the Access Charge methodology reflected in Amendment
18 No. 27, which I will describe in greater detail later in my testimony.

19 If the ISO Governing Board failed to reach a consensus decision on
20 the rate methodology, it was to be determined through the ISO's
21 Alternative Dispute Resolution ("ADR") Procedures. Finally, if the ADR
22 procedures were needed but were unsuccessful, the restructuring
23 legislation provided that the ISO was to file with the Commission a two-
24 part default rate methodology consisting of (1) a uniform "regional"
25 transmission Access Charge; and (2) a utility-specific "local" transmission

1 Access Charge. In the legislation, regional was defined as 230 kV and
2 above, and local was defined as below 230 kV. Because the ISO
3 Governing Board agreed on an Access Charge methodology, the second
4 and third paths did not become operative.

5 Starting with its Orders conditionally approving the California ISO's
6 rates and continuing through other ISO ratemaking Orders and Order
7 2000, the Commission has set forth policies on transmission and ISO
8 rates. However, neither the Commission orders authorizing the
9 establishment and operation of the ISO nor the ISO Tariff mandated the
10 adoption of a specific ratemaking approach for the Access Charge.
11 Amendment No. 27 is fully consistent with the Commission's general
12 guidance and precedent. Pursuant to the Commission's orders
13 Amendment 27 was implemented, subject to hearing and potential refund,
14 on January 1, 2001.

15
16 **IV. DEVELOPMENT OF THE REVISED ACCESS CHARGE**

17 **Q. PLEASE SUMMARIZE THE PROCESS USED BY THE ISO TO**
18 **DEVELOP THE REVISED ACCESS CHARGE METHODOLOGY.**

19 A. The development of the revised Access Charge was a substantial
20 undertaking involving extensive consultation with all affected stakeholders.
21 To summarize briefly, the ISO began by soliciting proposals from Market
22 Participants in December 1998. ISO Management then formed both an
23 internal project team and a large working group of stakeholders, the
24 Transmission Access Charge Work Group ("TACWG"), to evaluate these
25 proposals. With the assistance of this working group and pursuant to a

1 confidentiality agreement, the ISO collected extensive amounts of data
2 from all California utilities that owned or had contractual rights to
3 transmission to evaluate the costs and benefits of the different Access
4 Charge proposals. This information was shared with the TACWG.

5 When the working group failed to reach a consensus, ISO
6 Management developed a compromise proposal for consideration by the
7 TACWG and subsequently by the ISO Board of Governors. The
8 compromise proposal was designed to come as close as possible to a fair
9 compromise on a host of interrelated issues with divergent stakeholder
10 preferences, while remaining fully consistent with Commission and
11 A.B. 1890 guidance.

12 **Q. WHEN DID THE ISO BEGIN TO SOLICIT PROPOSALS FOR THE**
13 **REVISED ACCESS CHARGE METHODOLOGY FROM**
14 **STAKEHOLDERS?**

15 A. The ISO first requested in December 1998 that stakeholders concerned
16 with the methodology for the revised Access Charge provide the ISO with
17 a proposal in January 1999. The due date was subsequently extended to
18 February 26, 1999, at the request of various stakeholders who were trying
19 to put together joint proposals with other stakeholders.

20 **Q. WHO SUBMITTED PROPOSALS IN RESPONSE TO THE ISO's**
21 **REQUEST?**

22 A. Twenty-two entities submitted proposals regarding the ISO's Access
23 Charge methodology: the California Department of Water Resources; the
24 California Municipal Utility Association; the City and County of San
25 Francisco, California; the Cities of Anaheim, Modesto, Palo Alto, Redding,

1 and Vernon, California; ETGRID; Joint Parties (PG&E and SCE); the
2 Los Angeles Department of Water and Power; The Metropolitan Water
3 District of Southern California; the Northern California Power Agency;
4 PG&E; Reliant Energy; Roseville Electric; Sempra Energy; Silicon Valley
5 Power; SCE; the Transmission Agency of Northern California; the Turlock
6 Irrigation District; and Western.

7 **Q. WHAT DID THE ISO DO AFTER RECEIVING THE PROPOSALS?**

8 A. The ISO took several actions. First, the ISO formed an internal project
9 team to work with stakeholders in the development of the revised Access
10 Charge. The team consisted of individuals with a cross-section of
11 expertise within the ISO, as well as an outside consultant and legal
12 advisors.

13 Second, the ISO prepared a draft project charter and circulated it to
14 all Market Participants. A copy of this charter is provided as Exhibit No.
15 ISO-3. The ISO worked with the various stakeholders to develop potential
16 goals for the process. The charter identified several potential goals for the
17 revised Access Charge methodology including:

- 18 • Prevent pancaking by treating the ISO Controlled Grid as a single
19 system;
- 20 • Be economically efficient;
- 21 • Provide predictable and stable transmission prices that facilitate
22 needed new investment;
- 23 • Be consistent with other transmission-related costs such as
24 congestion management and loss recovery;
- 25 • Minimize cost-shifting among transmission users;

- 1 • Be reflective of the underlying physics of the system;
- 2 • Encourage entities to join the ISO; and
- 3 • Be acceptable to all transmission owners who are or will be
- 4 participating in the ISO.

5 Third, the ISO had a stakeholder meeting and formed the TACWG of

6 stakeholders to provide a forum to consider the different Access Charge

7 proposals under a confidentiality agreement.

8 **Q. WHEN DID THE ACTUAL STAKEHOLDER PROCESS BEGIN?**

9 A. The ISO held the initial "kick-off" meeting for the stakeholders on

10 March 29, 1999 and determined that for the group to work effectively it

11 should operate under a confidentiality agreement. A subsequent public

12 stakeholder meeting was held on April 21, 1999 and parties who had still

13 not executed the confidentiality agreement were allowed to participate.

14 **Q. PLEASE DESCRIBE IN MORE DETAIL THE ACTIVITIES OF THE**

15 **TACWG THAT WAS FORMED UNDER THE CONFIDENTIALITY**

16 **AGREEMENT.**

17 A. Additional meetings were held approximately monthly: May 11, 1999;

18 June 10, 1999; June 16, 1999; July 13, 1999; August 10, 1999;

19 September 21, 1999; and October 6, 1999. There were numerous other

20 conference calls to discuss the confidentiality agreement, data collection

21 efforts, the modeling of costs and benefits, and various other aspects of

22 the Access Charge methodology.

1 **Q. PLEASE IDENTIFY THE ENTITIES THAT PARTICIPATED IN THE**
2 **TACWG IN ADDITION TO THE ISO.**

3 A. A wide range of stakeholders participated in the discussions, including the
4 following: Alameda Power and Telecom; Baker G. Clay & Associates; Bay
5 Area Rapid Transit; the Brattle Group; the California Department of Water
6 Resources; the California Energy Commission; the California Large
7 Energy Consumers Association; the California Municipal Utilities
8 Association; the California Power Exchange; Call Company; the City and
9 County of San Francisco; the Cities of Anaheim, Azusa, Banning,
10 Burbank, Colton, Glendale, Palo Alto, Pasadena, Redding, Riverside, and
11 Vernon, California; Contra Costa Water District; Duke Energy; Dynegy; the
12 Electricity Oversight Board; the Energy Producers and Users Coalition; the
13 Energy Users Forum; Enron; ETGRID; Exeter Associates; FPL Energy,
14 Inc.; GWF Power Systems; Henwood Energy; the Imperial Irrigation
15 District; the Independent Energy Producers Association; the Los Angeles
16 Department of Water and Power; The Metropolitan Water District of
17 Southern California; the Modesto Irrigation District; MZA Grid Services;
18 NASA Research Center; the Northern California Power Agency; Ogden
19 Pacific Power; the Office of Ratepayer Advocates; Oxbow Geothermal
20 Corporation; PG&E; Patterson Consulting; PG&E Energy Services
21 Corporation; PECO Energy Company; Phoenix Consulting; Powerex;
22 Regulatory & Cogeneration Services; Reliant Energy; Robertson
23 Engineering; Robinson-May; Roseville Electric; Rumla, Inc.; R.W. Beck;
24 the Sacramento Municipal Utility District; the Salt River Project; SCD
25 Energy Solutions; Scheuerman Consulting; Sempra Energy Companies;

1 Sierra Pacific Industries; Silicon Valley Power; SCE; Southern California
2 Gas Company; Southern Company; Strategic Energy. L.L.C.; Tabors,
3 Caramanis & Associates; the Transmission Agency of Northern California;
4 Turlock Irrigation District; TURN; the U.S. Department of Energy, Oakland
5 Operations Office; U.S. Generating Company; Vari Consulting; Western;
6 and Williams Energy Services.

7 **Q. DID THE ISO TAKE MEASURES TO INFORM OTHER**
8 **STAKEHOLDERS OR THE PUBLIC OF THE ISSUES SURROUNDING**
9 **THE REVISED ACCESS CHARGE?**

10 A. Yes. Although the ISO considered the TACWG to be a stakeholder group,
11 encompassing a broad sample of Market Participants it also kept
12 stakeholders and the public informed about the progress that was being
13 made in developing the revised Access Charge. This was done through
14 the existing monthly meeting with the Market Participants, the ISO's
15 Market Issues Forum, which were (and still are) open to all stakeholders.
16 For example, presentations were made before the ISO's Market Issues
17 Forum on April 7, 1999; June 9, 1999; August 11, 1999; October 13, 1999;
18 and November 3, 1999.

19 In August 1999, ISO Management also briefed the ISO's Board of
20 Governors on the progress of the Access Charge negotiations during the
21 public portion of the Board's meeting. The memorandum to the Board,
22 which was also part of the public record, is provided as Exhibit No. ISO-4.

1 **Q. PLEASE GENERALLY DESCRIBE THE PROCESS IN WHICH THE**
2 **TACWG CONSIDERED THE PROPOSALS.**

3 A: In the initial meetings, the TACWG reviewed the proposed goals for the
4 revised Access Charge and the various proposals. Proponents of the
5 various proposals were invited to make presentations and the group
6 discussed how to collect the necessary data to analyze the respective
7 proposals.

8 **Q. DID THE TACWG NARROW THE 22 INITIAL PROPOSALS?**

9 A. Yes. The ISO and the members of the TACWG narrowed the
10 submissions down to four main options that incorporated the key features
11 of most of the 22 detailed proposals:

- 12 • Utility Specific - the continuation of the then existing Access Charge
13 methodology in which Loads and exports paid an Access Charge
14 designed to recover the Transmission Revenue Requirements of
15 each specific Participating TO based on where the Load was
16 served or the Scheduling Point of the ISO Controlled Grid where
17 the Energy exited.
- 18 • Regional/Local Split - similar to the default methodology in
19 A.B. 1890, an Access Charge methodology where there would be
20 an ISO Grid-wide charge for "Regional" transmission at or above
21 200 kV, and utility-specific rates for "Local" transmission below
22 200 kV.
- 23 • ISO Grid-Wide - an Access Charge methodology where the
24 Transmission Revenue Requirements for all of the
25 Participating TOs Transmission Facilities would be combined to

1 form the basis for a single uniform charge applied to all End-User
2 Load and exports, regardless of voltage level, for use of the entire
3 ISO Controlled Grid.

- 4 • Power Flow Model - an Access Charge methodology based on a
5 proprietary model that attempted to identify each customer's
6 utilization of each individual transmission path based on estimated
7 power flows.

8 **Q. DID THE ISO UNDERTAKE ANALYSIS AND DATA COLLECTION**
9 **REGARDING THE PROPOSALS?**

10 A. The ISO and its consultant, the Brattle Group, with support from the
11 members of the TACWG, undertook an extensive effort to develop a
12 database of Transmission Revenue Requirement and Load data for each
13 Transmission Owner in California to analyze the four main proposals and
14 to identify how costs would be shifted under the different proposals among
15 End-Use Customers of existing and potential Participating TOs. The
16 TACWG looked at means of reducing cost shifts through different phase-in
17 periods and other mechanisms. The extensive data set used in the
18 Access Charge analysis was provided by the Transmission Owners,
19 including investor-owned utilities, public-owned utilities, state agencies
20 and federal entities.

21 **Q. WHAT ARE "COST SHIFTS", AS YOU USE THE TERM IN THIS**
22 **TESTIMONY?**

23 A. Cost shifts arise from a transmission customer perspective when
24 transmission costs are "averaged" under certain Access Charge
25 methodologies. By definition, average rates will be higher in some cases

1 and lower in other cases than the utility-specific rate customers were then
2 paying. Mr. Pfeifenberger's testimony sets forth a current analysis of the
3 cost shifts for the revised Access Charge methodology.

4 **Q. WERE OTHER IMPACTS OF A REVISED ACCESS CHARGE**
5 **METHODOLOGY CONSIDERED BY THE TACWG?**

6 A. Yes. The TACWG, with assistance from the ISO, also attempted to
7 estimate various potential benefits that could arise from increased
8 participation, in the ISO: (1) a reduction in the ISO's Grid Management
9 Charge ("GMC"), (2) increased efficiency in usage of the ISO Controlled
10 Grid, including reduced congestion, and (3) a reduction in Ancillary
11 Service costs. A number of other Access Charge related issues were
12 evaluated as discussed further below.

13 **Q. PLEASE EXPLAIN WHY GREATER PARTICIPATION IN THE ISO**
14 **WOULD LEAD TO A REDUCTION IN THE RATE FOR THE ISO'S GMC.**

15 A. The GMC is assessed monthly to Scheduling Coordinators to recover both
16 the ISO's startup and development costs and the costs associated with
17 ongoing operation and maintenance, including financing costs. The GMC
18 is assessed on a "volumetric" basis (MWh) to Loads and exports that use
19 the ISO Controlled Grid. If use of the ISO Controlled Grid was in
20 accordance with an Existing Contract, then the Scheduling Coordinator
21 was charged the GMC on fifty percent (50%) of the volumetric amount.
22 (At the time the TACWG undertook its work and when Amendment 27 was
23 filed, GMC was allocated based on the transmission path used, consistent
24 with a FERC approved settlement. Since then, as explained in a
25 subsequent section of this testimony, the allocation methodology has

1 changed but the charge is still assessed on a volumetric basis.) If, under
2 that methodology, costs had remained approximately the same, and more
3 Load or wheeling transactions are subject to the charge than projected
4 when the GMC is established, a lower rate would have resulted for all
5 Scheduling Coordinators. Increased participation would increase the
6 amount of Load and thus decreased the GMC rate. In other words, by
7 encouraging more Transmission Owners to become Participating TOs,
8 Amendment 27 would have allowed the fixed operating costs of the ISO to
9 be spread over a larger amount of Load. This effect would benefit the
10 End-Use Customers of the Original Participating TOs particularly since
11 they have in the past and still do now pay the majority of GMC.

12 **Q. PLEASE EXPLAIN HOW GREATER PARTICIPATION IN THE ISO**
13 **LEADS TO MORE EFFICIENCY IN THE OPERATION OF THE ISO**
14 **CONTROLLED GRID.**

15 **A.** One significant benefit that can be achieved if additional entities join the
16 ISO and convert their Existing Contract rights would be mitigation of the
17 problem of “phantom Congestion,” which arises because a significant
18 portion of the ISO Controlled Grid capacity is encumbered under Existing
19 Contracts between Participating TOs and Non-Participating TOs. The
20 scheduling timelines under certain of the Existing Contracts are at odds
21 with the ISO scheduling process defined in the ISO Tariff and the
22 Scheduling Protocol. Because certain Existing Contracts permit the
23 transmission customer to make changes in their scheduling reservation
24 capacity after the close of the ISO’s Hour-Ahead market, the ISO must
25 reserve capacity for these transactions in both the Day-Ahead Market and

1 the Hour-Ahead Market. Phantom Congestion results when transmission
2 capacity is made unavailable for use in the Day-Ahead and Hour-Ahead
3 ISO Markets, causing a path to appear congested, but such capacity is not
4 actually utilized by the Existing Contract holder in real time. While the ISO
5 can and does utilize any available transmission capacity on the ISO
6 Controlled Grid in real-time, this does not prevent phantom Congestion
7 from affecting the Day-Ahead and Hour-Ahead ISO Markets.

8 **Q. DID THE ISO PERFORMED ANY ESTIMATES OF THE COSTS OF THIS**
9 **PHANTOM CONGESTION?**

10 **A.** Yes. Mr. Keith Casey, from the ISO's Department of Market Analysis
11 originally analyzed the impact on congestion of unscheduled Existing
12 Contract transmission capacity for the period from December 1998 to
13 November 1999. Mr. Casey has since conducted a study for a longer four
14 year period and calculated for 1999 through 2002, the curtailments over
15 key paths that were instituted, and compared them to the curtailments that
16 would have been required if capacity that was set aside for Existing
17 Contracts and that was never scheduled had been available in the Day-
18 Ahead market. Mr. Casey's calculations are set forth in his testimony and
19 illustrate that "phantom congestion" has remained a significant problem
20 during the past four years. While Mr. Casey did not attempt to quantify the
21 financial impact of this congestion, he opines that these impacts could be
22 very significant based on an assessment he conducted of the benefits of
23 upgrading Path 15.

1 **Q. PLEASE EXPLAIN HOW GREATER PARTICIPATION IN THE ISO**
2 **COULD LEAD TO A REDUCTION IN ANCILLARY SERVICE COSTS.**

3 A. The WECC Minimum Operating Reliability Criteria requires that each
4 Control Area must have operating reserves equal to 5% of the load
5 responsibility served by hydroelectric generation and 7% percent of the
6 load responsibility served by thermal generation, or operating reserves
7 sufficient to protect against the loss of its single largest contingency (the
8 potential loss of its largest source of supply, such as a forced outage at its
9 largest Generating Unit), whichever is greater. Because of the size of the
10 ISO, the 5% and 7% criteria applies. Some California utilities must
11 maintain operating reserves for their Control Area based on the single
12 largest contingency or, because of an Existing Contract obligation, to 7%
13 even if a portion of the reserves are supplied from hydroelectric resources.

14 If entities that currently maintain reserves based on their single
15 largest contingency or equal to 7% of either type of generation become
16 Participating TOs, they would be able to receive the benefit of being able
17 to reduce their reserve obligation to the 5% and 7% criteria. Additionally,
18 increased participation of New Participating TOs in the ISO's Ancillary
19 Services market of utilities that have a significant quantity of hydroelectric
20 resources, but are required to keep operating reserves at levels above the
21 ISO's requirements, could increase the supply of Ancillary Services and
22 potentially reduce the overall cost .

1 **Q. PLEASE IDENTIFY OTHER ISSUES CONSIDERED BY THE TACWG.**

2 A. The TACWG considered a number of additional issues, including:

- 3 • Who should pay the Access Charge - whether it should be applied
- 4 to Loads, exports, generation, imports, or some combination?
- 5 • Who should be billed the Access Charge and whether it should be
- 6 a bill from the Participating TO or from the ISO?
- 7 • Should holders of transmission rights under Existing Contracts be
- 8 required to convert those rights upon joining the ISO and, if they did
- 9 so, should they receive Firm Transmission Rights in return?
- 10 • Should Governmental Agencies be permitted to operate as Metered
- 11 Subsystems and, if so, under what conditions?
- 12 • Should Governmental Agencies that become Participating TOs be
- 13 permitted to pay the Access Charge based on net Load (the Load
- 14 served by generation resources from outside the Agency's Service
- 15 Area) or based on Gross Load?
- 16 • Should the Self-Sufficiency Test be modified or eliminated?

17 **Q. WAS THE TACWG ABLE TO AGREE ON A REVISED METHODOLOGY**
18 **FOR THE ACCESS CHARGE?**

19 A. No. The proponents of the different Access Charge methodologies each
20 prepared white papers supporting their respective approaches. However,
21 no single approach garnered unanimous support from the more than 75
22 disparate stakeholders in the TACWG. Informal surveys of the
23 stakeholders did provide important guidance as to how a compromise
24 proposal could be structured. For example, the stakeholders widely
25 supported a regional/local split to charge different rates for High Voltage

1 and Low Voltage transmission access. Informal Stakeholder surveys also
2 suggested that a TAC Area approach would be a reasonable compromise
3 between the continuation with utility-specific rates and an immediate
4 switch to ISO Grid-wide rates.

5 **Q. SINCE THERE WAS NO CONSENSUS PROPOSAL, WHAT ACTIONS**
6 **DID ISO MANAGEMENT TAKE?**

7 A. ISO Management considered proposing an ISO Grid-wide rate (or single
8 "postage-stamp") to promote a uniform rate, but concluded that the initial
9 cost shifts would be unacceptably large. Instead, ISO Management
10 developed a compromise proposal based on a "TAC Area" concept for
11 High Voltage Transmission Facilities, with a gradual transition to an ISO
12 Grid-wide rate. This proposal was further refined and eventually became
13 Amendment 27.

14 **Q. PLEASE DESCRIBE THIS TAC AREA PROPOSAL.**

15 A. ISO Management proposed a two-part Access Charge consisting of a high
16 voltage (or "regional") component to recover costs of ISO Controlled Grid
17 facilities rated at 200 kV and above, and a low voltage (or "local")
18 component to recover costs of ISO Controlled Grid facilities rated at less
19 than 200 kV. Participating TOs would continue to recover their
20 Transmission Revenue Requirement for Low Voltage Transmission
21 Facilities through an Access Charge on a utility-specific basis based on
22 each Participating TO's Tariff. This aspect of the Access Charge, the
23 "regional/local split" in rates was widely supported by most of the diverse
24 stakeholder group.

1 The High Voltage Access Charge would initially be based on “TAC
2 Areas.” At the outset, there would be three TAC Areas, one
3 corresponding to each of the major former WSCC Control Areas of the
4 three Original Participating TOs: a Northern Area (PG&E), a Southern
5 Area (SDG&E), and an East Central Area (SCE). If the Los Angeles
6 Department of Water and Power were to become a Participating TO, a
7 fourth TAC Area -- the West Central Area -- would be established. If the
8 Imperial Irrigation District or entities from other states decided to do so,
9 the ISO Board would consider, taking into account the importance of
10 minimizing cost shifts, whether to establish additional TAC Areas or
11 whether to add the New Participating TO to an existing TAC Area. As
12 described below, the TAC Area concept would be gradually transitioned
13 into an ISO Grid-wide concept over a 10-year transition period. If the
14 transition had already been completed when a New Participating TO
15 joined the ISO, then the New Participating TO’s High Voltage TRR
16 (“HVTRR”) would immediately be rolled into the ISO Grid-wide HVTRR.

17 Each TAC Area would include all Participating TOs, including
18 investor-owned and governmental entities, within that area. For example,
19 assuming all California Transmission Owners became Participating TOs,
20 the Northern Area would consist of PG&E, Sacramento Municipal Utility
21 District, Western Area Power Administration -Sierra Nevada Region,
22 Northern California Power Agency, City of Redding, Silicon Valley Power,
23 City of Palo Alto, City and County of San Francisco, Alameda Power &
24 Telecom, City of Biggs, City of Gridley, City of Healdsburg, City of Lodi,
25 City of Lompoc Utility Department, Modesto Irrigation District, Turlock

1 Irrigation District, Plumas –Sierra Rural Electric Cooperative, City of
2 Roseville Electric Department, City of Shasta Lake, Department of Energy
3 Labs, and City of Ukiah.

4 The High Voltage Access Charge would initially be the sum of all
5 the Transmission Revenue Requirements of all the then current
6 Participating TOs in the TAC Area divided by the total Gross Load served
7 in the TAC Area. In other words, each TAC Area would have a single
8 postage-stamp rate for all High Voltage Transmission Facilities equal to
9 the average of the combined costs of all Participating TOs in that TAC
10 Area.

11 Under the first proposal, once a “critical mass” of New Participating
12 TOs joined the ISO, a five-year transition to a single, ISO Grid-wide
13 Access Charge for the high voltage facilities would begin. Critical mass
14 was defined as 3,500 MW of additional new firm use transmission capacity
15 from three or more New Participating TOs over certain specified Inter-
16 zonal interfaces. However, this feature was ultimately deleted from the
17 proposal prior to filing.

18 **Q. WERE THERE ANY OTHER ELEMENTS OF THE INITIAL PROPOSAL?**

19 A. Yes. There were a number of other elements to the overall initial
20 proposal. First, the self-sufficiency test would be eliminated. Second, ISO
21 Management recommended that all New Participating TOs be required to
22 convert their Existing Contracts upon joining the ISO to the ISO Tariff
23 scheduling timelines and requirements. This aspect of the proposal was
24 designed to mitigate the phantom congestion problem discussed earlier.
25 Third, the charge would be a commodity-based charge (\$/MWh); however,

1 the use of a \$/MWh charge for the ISO's Access Charge would not
2 preclude the use of a different retail cost allocation and rate design.
3 Fourth, the Access Charge was to be billed by the ISO to Utility
4 Distribution Companies ("UDCs"), Metered Subsystems ("MSSs") or
5 Scheduling Coordinators serving Load in the Service Area of a
6 Participating TO. Fifth, the disbursement of the Wheeling Access Charge
7 would be determined according to the ownership of the facilities and
8 whether the Participating TOs are all in the same TAC Area. Finally, at
9 the time the TAC Area concept was developed, discussions with various
10 Transmission Owners already had led to a proposal that if New
11 Participating TO's were holders of Existing Rights, they would immediately
12 upon conversion of their Existing Rights to ISO scheduling timelines,
13 dispatch and congestion protocols receive Firm Transmission Rights
14 ("FTRs") that tracked the transmission capacity that these Transmission
15 Owners would have had available under their Existing Rights. It was also
16 discussed whether New Participating TOs would be able to receive such
17 FTRs for transmission facilities owned by these entities in addition to their
18 Existing Contract rights. The issue was whether owned transmission
19 facilities should be treated similarly to the Original Participating TO's
20 owned transmission facilities when it came to FTRs. The Original
21 Participating TOs are required to purchase FTRs through the auction
22 process).

1 **Q. DID ISO MANAGEMENT'S COMPROMISE PROPOSAL INCLUDE**
2 **ADDITIONAL MECHANISMS FOR REDUCING COST SHIFTS?**

3 A. Yes. ISO Management proposed that any New Participating TO that
4 received a cost decrease due to implementation of the revised Access
5 Charge methodology use 75% of that decrease, net of any increase in the
6 ISO's GMC paid by that entity, to mitigate cost shifts, either by using the
7 funds to prepay the ISO's infrastructure cost or by accelerating repayment
8 of the New Participating TO's transmission debt.

9 **Q. DID THE ISO SEEK COMMENTS FROM STAKEHOLDERS**
10 **REGARDING THE COMPROMISE PROPOSAL?**

11 A. Yes. The compromise proposal was discussed with stakeholders at the
12 TACWG meeting on August 10, 1999. Based on the comments received
13 at the meeting, ISO Management concluded that while the compromise
14 proposal was not the first choice of many of the entities that attended, it
15 could form the basis of a viable compromise and should be refined further.
16 The proposal was refined over a period of months and discussed again
17 with the TACWG on September 21, and October 6, and at the Market
18 Issues Forum on October 13, 1999.

19 **Q. WERE STAKEHOLDERS ABLE TO REACH CONSENSUS ON THE**
20 **COMPROMISE PROPOSAL?**

21 A. No. In the fall of 1999, the ISO became concerned that the large
22 stakeholder group was not progressing toward a consensus. Accordingly,
23 the ISO decided to put forth its own "straw" proposal. The ISO
24 Management made recommendations on the Access Charge methodology
25 to the ISO Governing Board at its October 1999 meeting.

1 **Q. PLEASE DISCUSS ISO MANAGEMENT'S PROPOSAL TO THE**
2 **GOVERNING BOARD AT THE OCTOBER 1999 MEETING.**

3 A. Given the upcoming deadline of December 31, 1999, for filing the revised
4 Access Charge methodology, ISO Management requested direction from
5 the ISO's Governing Board on four key policy issues at the October 28,
6 1999 meeting:

- 7 • What is the appropriate design methodology for the Access
8 Charge?
- 9 • Should the rate be implemented immediately or phased-in, and if
10 the latter, how?
- 11 • Should the rate be demand and volume based, demand-based-
12 only, or solely volumetric?
- 13 • If there are rate increases from the new rate methodology,
14 notwithstanding the phase-in, should they be mitigated, and if so,
15 how?

16 A copy of the memorandum to the Board is provided as Exhibit No. ISO-5.

17 **Q. WHAT ACTIONS DID THE ISO GOVERNING BOARD TAKE WITH**
18 **RESPECT TO THE ACCESS CHARGE METHODOLOGY AT THE**
19 **OCTOBER 1999 MEETING?**

20 A. At the October 28, 1999 Board meeting the Board approved the following
21 principles:

- 22 • The Access Charge methodology would apply utility-specific rates
23 for the recovery of costs of facilities below 200 kV and ultimately a
24 uniform ISO Grid-wide rate for facilities at 200 kV and above.

- 1 • The High Voltage Access Charge would initially be based on TAC
2 Areas and would gradually transition to a uniform ISO Grid-wide
3 charge over a period of years to be negotiated.
- 4 • The Access Charge methodology would include a plan, also to be
5 negotiated, for mitigating cost shifting among current and new
6 Participating TOs, and
- 7 • The ISO Access Charge methodology would not preclude the
8 adoption by a utility that pays the ISO Access Charges of a different
9 rate design for the recovery of those charges in its retail rates.

10 The Board also directed ISO Management to provide Tariff language for
11 Board approval by working with a negotiating group that includes
12 representatives of the major stakeholders.

13 **Q. DID THE ISO DEVELOP TARIFF LANGUAGE?**

14 A. Yes. ISO Management developed tariff language and distributed the
15 proposal to stakeholders on November 3, 1999. The ISO received
16 comments on this language from PG&E, SCE, the Office of Ratepayer
17 Advocates, the City of Vernon, the California Municipal Utilities
18 Association, Western, the City and County of San Francisco, the City of
19 Redding, the California Department of Water Resources, the Sacramento
20 Municipal Utility District, the Transmission Agency of Northern California,
21 and the Los Angeles Department of Water and Power.

22 ISO Management's proposal is summarized in the memorandum
23 prepared for the November 18, 1999 Governing Board Meeting. A copy of
24 this document is provided as Exhibit No. ISO-6.

1 **Q. WHEN DID THE NEGOTIATING GROUP FIRST MEET?**

2 A. The first meeting of the negotiating group was November 12, 1999.

3 **Q. PLEASE DESCRIBE THE NEGOTIATING GROUP.**

4 A. The negotiating group had six-members, two representing each of the
5 stakeholder sectors that would be most directly affected by an Access
6 Charge methodology: the Original Participating TOs; the Non-Participating
7 TOs including publicly owned utilities that could become Participating TOs,
8 but had elected thus far not to do so; and the End-Users who ultimately
9 pay the costs recovered through the Access Charges. That group was
10 able, working with the ISO, to develop the compromise Access Charge
11 methodology proposal that was later approved by the ISO Governing
12 Board.

13 **Q. PLEASE DESCRIBE THE WORK OF THE NEGOTIATING GROUP.**

14 A. The negotiating group was to work on the further development of a
15 methodology for the Access Charge consistent with the principles
16 approved in the October Governing Board meeting and to work with ISO
17 Management to develop implementing tariff provisions. The Board
18 negotiating group met in executive session on November 12, 1999,
19 November 16, 1999, November 22, 1999, November 29, 1999,
20 December 9, 1999, December 13, 1999, December 22, 1999, and
21 December 29, 1999.

22 **Q. WHAT TYPES OF ISSUES DID THE NEGOTIATING GROUP
23 CONSIDER AT THIS POINT?**

24 A. The negotiating group addressed a number of issues related to
25 implementation of the Access Charge including gross versus net billing,

1 billing and settlement options, treatment of Existing Contracts, Wheeling
2 charges, establishment of Transmission Revenue Requirements, the
3 definition of "critical mass", and the length of the transition period. The
4 group also examined the conversion of Existing Contracts to FTRs, the
5 scope of facilities to be turned over to ISO Operational Control, and the
6 Metered Subsystem concept.

7 **Q. WITH THE DUE DATE FOR FILING THE ACCESS CHARGE**
8 **PROPOSAL IMMINENT, DID ISO MANAGEMENT OR THE**
9 **GOVERNING BOARD TAKE ANY ACTION?**

10 A. Yes. The Board decided that it wanted more time to consider the Access
11 Charge methodology and requested that Management file with the
12 Commission a request to extend the filing due date to February 7, 2000.
13 Management made that filing on December 28, 1999, and the
14 Commission granted the extension.

15 **Q. DID THE NEGOTIATING GROUP AND ISO MANAGEMENT TAKE**
16 **MEASURES TO INFORM THE FULL BOARD OF THE NEGOTIATING**
17 **GROUP'S EFFORTS TO FINALIZE A PROPOSAL?**

18 A. Yes. For example, on January 13, 2000, in Executive Session, ISO
19 Management conducted a workshop on the Access Charge for the full ISO
20 Governing Board to discuss the background of the issue, why the Board
21 needed to address the issue, and the current Management proposal,
22 which had been refined during the negotiating group process.

1 **Q. WHAT DETERMINATIONS WERE REACHED BY THE BOARD**
2 **NEGOTIATING GROUP?**

3 A. The negotiating group developed certain principles regarding the Access
4 Charge methodology. As posted on the ISO's Home Page on January 19,
5 2000, these principles included:

- 6 • Transition first to a TAC Area concept based on the previous
7 significant WECC Control Areas and then over a period of ten years
8 transition to a single, ISO Grid-wide rate for facilities rated 200 kV
9 and above.
- 10 • All transmission assets would be turned over to the ISO's
11 Operational Control and the scheduling, congestion management,
12 and curtailment provisions of Existing Contracts would be adjusted
13 to comply with the ISO's protocols.
- 14 • The Access Charge and the ISO's GMC would be assessed on a
15 Gross Load basis. Exports would also be billed for the Access
16 Charge and the GMC.
- 17 • There would be a maximum annual impact to the End-Use
18 Customers of the Original Participating TOs of \$20 million dollars a
19 year for each year of the ten-year transition period for PG&E and
20 SCE and a gradual increase from \$1 million to \$5 million dollars for
21 SDG&E during the first five years and staying at \$5 million for each
22 year of the remaining five years of the transition period.
- 23 • Capital additions to High Voltage Transmission Facilities would be
24 immediately included in the ISO Grid-wide component of the High
25 Voltage Access Charge.

- 1 • There would be no increase to New Participating TOs for their
2 Access Charge and GMC payments.
- 3 • If New Participating TOs received a benefit net of any GMC cost
4 increases and Access Charge increases, that benefit would be
5 used to reduce the New Participating TO's Transmission Revenue
6 Requirement through pre-payment of its transmission assets.
- 7 • New Participating TOs would be given FTRs in exchange for
8 conversion of their Existing Contracts and owned facilities.

9 **Q. WAS THERE ANY ADDITIONAL ACTION TAKEN BY THE**
10 **GOVERNING BOARD AT THIS TIME?**

11 A. Yes, the Board requested that Management file an additional extension
12 with the Commission moving the filing date for the Access Charge to
13 March 31, 2000, which was the final date allowed by A.B. 1890.
14 Management made this filing on January 19, 2000, and the Commission
15 again granted the extension.

16 **Q. WHAT ACTIONS DID THE ISO GOVERNING BOARD TAKE NEXT**
17 **WITH RESPECT TO THE ACCESS CHARGE AT THE JANUARY 21,**
18 **AND 28, 2000 BOARD MEETINGS?**

19 A. The Board met in Executive Session on January 21 and 28, 2000, to
20 further consider the Access Charge proposal.

1 **Q. YOU INDICATED THAT THE BOARD MET IN EXECUTIVE SESSION**
2 **ON JANUARY 21, 2000. DID THE ISO TAKE ANY ADDITIONAL**
3 **ACTION TO INFORM STAKEHOLDERS OF THE STATUS OF THE**
4 **REVISED ACCESS CHARGE?**

5 A. Yes. I conducted a public workshop on the revised Access Charge
6 proposal on January 24, 2000. In that workshop, I discussed the
7 principles that had been posted on the ISO's web site on January 19,
8 2000. I also informed the participants that the proposed Metered
9 Subsystem concept tariff language had been developed.

10 **Q. DID THE ISO CIRCULATE REVISED ACCESS CHARGE TARIFF**
11 **LANGUAGE?**

12 A. Yes. On February 1, 2000, the ISO posted revised tariff language for
13 stakeholder review and comment.

14 **Q. DID THE ISO GOVERNING BOARD DISCUSS MANAGEMENT'S**
15 **UPDATED ACCESS CHARGE PROPOSAL WITH STAKEHOLDERS?**

16 A. Yes. The Governing Board convened a series of meetings with both the
17 TACWG and stakeholders. These meetings were held on February 2,
18 2000, February 7, 2000, and February 14, 2000.

19 **Q. WHAT HAPPENED NEXT?**

20 A. The End-Use Customer representatives of the ISO Governing Board met
21 to reconsider the revised Management proposal in light of the comments
22 presented by stakeholders at the various meetings that had taken place.
23 They then put forth a further refined compromise proposal (the "End-User
24 Proposal").

1 **Q. PLEASE DESCRIBE THE MAJOR ADDITIONAL CHANGES IN THE**
2 **END-USER PROPOSAL.**

3 A. In an effort to offer greater incentives to governmental entities to become
4 Participating TOs, the End-User representatives increased the amount of
5 the potential maximum rate impact on the customers of the Original
6 Participating TOs for the ten-year transition period. Instead of \$20 million
7 dollars a year for PG&E and SCE and \$5 million dollars for SDG&E, the
8 End-User representatives stated that they would not contest a rate
9 increase for the Original Participating TOs of \$32 million each for PG&E
10 and SCE and \$8 million to SDG&E. This raised the previous maximum
11 impact to \$72 million annually. This increase when applied to the
12 transmission cost of the Original Participating TOs, averaged over all
13 Original Participating TO Load, would be approximately 0.4 mills per
14 kilowatt-hour. (This approximation does not address any questions
15 associated with retail cost allocation and rate design.)

16 In reaction to the concerns expressed by PG&E, the End-User
17 Proposal proposed that upon joining the ISO, a New Participating TO that
18 currently schedules Existing Contract rights through PG&E or SCE would
19 either act as its own Scheduling Coordinator or use a Scheduling
20 Coordinator other than PG&E or SCE. The End-User representatives also
21 proposed that the mitigation proposal be re-evaluated after three years.

22 **Q. DID THE ISO CIRCULATE THE END-USER PROPOSAL TO**
23 **STAKEHOLDERS?**

24 A. Yes. The ISO circulated a summary of the End-Users Proposal and draft
25 tariff provisions implementing the proposal to the TACWG and Market

1 Participants on February 23, 2000, and requested comments by March 8,
2 2000. A copy of the summary is provided as Exhibit No. ISO-7.

3 To provide a further opportunity for direct stakeholder presentations to the
4 Governing Board, now that the proposal and tariff language were available
5 in writing, an additional ISO Governing Board meeting was conducted on
6 March 3, 2000.

7 **Q. WHAT ACTIONS DID THE ISO MANAGEMENT TAKE FOLLOWING**
8 **THE MARCH 3, 2000 MEETING?**

9 A. On March 6, 2000, the ISO circulated to the TACWG and Market
10 Participants a summary of the changes the ISO proposed to make to the
11 tariff language, based on the changes requested by stakeholders at the
12 March 3rd meeting that the End-Users' representatives believed could be
13 implemented. A copy of this summary is provided as Exhibit No. ISO-8.
14 On March 8, 2000, I made a presentation to the Market Issues Forum
15 regarding these latest developments on the Access Charge. A copy of
16 that presentation is provided as Exhibit No. ISO-9.

17 **Q. YOU PREVIOUSLY TESTIFIED THAT STAKEHOLDER COMMENTS**
18 **WERE DUE ON MARCH 8, 2000, WERE ANY COMMENTS RECEIVED**
19 **AND WHAT DID THE ISO MANAGEMENT DO WITH THEM?**

20 A. Yes. On March 8, 2000, the ISO received additional comments from a
21 number of entities regarding the Access Charge proposal and the
22 implementing tariff language. Each comment was considered and either
23 changes were made to the proposed tariff language or a reason was
24 provided as to why the ISO believed the revision should not be made.
25 The resulting Access Charge methodology was presented to the ISO

1 Governing Board at the March 22, 2000 Board meeting along with a
2 summary of the comments.

3 **Q. WHAT DID ISO MANAGEMENT PROPOSE AT THE MARCH 22, 2000**
4 **GOVERNING BOARD MEETING?**

5 A. ISO Management recommended that the Governing Board approve the
6 revised tariff language that, as noted, was based on the compromise
7 proposal put forward by the End-User representatives of the Board as
8 modified following the March 3, 2000 meeting. A copy of the
9 memorandum to the Governing Board is provided as Exhibit No. ISO-10.
10 Exhibit No. ISO-11 is a summary of Board requested changes to the Tariff
11 and ISO Management's response. Exhibit No. ISO-12 is a summary of
12 requested stakeholder changes to the Tariff and ISO Management's
13 response, and Exhibit No. ISO-13 summarizes additional general
14 comments from stakeholders.

15 **Q. WHAT ACTION DID THE ISO GOVERNING BOARD TAKE WITH**
16 **RESPECT TO THE ACCESS CHARGE AT THE MARCH 22, 2000**
17 **MEETING?**

18 A. As previously discussed, the Governing Board authorized ISO
19 Management to finalize and file the Access Charge proposal. The main
20 change made at the Board meeting was a modification to the definition of
21 Gross Load to exclude the Loads of customers served by certain existing
22 Qualifying Facility generation.

23

1 **V. THE FINAL ACCESS CHARGE PROPOSAL**

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

4 A. Amendment No. 27, which the Commission has accepted subject to
5 refund, reflects the concepts developed during the stakeholder and ISO
6 Governing Board processes that I have just described. An overview of the
7 tariff language changes implementing the ISO's proposed Access Charge
8 methodology filed on March 31, 2000, is provided as Exhibit No. ISO-14.
9 Under Amendment No. 27, the utility-specific Access Charge
10 methodology, in which each Participating TO's Access Charge is
11 determined under its TO Tariff, remained in effect until a new entity
12 qualified as a Participating TO by executing the Transmission Control
13 Agreement and placing its transmission facilities and Entitlements under
14 the ISO's Operational Control.

15 Upon the addition of a New Participating TO, the new Access
16 Charge methodology would take effect. The Access Charge for the
17 recovery of the Participating TOs' costs associated with and allocable to
18 High Voltage Transmission Facilities (the "High Voltage Access Charge"
19 or "HVAC"), defined as facilities at 200 kV and above, together with
20 supporting facilities, is collected with a Transition Charge to mitigate cost
21 shifts during the ten-year transition period under the ISO Tariff on the
22 basis of TAC Areas. The amendment establishes TAC Areas that consist
23 of the High Voltage Transmission Facilities of the Participating TOs in
24 each of the Control Areas that were combined into the ISO Control Area.
25 These TAC Areas correspond to the major Control Areas of the three

1 investor-owned utilities in California and of the publicly owned facilities
2 interconnected with each of them. The City of Pasadena also had a
3 separate Control Area that was not combined with the ISO until July 1,
4 1999. In addition, if the Los Angeles Department of Water and Power
5 chooses to become a Participating TO, its Control Area would become a
6 fourth TAC Area. A map showing the initial TAC Areas is provided as
7 Exhibit ISO-15.

8 As explained below, a portion of the HVAC for a TAC Area is based
9 on the combined High Voltage Transmission Revenue Requirements and
10 gross Load of the Participating TOs in the TAC Area, as a result of which
11 the HVAC varies between TAC Areas. The former Self-Sufficiency Test is
12 no longer applicable; that is, the same HVAC is used for the withdrawal of
13 Energy at any location within the TAC Area, regardless of which
14 Participating TO owns the transmission facilities at the point at which the
15 Energy is withdrawn.

16 For the withdrawal of the Energy from a Low Voltage Transmission
17 Facility within each TAC Area, an additional low voltage access charge
18 (the "Low Voltage Access Charge" or "LVAC") applies. The LVAC is
19 designed to recover costs associated with and allocable to the low voltage
20 transmission facilities of the Participating TO that owns the facilities at the
21 point of withdrawal. Each Participating TO would continue to collect this
22 charge under its Transmission Owner Tariff, based on only the
23 transmission revenue requirement associated with its own low voltage
24 transmission facilities and Entitlements (*i.e.*, this charge remains utility-
25 specific).

1 **Q. HOW LONG WILL THE ACCESS CHARGE VARY BY TAC AREA?**

2 A. The separate TAC Area component of the High Voltage Access Charge
3 will continue through a ten year transition period, during which a single
4 ISO Grid-wide High Voltage Access Charge will be phased in, based on
5 the High Voltage Transmission Revenue Requirements of all Participating
6 TOs. The ISO Grid-wide component of the High Voltage Access Charge
7 will be blended in increasing proportions with the TAC Area component of
8 the High Voltage Access Charge, having started at ten percent in the first
9 year and increasing by ten percent each year. In year ten, the ISO Grid-
10 wide component of the High Voltage Access Charge will be 100% and the
11 TAC Areas will be dissolved. This should create a smooth transition from
12 disparate rates to a single ISO Grid-wide rate over ten years.

13 In addition, capital investments by any Participating TO in New
14 High Voltage Facilities and in capital additions to Existing High Voltage
15 Facilities will immediately be included in the ISO Grid-wide component of
16 the High Voltage Access Charges. This will increase the pace at which
17 the High Voltage Access Charges converge to a single ISO Grid-wide
18 charge.

19 **Q. DOES THE ISO PROPOSAL INCLUDE ADDITIONAL TRANSITIONAL**
20 **ELEMENTS?**

21 A. Yes. In addition to the transition to a single ISO Grid-wide High Voltage
22 Access Charge described above, the Access Charge proposal as filed
23 included a number of other transition mechanisms to mitigate cost shifting
24 among Participating TOs and to facilitate the entry of New Participating
25 TOs. The ISO considered these transition mechanisms to be integral

1 parts of the balanced compromise proposal adopted by the ISO Governing
2 Board. They included (1) a mechanism to hold New Participating TOs
3 harmless with respect to certain cost increases they might otherwise incur;
4 (2) an annual limitation on the increase in transmission costs borne by
5 customers of the Original Participating TOs as a result of the adoption of
6 the new Access Charge methodology; and (3) a mechanism designed to
7 narrow the gaps between lower-cost Participating TOs and higher-cost
8 Participating TOs through the application of certain benefits. Items (1) and
9 (2) would be implemented through a "Transition Charge," recovered with
10 the HVAC, that forms an integral part of the Access Charge during the
11 transition period. Item (3) would have required New Participating TOs with
12 net benefits to use these net benefits to reduce their High Voltage
13 Transmission Revenue Requirement.

14 **Q. PLEASE EXPLAIN ITEM (1), THE HOLD HARMLESS PROVISIONS**
15 **FOR NEW PARTICIPATING TOs.**

16 A. If a New Participating TO's utility-specific rate based on its High Voltage
17 Transmission Revenue Requirement divided by its Gross Load, is lower
18 than the average of such calculation for all Participating TO's, the blending
19 of the Transmission Revenue Requirements through the proposed Access
20 Charge methodology could increase the transmission costs borne by its
21 customers. So that increased high voltage transmission costs will not
22 present an obstacle to the entry of New Participating TOs, the proposed
23 methodology includes a provision under which the Original Participating
24 TOs would collect increased revenues from their customers, which would
25 then be used to compensate customers of New Participating TO's

1 customers (via rates lower than would otherwise be possible) for any net
2 increased costs the latter would be required to bear under High Voltage
3 Access Charges during the first ten years that the new Access Charge
4 methodology is in effect. The compensating revenues collected from and
5 distributed to the customers of the Participating TOs under this provision
6 become part of the Transition Charge.

7 **Q. DOES THIS PROTECT NEW PARTICIPATING TOs FROM ALL COST**
8 **INCREASES ASSOCIATED WITH JOINING THE ISO?**

9 A. No. This is a compromise and does not cover costs such as Scheduling
10 Coordinator fees and other market costs that every Market Participant
11 pays on a comparable basis such as Unaccounted for Energy, Neutrality,
12 Energy imbalance deviations and Wheeling costs. I would note however,
13 that Amendment 27 included an annual limit on the Neutrality Adjustment
14 that could be exceeded by ISO Governing Board action.

15 **Q. HOW DID THE ISO's FILING REFLECT ITEM (2), THE "COST SHIFT**
16 **CAP" UNDER THE END-USERS' PROPOSAL?**

17 A. The proposed methodology recognizes that the adoption of the TAC Area
18 approach and the phased introduction of a single ISO Grid-wide High
19 Voltage Access Charge would cause considerable cost shifting among
20 Participating TOs. To limit the potential magnitude of these cost shifts, the
21 proposed Access Charge methodology includes a cap on the amount by
22 which the Access Charge responsibility payable for the withdrawal of
23 Energy within the Service Area of each Original Participating TO can
24 increase during each year of the ten-year transition period due to the

1 adoption of the Access Charge methodology and the GMC/Access Charge
2 "hold harmless" provision for new Participating TOs.

3 Amendment No. 27 provides for cost shift caps that represent a
4 maximum increase in transmission Access Charges to Loads in the
5 Service Areas of Original Participating TOs of approximately 0.4
6 mills/kWh. (This increase is averaged over all Original Participating TO
7 Load and does not address any questions associated with retail cost
8 allocation and rate design.) The individual caps provide for up to a total of
9 \$72 million of cost shifts during each year, though the amount that will
10 actually be shifted will depend upon how many entities, and which entities,
11 decide to become Participating TOs.

12 If the total cost shift exceeds this cap, the customers of the New
13 Participating TOs with net benefits would contribute part of their net
14 benefit in order to limit cost shifts to this level. Again, this mitigation
15 measure would be implemented through the Transition Charge.

16 **Q. PLEASE DESCRIBE ITEM (3), THE TRANSITION MECHANISM TO**
17 **REDUCE THE GAP BETWEEN LOWER COST PARTICIPATING TOs**
18 **AND HIGHER COST PARTICIPATING TOs.**

19 A. As I will discuss later, Item (3) has not become effective. Item (3) would
20 have reduced the disparity in transmission costs among the Original and
21 New Participating TOs (and thereby to limit the cost shifting that would
22 occur during and following the ten-year transition period) by including a
23 credit, in the calculation of each Participating TOs' High Voltage
24 Transmission Revenue Requirement, to recognize the cost-shift benefit
25 (net of any GMC increase and Transition Charge) that a Participating TO

1 with higher than average transmission costs will receive during the
2 transition period. The credit reduced the Participating TOs' High Voltage
3 Transmission Revenue Requirement by applying the cost-shift benefit
4 received during preceding years to amortize the Participating TOs'
5 investment in High Voltage Transmission Facilities. The Participating TO
6 could have used the amount of the cost-shift benefit to retire the debt
7 supporting its transmission facilities or to establish a fund to service that
8 debt, thereby tracking the credit that would be applied in calculating its
9 High Voltage Transmission Revenue Requirement annually, or for some
10 other purpose. This mechanism would have further reduced the extent to
11 which the blending of Participating TOs' High Voltage Transmission
12 Revenue Requirements shifts costs from higher cost Participating TOs to
13 lower cost Participating TOs, both during and after the ten-year transition
14 period. Additionally, this mechanism should have resulted in a
15 convergence of the varying Transmission Revenue Requirements over the
16 ten-year transition period.

17 **Q. HOW WERE THE REVENUE REQUIREMENTS FOR**
18 **PARTICIPATING TOs DETERMINED?**

19 A. The blending of Participating TOs' High Voltage Transmission Revenue
20 Requirements into High Voltage Access Charges paid by customers of all
21 Participating TOs required the adoption of mechanisms for the review and
22 for ensuring consistency of those Participating TOs' Transmission
23 Revenue Requirements. For Participating TOs whose transmission rates
24 are subject to the jurisdiction of the Commission (including federal entities,
25 such as Western, whose rates are reviewed by the Commission under

1 statutes other than the Federal Power Act), the ISO Tariff will continue to
2 use Transmission Revenue Requirements approved by the Commission.
3 The submission of the Participating TOs' High Voltage Transmission
4 Revenue Requirement for review by the Commission assures the
5 reasonableness of the amounts to be reflected in the ISO's High Voltage
6 Access Charge.

7 For Participating TOs that are not subject to the Commission's
8 transmission rate jurisdiction, the issue was more controversial.
9 Stakeholders representing publicly owned utilities objected to subjecting
10 their Transmission Revenue Requirements to Commission review. Other
11 stakeholders objected to paying a HVAC that included costs that had not
12 been subjected to an independent regulatory review in accordance with
13 the Commission's ratemaking standards. The ISO Governing Board
14 adopted a compromise solution to this issue, requiring non-jurisdictional
15 Participating TOs to submit their High Voltage Transmission Revenue
16 Requirements to the ISO and, in the case of disputes, to an independent
17 Revenue Review Panel to be established by the ISO, which would test
18 those submissions against the standards developed by the Commission in
19 determining just and reasonable transmission rates.

20 **Q. DOES THE PROPOSED ACCESS CHARGE METHODOLOGY**
21 **ADDRESS THE PROBLEM OF "PHANTOM CONGESTION"?**

22 A. It attempts to address the issue. As I explained earlier, in order to ensure
23 that the addition of New Participating TOs provides benefits to consumers
24 and other Market Participants commensurate with the cost shifting that will
25 occur under the new Access Charge methodology, the proposal would

1 require a New Participating TO to convert its Existing Rights to
2 transmission service on the ISO Controlled Grid to ISO Tariff transmission
3 service. In this way, the transmission capacity that the ISO must reserve
4 for the exercise of within-the-hour scheduling rights can be reduced,
5 freeing up more capacity for scheduling by Market Participants as new
6 firm uses in the Day-Ahead and Hour-Ahead market and reducing
7 Congestion costs. The limited opportunity for a New Participating TO to
8 continue to exercise Existing Rights as Non-Converted Rights, formerly
9 set out in Section 2.4.4.2 of the ISO Tariff, was eliminated by Amendment
10 No. 27. The effect of this benefit would depend on the number of entities
11 that join the ISO.

12 **Q. HOW DO TRANSMISSION OWNERS BECOME NEW PARTICIPATING**
13 **TOs?**

14 **A.**Amendment No. 27 modified Section 3.1 of the ISO Tariff to describe the
15 procedures to be followed by an entity seeking to become a New
16 Participating TO. An entity must first apply to become a Participating TO
17 in accordance with the Transmission Control Agreement ("TCA") Section
18 2.2.1 and the application process posted on the ISO website. Once the
19 ISO and the potential New Participating TO reach agreement regarding
20 the facilities that will be placed under ISO Operational Control, the New
21 Participating TO must execute the TCA in order to transfer control to the
22 ISO. All of the transmission facilities and contractual Entitlements placed
23 under the ISO's Operational Control must satisfy criteria established by
24 the ISO Governing Board. To avoid frequent changes in the HVAC
25 associated with the addition of New Participating TOs, the effective date of

1 participation by a New Participating TO must be January 1 or July 1
2 following the completion of the necessary arrangements, including the
3 filing with and acceptance of required agreements by the FERC.

4 **Q. ARE THERE OTHER ASPECTS OF THE PROPOSAL WHICH ARE**
5 **MEANT AS AN INDUCEMENT FOR NON-PARTICIPATING TOs TO**
6 **JOIN AND CONVERT THEIR EXISTING TRANSMISSION RIGHTS?**

7 A. Yes. Under Article 9 of the ISO Tariff, the ISO makes FTRs available
8 through periodic auctions to enable Market Participants to hedge their
9 exposure to Inter-Zonal Congestion costs imposed through Usage
10 Charges. FTRs entitle the holder to receive a share of the Usage Charge
11 revenues paid to the ISO. Revenues that the ISO receives through the
12 auction of FTRs are distributed to Participating TOs whose transmission
13 facilities and Entitlements together constitute the Inter-Zonal Interfaces for
14 which FTRs are issued.

15 During the negotiations, representatives of some publicly owned
16 utilities expressed the concern that replacing their Existing Rights, one for
17 one, with FTRs acquired through the ISO's auction or the secondary
18 market would impair their ability to continue to serve their customers
19 economically. The Access Charge proposal adopted by the ISO
20 Governing Board accordingly provides that, during the ten-year transition
21 period (or a shorter period representing the term of an Existing Contract),
22 a New Participating TO that converts Existing Rights to ISO transmission
23 service will receive FTRs represented by those rights directly, without the
24 necessity of participating in the ISO's auction. The number of FTRs that
25 the New Participating TO receives will be commensurate with the

1 transmission service represented by its Converted Rights, which will be
2 determined when an entity with Existing Rights applies to become a
3 Participating TO.

4 The new Access Charge methodology approved by the ISO Board
5 also included provisions that would have enabled the systems of New
6 Participating TOs to qualify as Metered Subsystems.

7 **Q. WHAT IS A METERED SUBSYSTEM?**

8 A. Under Amendment No. 27, a Metered Subsystem was a geographically
9 contiguous system of a New Participating TO located within a single Zone
10 that had been operating as an electric utility for a number of years prior to
11 the ISO's commencement of operation, and which satisfies certain
12 metering requirements and signs a Metered Subsystem Agreement with
13 the ISO. The ISO Tariff Metered Subsystem requirements are provided in
14 Section 3.3 of the ISO Tariff. As discussed below in Amendment 46, that
15 definition has been revised and the tariff provisions became more defined
16 and moved to Section 23.1 of the ISO Tariff.

17 **Q. HOW WOULD A METERED SUBSYSTEM INTERACT WITH THE ISO.**

18 A. The Loads and Generation of a Metered Subsystem must be scheduled
19 with the ISO by a qualified Scheduling Coordinator (which could be the
20 Metered Subsystem Operator or another entity it designates). The
21 Metered Subsystem's Scheduling Coordinator has the opportunity,
22 however, to aggregate the Metered Subsystem's Generating Units and
23 Participating Loads and submit Schedules and bids from the aggregated
24 "System Unit," provided that the resources making up the System Unit can
25 be operated internally in such a way that power flows on the ISO

1 Controlled Grid are not affected by changes in the operating levels of each
2 individual resource and the ISO has visibility of each unit through its
3 Energy Management System.

4 **Q. WHY ARE METERED SUBSYSTEMS IMPORTANT?**

5 A. Both prior to and during the Access Charge Stakeholder process, existing
6 governmental entities have sought implementation of a Metered
7 Subsystem concept to provide greater certainty with respect to allocation
8 of certain operational responsibilities and ISO-related costs. Again, in an
9 effort to encourage broader participation in the ISO, the ISO included the
10 Metered Subsystem concept in the Access Charge proposal. As is
11 described in more detail below, the ISO has since filed with the
12 Commission a tariff amendment to further implement the Metered
13 Subsystem concept.

14 **Q. HOW DOES THE ISO PROPOSE TO SETTLE THE BILLING ASPECTS**
15 **OF THE FINAL ACCESS CHARGE?**

16 A. Section 7.1 and Schedule 3 of Appendix F of the ISO Tariff and related
17 provisions are modified to provide for the ISO's collection and settlement
18 of two Access Charge components, the HVAC and the Transition
19 Charges. These Access Charge components will be collected by the ISO
20 from Scheduling Coordinators, Utility Distribution Companies and Metered
21 Subsystem Operators for the delivery of Energy to Loads in a PTO
22 Service Area. The Access Charge will be assessed on the basis of Gross
23 Load. For Loads that are not located in a PTO Service Area, the
24 Scheduling Coordinator serving such Load or export will pay the Wheeling
25 Access Charge based on the usage of the ISO Controlled Grid.

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VI. DEVELOPMENTS SUBSEQUENT TO FILING

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Q. HAS THE COMMISSION ISSUED A ORDER ON THE AMENDMENT 27 FILING?

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A. Yes, on May 31, 2000, the Commission accepted the filing, suspended it, and set it for hearing. Additionally, the Commission held the hearing in abeyance pending efforts at settlement and established settlement judge procedures. The Commission also appointed the Chief Administrative Law Judge as the designated settlement judge.

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Q. ARE THERE ANY COMPONENTS OF THE FILED ACCESS CHARGE METHODOLOGY THAT THE ISO BELIEVES THE COMMISSION REJECTED?

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A. Yes. The Commission rejected, absent additional justification, a different timeline for the transition of the West Central TAC Area (the TAC Area that would become effective if the Los Angeles Department of Water and Power became a New Participating TO). Additionally, the Commission stated that if phantom congestion was not resolved in the negotiations, the Commission would address the issue in a separate proceeding. In that discussion, the Commission also stated that they did not agree with the governmental entities position that software could be developed to address the phantom congestion problem. Moreover, the Commission rejected as "unsupported and potentially discriminatory" the proposal that the New Participating TOs be required to use the TAC benefit to buy down the costs of investment in their High Voltage Transmission Facilities.

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1 Q. ARE THERE ANY COMPONENTS OF THE FILED ACCESS CHARGE
2 METHODOLOGY THAT THE ISO UNDERSTANDS THE COMMISSION
3 PROVIDED GUIDANCE ON OR RESOLVED?

4 A. Yes, the Commission took the following action on a number of issues:

- 5 • The Commission refused to accept without further Federal Power Act
6 Section 205 review (i) the Revenue Review Panel's finding on the
7 Transmission Revenue Requirement and Gross Load as final and non-
8 appealable; and (ii) the public process rate review used by certain
9 governmental entities.
- 10 • The Commission found the record insufficient to demonstrate that a
11 "ten-year transition period and the proposed limits on the amount of the
12 cost shift are the proper ones necessary to mitigate abrupt cost shifts".
- 13 • The Commission approved exempting New Participating TOs from the
14 FTR auction process during the transition period. If the life of the
15 Converted Right was less than the transition period, then the
16 Participating TO is only given FTRs for the term of the Converted
17 Right.
- 18 • The Commission accepted as "appropriate" the continued use of Gross
19 Load, including application to Loads "behind-the-meter".
- 20 • Regarding Metered Subsystems, the Commission directed the parties
21 to "narrow their negotiations to the stated purpose of a MSS (i.e.
22 accommodating vertically integrated systems in the ISO framework)".
23 As discussed further below, the ISO did negotiate a MSS Agreement
24 with a number of municipal utilities.

1 **Q. DID THE ISO MAKE ANY SUBSEQUENT AMENDMENTS TO THE**
2 **ACCESS CHARGE METHODOLOGY?**

3 **A.** Yes, Amendments 34, 45, and 47 made revisions to the initial proposal.

4 **Q. WHAT WAS AMENDMENT 34?**

5 **A.** Amendment 34 was filed with the Commission in December 2000 when
6 Vernon became a New Participating TO thus triggering the new Access
7 Charge methodology. The amendment clarified revenue distribution
8 among the Participating TOs and the timing of the semi-annual adjustment
9 of the Access Charge and the Wheeling Access Charge.

10 **Q. WHAT ACTION DID THE COMMISSION TAKE ON AMENDMENT 34?**

11 **A.** FERC accepted the filing, made it effective January 1, 2001, subject to
12 refund, and consolidated Amendment 34 with the ongoing Amendment 27
13 proceeding.

14 **Q. WHAT WAS AMENDMENT 45?**

15 **A.** Amendment 45 was filed in June 2002. It modified the process for
16 updating the Access Charge to provide for revisions any time the
17 Commission accepted a modified Transmission Revenue Requirement
18 from a Participating TO, and clarified who pays the Access Charge based
19 on the use of the ISO Controlled Grid (i.e. Wheeling Access Charge) and
20 who pays the Access Charge based on Gross Load.

21 **Q. WHY DID THE ISO NEED TO PROVIDE FOR MORE FREQUENT**
22 **UPDATING OF THE ACCESS CHARGE.**

23 **A.** The Access Charge is a formula rate. In order to collect sufficient funds to
24 meet the filed Transmission Revenue Requirements of the Participating
25 TOs, the formula must be updated at the time the new rates go into effect.

1 Moreover, it also benefited customers and reduced the ISO's
2 administrative burden in calculating refunds to implement any Commission
3 orders or settlement agreements lowering filed rates as soon as such
4 orders or settlements became effective.

5 **Q. WHY DID THE ISO NEED TO CLARIFY WHO PAID THE ACCESS**
6 **CHARGE VERSUS WHO PAID THE WHEELING ACCESS CHARGE?**

7 A. The issue of who paid the Access Charge versus who paid the Wheeling
8 Access Charge had stakeholders confused. The intention of the tariff is
9 that for Participating TOs that have a Transmission Revenue Requirement
10 to recover, and who, prior to deregulation, served Load, the TRR is to be
11 recovered from their total Load, any wholesale customers, and through
12 any Existing Contracts from which the Participating TO can receive
13 revenue. In addition an entity whose Load is not served by a Participating
14 TO, and that only uses the ISO Controlled Grid for purchases outside of its
15 Service Area, should pay only for its use of the ISO Controlled Grid (i.e.
16 Wheeling Access Charge). It was never intended that a non-Participating
17 TO's entire Load pay the Access Charge if the non-Participating TO did
18 not use the ISO Controlled Grid for the entire portion of their Load.

19 **Q. WHAT ACTION DID THE COMMISSION TAKE ON AMENDMENT 45?**

20 A. The Commission accepted the filing on August 27, 2002 with minor
21 modifications, and made it effective July 1, 2002. The compliance filing
22 was made on September 11, 2002.

23 **Q. WHAT WAS AMENDMENT 47?**

24 A. Amendment 47 was filed with the Commission in December 2002 to
25 address the Cities of Anaheim, Azusa, Banning and Riverside (collectively

1 referred to as the "Southern Cities") becoming Participating TOs effective
2 January 1, 2003. Due to changes the Southern Cities made in executing
3 the Transmission Control Agreement, corresponding changes had to be
4 made in the ISO Tariff. The tariff amendment requires Participating TOs
5 to refund FTR Auction revenues if they withdraw from the ISO due to an
6 adverse tax action, and clarifies a number of definitions such that if the
7 ISO does not have Operational Control of the High Voltage Transmission
8 Facility, its costs are not included in the ISO's Access Charge.

9 **Q. WHAT ACTION DID THE COMMISSION TAKE ON AMENDMENT 47?**

10 A. The Commission approved the amendment on January 24, 2003, without
11 modification, and made it effective January 1, 2003.

12 **Q. HAVE THERE BEEN ADDITIONAL DEVELOPMENTS REGARDING**
13 **METERED SUBSYSTEMS?**

14 A. Yes, the ISO amended the ISO Tariff to include changes to implement the
15 Metered Subsystem concept negotiated with NCPA, SVP and Roseville.
16 Amendment 46 was filed on July 15, 2002. The Commission conditionally
17 accepted the tariff changes, subject to modification. Under Amendment
18 No. 46, among other changes, it is no longer necessary to become a New
19 Participating TO to have a Metered Subsystem Agreement. The
20 compliance filing was made on September 27, 2002. Rehearing of the
21 Commission's order on Amendment No. 46 was denied on February 7 of
22 this year.

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VII. MODIFICATIONS

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Q. DOES THE ISO FAVOR ADDITIONAL MODIFICATIONS TO THE ISO TARIFF REGARDING THE ACCESS CHARGE METHODOLOGY AT THIS TIME? WHY?

A. Yes, based on three years of experience implementing the Access Charge methodology and further discussions with stakeholders, the ISO favors a number of modifications to the Access Charge methodology, many of which would likely be proposed by intervenors in this proceeding. The ISO asks that the Presiding Judge and the Commission direct such changes.

Q. WHAT MODIFICATIONS ARE THE ISO WILLING TO MAKE?

A. There are twelve modifications to Amendment No. 27 that the ISO urges that the Presiding Judge and Commission direct. Some are the result of the settlement process and further discussions with stakeholders. They are: (1) changing the requirement that a New Participating TO turn over all of its transmission to ISO Operational Control in the limited circumstances of a high value project having overriding regional significance, the upgrade to Path 15; (2) defining the methodology for allocating the costs of joint use facilities between the High Voltage Transmission Revenue Requirement versus the Low Voltage Transmission Revenue Requirement of each Participating TO; (3) revising the impact of New High Voltage Facilities on the Transition Charge; (4) deleting the impact of GMC on the "hold harmless" provision of the Access Charge; (5) deleting the Revenue Review Panel; (6) clarifying tariff language on transmission upgrades; (7) revising the definition of

1 Transmission Revenue Credit regarding crediting of Usage Charges; (8)
2 defining the Application Due Date; (9) revising the market notification
3 process; (10) deleting the TCA execution deadline; (11) modifying the
4 temporary simplification; and (12) providing tariff language that provides
5 the ISO flexibility to negotiate the conversion of Existing Rights.

6 **Q. OF THE TWELVE CHANGES CITED ABOVE, WHICH OF THESE**
7 **CHANGES ARE FROM SETTLEMENT?**

8 A. The changes that have resulted from settlement are 1 through 7 and 12.
9 The remaining changes are changes proposed by the ISO based on the
10 last three years of experience.

11 **Q. WHAT CHANGE DOES THE ISO SUPPORT REGARDING THE**
12 **REQUIREMENT OF A NEW PARTICIPATING TO TO RELINQUISH**
13 **OPERATIONAL CONTROL OF ALL TRANSMISSION TO THE ISO?**

14 A. Amendment No. 27 requires that a TO seeking to become a Participating
15 TO turn over all of its transmission rights, not just some. This feature was
16 included to prevent New Participating TOs from cherry picking
17 transmission and unduly increasing the average High Voltage Access
18 Charge by turning over to ISO Operational Control expensive High
19 Voltage Transmission Facilities but retaining operational control of low
20 cost High Voltage Transmission Facilities. While the ISO supports the all-
21 or-nothing approach in most cases, the ISO considers that the upgrade of
22 Path 15 presents a special case. For the reasons set forth below, the ISO
23 believes that an exception to the “all-or-nothing” requirement is justified in
24 the limited circumstances presented by the Path 15 upgrade, in order to

1 allow Western to turn over to ISO Operational Control its entitlement to
2 Path 15, but not the remainder of its transmission entitlements.

3 Path 15 has been identified by the Commission and the
4 Department of Energy as a critical bottleneck in the west. A Department
5 of Energy report listed Path 15 as the only path in the WSCC having
6 critical congestion. Moreover, the ISO conducted an assessment of the
7 economic benefits of upgrading Path 15 which showed that considering
8 the market power mitigation benefits of the project, the upgrade could pay
9 for itself within four years, with project benefits estimated to exceed \$100
10 million in a normal hydro year, and \$300 million in a dry hydro year, and
11 project costs estimated at approximately \$300 million. Based on this
12 assessment, the ISO Governing Board approved the upgrade in June
13 2002.

14 The upgrade is being coordinated by the Department of Energy
15 through Western. Western has partnered with PG&E and Trans-Elect
16 NTD Path 15, LLC ("Trans-Elect") to undertake the project. However,
17 Western has indicated that whereas it is willing to turn its share of the
18 additional capacity created by the upgrade of Path 15 over to the ISO
19 Operational Control, it will not do so if it is required to turn over the
20 remainder of its transmission facilities and Entitlements to the ISO at the
21 same time.

22 In the case of the Path 15 upgrade because of the overriding
23 regional importance of the project and its value to the ISO's customers,
24 the ISO considers that an exception from the requirement to turn over all
25 facilities to the Operational Control of the ISO is justified. The exception

1 will provide an additional incentive for Western and its partners to proceed
2 with the Path 15 upgrade.

3 Accordingly, the ISO considers that it is appropriate to modify the
4 tariff to allow the ISO to provide such exemption in these limited
5 circumstances, subject to the Commission's approval, when the revised
6 Transmission Control Agreement is filed with the Commission adding the
7 New Participating TO. However, while the ISO is willing to provide an
8 exception in these limited circumstances, it considers that a time limitation
9 is appropriate to ensure that the justification for the upgrade and the
10 exemption has not changed substantially by the time the project is placed
11 in service. Thus, the ISO considers that the line must be energized by
12 December 31, 2010, for Western to be eligible for this exemption.

13 **Q. WHAT DOES THE ISO CONSIDER APPROPRIATE REGARDING THE**
14 **TRANSMISSION REVENUE REQUIREMENT SPLIT BETWEEN HIGH**
15 **VOLTAGE AND LOW VOLTAGE?**

16 A. The ISO has worked with stakeholders to develop a "Procedure for
17 Division of Certain Costs Between the High and Low Voltage
18 Transmission Access Charge," which is a new methodology for splitting
19 the costs at multi-voltage substations, for transmission towers that carry
20 both high voltage and low voltage, for general costs, and Existing
21 Contracts. The procedure is attached as Exhibit No. ISO-16. The ISO
22 believes it would be appropriate to post this procedure on the ISO website
23 and include a cross-reference to the requirements in the ISO Tariff.

1 **Q. WHAT CHANGE TO THE CALCULATION OF THE TRANSITION**
2 **CHARGE DOES THE ISO RECOMMEND?**

3 A. Under Amendment No. 27, New and Existing High Voltage Facilities were
4 incorporated in the cost-shift calculation. The ISO now believes that New
5 High Voltage Facilities should be treated as an adder and not be
6 incorporated into the cost-shift calculation. This change would ensure that
7 the costs of New High Voltage Facilities will be borne by all ISO customers
8 from the outset rather than potentially being assigned in greater proportion
9 to customers within a particular TAC Area through the operation of the
10 Transition Charge. This result in turn is consistent with objective of
11 moving towards a single charge for access to the High Voltage
12 transmission system and the rationale for that objective: that customers
13 throughout the region rely on and benefit from High Voltage Facilities and
14 should pay for their costs uniformly.

15 Further, this approach is more likely to facilitate construction of New
16 High Voltage Facilities. First, it allows the Original Participating TOs to
17 construct New High Voltage Transmission Facilities that would benefit the
18 region, without the concern that the Participating TOs' own Load would
19 have to bear a disproportionate share of the costs of such facilities.
20 Second, it allows third parties having little or no Gross Load to finance and
21 construct New High Voltage Transmission Facilities without uncertainty
22 about how the costs of such facilities are recovered. Because the cost
23 shift calculation establishes the cost impact on Loads, it cannot
24 accommodate a Participating TO that does not have Load. Finally, the
25 analysis the TACWG and the ISO Governing Board focused on was cost

1 shifts based on Existing High Voltage Facilities with limited consideration
2 of the impact of building New High Voltage Facilities. In essence, the cost
3 shift caps were designed as an incentive to the governmental entities to
4 turn over their existing transmission facilities to the ISO's Operational
5 Control. This incentive is diminished if for example much of the cap was
6 taken up by the addition of the new regional transmission. The revised
7 calculation, using the current data of the Participating TOs as of January
8 1, 2003 and assuming a hypothetical New Participating TO that only has
9 New High Voltage Facilities and no Load, is included as Exhibit No. ISO-
10 17

11 **Q. HOW SHOULD THE ISO'S ACCESS CHARGE TREAT NEW**
12 **PARTICIPATING TOS THAT DO NOT HAVE LOAD?**

13 **A.** All New High Voltage Facilities should be included in the ISO Grid-wide
14 component of the High Voltage Access Charge rate so that the costs are
15 allocated over the Gross Load of all Participating TOs. In this way, it will
16 not matter if a future Participating TO with new High Voltage Transmission
17 Revenue Requirement does not have Load. Additionally, it should be
18 noted that in California all potential New Participating TOs with Existing
19 High Voltage Facilities have existing Load.

20 **Q. WHY WOULD THE ISO DELETE THE IMPACT OF THE GMC FROM**
21 **THE "HOLD HARMLESS" PROVISIONS OF THE ACCESS CHARGE?**

22 **A.** As discussed above, with the new GMC methodology implemented on
23 November 1, 2001, there is no difference between what a publicly owned
24 utility pays for the GMC as a Non-Participating TO and as a Participating
25 TO. The previous GMC structure charged based on the use of the ISO

1 Controlled Grid. The new GMC structure charges are based on the use of
2 various ISO services. Since there is no difference in what a Non-
3 Participating TO and a Participating TO pay given the new GMC
4 methodology, there is no need for the hold harmless provision with respect
5 to the GMC.

6 **Q. WHY SHOULD THE REVENUE REVIEW PANEL BE ELIMINATED?**

7 A. As discussed above, Amendment No. 27 proposed a Revenue Review
8 Panel ("RRP") to review the Transmission Revenue Requirement and
9 Gross Load for governmental entities. Governmental entities are not
10 FERC-jurisdictional and were adamant that they would not file their TRR
11 with the Commission. Additionally, they would not agree that the decision
12 of the RRP was appealable to FERC. The Commission, in its order on
13 Amendment 27, directed that any decision by the RRP could be appealed
14 to the Commission, negating much of its value to the governmental
15 entities since their rates would thus ultimately be subject to Commission
16 jurisdiction. Moreover, to date, all five municipal utilities that have become
17 Participating TOs have filed their rates with FERC. Since the
18 Commission's order eliminated the potential benefit of the RRP for
19 governmental entities, the ISO believes the RRP is unnecessary, an
20 unjustified burden on the ISO, and could result in increases to the GMC to
21 pay for the review panel. Thus, this provision should be eliminated from
22 the ISO Tariff.

1 **Q. WHY DOES THE ISO BELIEVE THAT THE ISO TARIFF SHOULD BE**
2 **CLARIFIED REGARDING TRANSMISSION UPGRADES?**

3 A. In filing Amendment 27, ISO staff did not reconcile Section 3.2.7.2 of the
4 ISO Tariff with Sections 4.1 and 7.1 of the ISO Tariff and some
5 inconsistencies were created. Section 3.2.7.2 requires that the costs
6 associated with transmission additions and upgrades be borne by the
7 beneficiaries, whereas the revised Access Charge methodology requires
8 that the costs associated with High Voltage Transmission Facility additions
9 and upgrades be included in the ISO Grid-wide component of the High
10 Voltage Access Charge. However, the Tariff needs to contemplate a
11 variety of potential Transmission Owners. There are currently five types of
12 Transmission Owners in the ISO Control Area: (1) investor-owned utilities
13 that serve Load and have become Participating TOs; (2) governmental
14 entities that serve Load and have become Participating TOs; (3)
15 governmental entities that serve Load that have not become Participating
16 TOs; (4) merchant Transmission Owners that propose to build new
17 transmission facilities; and (5) merchant Transmission Owner that have
18 paid to upgrade an existing transmission facility. The ISO Tariff, because
19 of piecemeal amendments, is unclear regarding the treatment of each of
20 these types of Transmission Owners with respect to the Access Charge.
21 Section 3.2.7.2 should be revised to be consistent with Sections 4.1 and
22 7.1.

1 **Q. WHY SHOULD THE DEFINITION OF TRANSMISSION REVENUE**
2 **CREDIT BE REVISED WITH REGARD TO THE USAGE CHARGE?**

3 A. The definition of Transmission Revenue Credit should be revised such
4 that New Participating TOs that are given FTRs in accordance with
5 Section 9.4.3 of the ISO Tariff are required to credit against their TRR only
6 the positive difference between the Usage Charges paid and the
7 Congestion revenue received. New Participating TOs are given FTRs
8 during the Transition Period so that they may hedge against the ISO
9 congestion-based Usage Charges, which the New Participating TOs do
10 not bear under their Existing Contracts. Additionally, while a Scheduling
11 Coordinator may have an FTR for a path, the ISO Settlement systems are
12 such that the Scheduling Coordinator is charged Usage Charges based on
13 the use of the path and then credited the Usage Charge revenue
14 associated with the FTR on such path. Non-Participating TOs have been
15 concerned that, if all Congestion revenues must be credited against the
16 TRR, they will have no ability to hedge against the Usage Charges they
17 will be required to pay once they convert their Existing Contracts and
18 ownership rights. This revision should resolve that concern.

19 **Q. WHAT CHANGE WOULD THE ISO RECOMMEND WITH RESPECT TO**
20 **THE DEFINITION OF TRANSMISSION REVENUE CREDIT TO**
21 **ADDRESS THIS ISSUE?**

22 A. The ISO believes that the concerns expressed can be addressed by
23 revising the definition of Transmission Revenue Credit as follows:

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Transmission Revenue Credit

For the Original Participating TO, the proceeds received by the Participating TO from the ISO for Wheeling service, FTR auction revenue and Usage Charges, plus the shortfall or surplus resulting from any cost differences between Transmission Losses and Ancillary Service requirements associated with Existing Rights and the ISO's rules and protocols. For the New Participating TO during the Transition Period, the proceeds received from the ISO for Wheeling service and Net FTR Revenue, plus the shortfall or surplus resulting from any cost differences between Transmission Losses and Ancillary Service requirements associated with Existing Rights and the ISO's rules and protocols. After the Transition Period, the New Participating TO Transmission Revenue Credit shall be the same as the Original Participating TO.

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The additional text of the definition introduces a new term, "Net FTR

3

Revenue" that would also be added to the Master Definitions. Net FTR

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Revenue would be defined as follows:

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Net FTR Revenue

The sum of: 1) the revenue received by the New Participating TO from the sale, auction, or other transfer of the FTRs provided to it pursuant to Section 9.4.3 FTR, or any substantively identical successor provision of the ISO Tariff; and 2) for each hour: a) the Usage Charge revenue received by the New Participating TO associated with its Section 9.4.3

FTRs; minus b) Usage Charges that are: i) incurred by the Scheduling Coordinator for the New Participating TO under ISO Tariff Section 7.3.1.4, ii) associated with the New Participating TO's Section 9.4.3 FTRs, and iii) incurred by the New Participating TO for its energy transactions but not incurred as a result of the use of the transmission by a third-party and minus c) the charges paid by the New Participating TO pursuant to Section 7.3.1.7, to the extent such charges are incurred by the Scheduling Coordinator of the New Participating TO on congested Inter-Zonal Interfaces that are associated with the Section 9.4.3 FTRs provided to the New Participating TO. The component of Net FTR Revenue represented by item 2) immediately above shall not be less than zero for any hour.

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2 **Q. WHAT CHANGE THE ISO BELIEVE WOULD BE APPROPRIATE WITH**
3 **REGARD TO THE APPLICATION PROCESS?**

4 A. Currently in Section 3.1.1 of the ISO Tariff, a Participating TO applicant
5 must declare its intent to become a Participating TO. However, although
6 the actual process can not begin until a completed application is received
7 by the ISO. While the notice of intent is due by January 1 or July 1, there
8 is no requirement as to when the application is due. Thus the ISO
9 believes it would be advisable to modify 3.1.1 to provide a due date for the
10 application of fifteen days from the date the notice of intent is received by
11 the ISO.

1 **Q. ARE THERE OTHER CHANGES THAT SHOULD BE MADE WITH**
2 **REGARD TO DATES?**

3 A. Section 3.1 of the ISO Tariff requires that the ISO provide 60 days notice
4 of a change to the Access Charge. Because there is no longer a rate
5 stabilization plan (it was deleted in Amendment 45), the ISO may not have
6 60 days notice for rate revisions. Additionally, as the ISO has experienced
7 in the past, without timely information and data, the acceptance of the
8 application and the negotiation of the TCA may result in missing deadlines
9 currently established in the ISO Tariff. The ISO Tariff should provide for a
10 market notice as soon as the ISO is aware of revised rates or New
11 Participating TOs.

12 Section 3.1.1 of the ISO Tariff also requires applicable agreements
13 to be filed with the Commission no later than April 1 or October 1 for the
14 New Participating TO, to be effective July 1 or January 1, respectively.
15 The ISO has concluded that the contract execution deadline is unrealistic
16 and should be deleted.

17 **Q. WHY IS IT APPROPRIATE TO REVISE THE INFORMATION**
18 **REQUIRED FROM SCHEDULING COORDINATORS?**

19 A. The original ISO Tariff (1998) included a tariff simplification in Section
20 7.1.4.4 to allow Scheduling Coordinators that either scheduled Wheeling
21 Out or Wheeling Through transactions or scheduled transactions for Non-
22 Participating TOs located within the ISO Control Area to provide the data
23 to the ISO rather than requiring meters at the Scheduling Point. Once the
24 ISO reached Full-Scale Operations, this temporary simplification was to
25 have been deleted. However, until the ISO has proper metering at every

1 Scheduling Point in the ISO Controlled Grid, technically, it cannot operate
2 without the simplification. A number of the interconnection points between
3 Participating TOs and Non-Participating TOs have metering equipment
4 that is owned by the Participating TOs. The Participating TOs have not
5 been cooperative to date in upgrading that equipment or providing that
6 meter data to the Non-Participating TO's Scheduling Coordinator.
7 Sections 7.1.4.4.1 through 7.1.4.4.3 should therefore be deleted.

8 **Q. ARE THERE ANY DEFINITIONS THE ISO BELIEVES SHOULD BE**
9 **CHANGED?**

10 A. Yes. The definition of Gross Load should be revised. Since filing, based
11 on further discussions with stakeholders, the ISO has determined that any
12 Load paying Standby Transmission Service (not just load associated with
13 existing Qualifying Facilities as provided in the as-filed version of
14 Amendment 27) already pays the cost of transmission to the service
15 provider (who pays the ISO). Therefore the ISO should not be assessing
16 the Access Charge or Wheeling Access Charge to such Load.

17 **Q. HOW WOULD THE ISO DEFINE GROSS LOAD TO ACHIEVE THIS?**

18 A. The ISO would modify the definition of Gross Load, based on the
19 discussions during the settlement process, to read as follows:

20

Gross Load

For the purposes of calculating the transmission Access Charge, Gross Load is all Energy (adjusted for distribution losses) delivered for the supply of Loads directly connected to the transmission facilities or Distribution System of a UDC or MSS, and all Energy provided by a Scheduling Coordinator for

the supply of Loads not directly connected to the transmission facilities or Distribution System of a UDC or MSS. Gross Load shall exclude Load with respect to which the Wheeling Access Charge is payable and the portion of the Load of an individual retail customer of a UDC, MSS, or Scheduling Coordinator that is served by a Generating Unit that: (a) is located on the customer's site or provides service to the customers site through arrangements as authorized by Section 218 of the California Public Utilities Code; (b) is a qualifying small power production facility or qualifying cogeneration facility, as those terms are defined in the FERC's regulations implementing Section 201 of the Public Utility Regulatory Policies Act of 1978; and (c) secures Standby Service from a Participating TO under terms approved by a Local Regulatory Authority or FERC, as applicable, or can be curtailed concurrently with an outage of the Generating Unit serving the Load. Gross Load forecasts consistent with filed TRR will be provided by each Participating TO to the ISO.

1

2 **Q WHAT IS THE LAST CHANGE TO THE ISO TARIFF THAT YOU**
3 **BELIEVE IS NECESSARY IN CONNECTION WITH THE ACCESS**
4 **CHARGE?**

5 A. The ISO is proposing to provide tariff language that provides the ISO
6 flexibility to negotiate the conversion of Existing Rights. In recognition of
7 the fact that certain New Participating TOs may present unique
8 circumstances, the ISO proposes to add a section in Schedule 3 of

1 Appendix F that allows for flexibility in the manner in which New
2 Participating TOs convert Existing Rights and the way Participating TOs
3 can develop their Transmission Revenue Requirement. Of course, any
4 change to the ISO Tariff would be filed at the Commission and subject to
5 its approval.

6 **Q. ARE THERE ANY OTHER CLARIFICATIONS THE ISO IS**
7 **PROPOSING?**

8 A. Yes, the ISO also favors a number of clarifications based on feedback
9 from Market Participants:.

- 10 • The Low Voltage Access Charge is utility-specific. It is charged and
11 collected by the Participating TO. The ISO supports clarifying the
12 responsibility for paying the Low Voltage Access Charge and the method
13 of billing for the charge. The ISO would continue to charge and collect the
14 Wheeling Access Charge for Low Voltage Transmission Facilities.
15 Responsibility for payment also needs to be clarified.
- 16 • In Amendment 27, the ISO deleted two concepts, Base Transmission
17 Revenue Requirements and Self-Sufficiency Test Period. However, these
18 two definitions were not deleted from Appendix A of the ISO Tariff, which
19 should be conformed.
- 20 • Based on the stakeholder discussions over the last five years and the
21 Commission's May 2000 Order in this proceeding, the ISO believes it
22 should include in the ISO Tariff additional language regarding how FTRs
23 are determined to be commensurate with the transmission capacity that is
24 being turned over to the ISO. However, the ISO does need to keep some
25 flexibility to allow for a negotiation at the time the TCA is executed.

- 1 • The calculation for the disbursement of High Voltage Access Charge and
2 Transition Charge revenues in Appendix F, Schedule 3, Section 10, the
3 calculation includes the New High Voltage Facilities in the Transition
4 Charge. As discussed above, the ISO believes that the Transition Charge
5 should only incorporate Existing High Voltage Facilities and therefore
6 modifications would be necessary if the Commission approves the
7 exclusion of New High Voltage Facilities.
- 8 • The ISO Tariff did not explicitly require that Participating TO's provide to
9 both the ISO and other Participating TOs any changes the Participating
10 TO was making to its TRR, TRBA or Gross Load. In the past this has
11 resulted in a lag, sometimes significant, in receiving information. With the
12 revisions being made to the Market Participant notifications, the ISO must
13 receive the right data in a timely fashion.
- 14 • To avoid confusion regarding confidentiality of data, and allow the
15 Participating TOs to ensure that the ISO has correctly calculated and
16 disbursed the Wheeling Access Charge revenue, the ISO is proposing to
17 include in the tariff a listing of the data that the ISO will release to the
18 Participating TOs.

19 **Q. ARE YOU PROVIDING REVISED TARIFF LANGUAGE THAT**
20 **INCORPORATES ALL OF THESE CHANGES?**

21 A. No. The ISO intends to file Tariff language shortly in accordance with
22 Section 205 to amend the ISO Tariff. Because these changes either
23 represent positions advocated by Intervenor or are minor changes
24 necessary for the proper implementation of the Access Charge, the ISO
25 believes these issues can and should be litigated in this proceeding.

1 **Q. WHY IS THE ISO MAKING A SEPARATE SECTION 205 FILING?**

2 A. The ISO wants to expeditiously implement a resolution of a number of
3 existing issues, including, but not limited to, accurate charging of the
4 Access Charge to QFs; the need for a revised Access Charge calculation
5 and transmission upgrades in preparation of Trans-Elect becoming a
6 Participating TO (Trans-Elect has already filed a notice of intent and
7 application with the ISO); the GMC increase that might be necessary if the
8 Revenue Review Panel is not terminated; and the need for clarification of
9 the application process and notification process. By including the
10 revisions in a separate filing, the ISO can, if the Commission accepts the
11 filing, implement them quickly, rather await a Commission order on the
12 Presiding Judge's initial decision in this proceeding. Because the ISO
13 believes that these are either issues that would arise independently in the
14 course of these proceedings or minor issues in the implementation of the
15 transmission Access Charge, my testimony has described the ISO's
16 positions on these issues. The ISO will request the Commission to
17 consolidate the filing with this proceeding.

18 **Q. THANK YOU. I HAVE NO FURTHER QUESTIONS.**

19

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

California Independent System)
Operator Corporation)

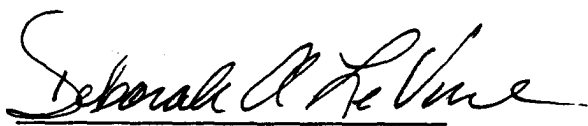
Docket No. ER00-2019-000

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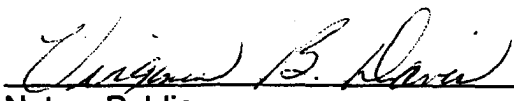
I, Deborah A. Le Vine, being duly sworn, deposes and says that she has read the foregoing questions and answers labeled as her testimony; that if asked the same questions her answers in response would be as shown; and the facts contained in her answers are true and correct to the best of her knowledge,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

Executed on this 12 day of February, 2003.



Deborah A. Le Vine

Subscribed and sworn to before
me this 12th day of February, 2003.



Notary Public
State of California

