Exhibit No. ISO-4

CALIFORNIA ISO

California Independent
System Operator

Memorandum

To: Market Issues/ADR Committee
Grid Reliability/Operations Committee

From: N. Beth Emery, Vice President and General Counsel
Deborah Le Vine, Director of Contracts & Compliance

CC: ISO Board, ISO Officers

Date: August 18, 1999

Re: ***Transmission Access Charge***

EXECUTIVE SUMMARY

This memorandum is a status report. No Board action is required. To comply with California's restructuring legislation (AB 1890) and Section 7.1.6 of the ISO Tariff, the ISO is required to develop and file with the Federal Energy Regulatory Commission (FERC) an ISO transmission Access Charge methodology by December 31, 1999. The ISO initiated the Transmission Access Charge (TAC) Stakeholder process in December, 1998 by requesting Access Charge proposals from Market Participants. The ISO received a total of 22 proposals in late February, 1999 and held the first Stakeholder meeting on March 29, 1999. Since then, the ISO has met with the Stakeholders monthly and narrowed down the TAC methodologies to four potential options:

- ***Utility Specific*** - this is the current Access Charge methodology in which loads and export pay the Access Charges designed specifically to meet the revenue requirements of their own specific Transmission Owner.
- ***Regional/Local Split*** - this proposal would create an ISO grid-wide charge for "Regional" transmission above a certain kV level and utility-specific rates for "Local" transmission below that level.
- ***ISO Grid Wide*** - this proposal rolls all transmission revenue requirements of all Participating Transmission Owners into one uniform charge applied to all end users and exports within the ISO-Controlled Grid.
- ***TAC Area*** - this is a compromise proposal being explored that would establish a single Access Charge within a region (a subset of the entire ISO grid) and then recover the transmission revenue requirements from the end users served within that area.

There are various design options for each proposal and the potential applicability to end-users may change. Issues being discussed include:

- who pays (loads, generation or both);
- billing (would the Access Charge be billed by the ISO or by Utility Distribution Companies (UDCs);

- impacts on Existing Contracts;
- whether the self-sufficiency test is applicable;
- impact on wheeling; and
- time-of-use rates.

ISO staff will present a "strawman" proposal to the Board in October for approval of the conceptual Access Charge. We then plan to present Tariff language at the November Board meeting so that we can file the Tariff language by December 31 and receive a decision from FERC before the April 1, 2000 deadline for the effective date of the access charge.

BACKGROUND

The State of California passed restructuring legislation, AB 1890, which established the initial Access Charge methodology as utility-specific. This required Pacific Gas and Electric Company, Southern California Edison Company and San Diego Gas & Electric Company to establish rates for their specific Service Area based on their individual transmission revenue requirements divided by their individual end-use load. The three utilities bill this charge to their end-use customers. In addition, the ISO bills Scheduling Coordinators for wheeling charges that are based on the exit point(s) used by the Scheduling Coordinators.

AB 1890 also requires the ISO to recommend for approval to FERC, no later than two years after the initial operations date, a rate methodology for the transmission Access Charge which has been approved by the ISO Governing Board. The ISO Governing Board must adopt principles for the charge including, but not limited to:

- an equitable balance of costs and benefits;
- a definition for the transmission facility costs which shall be rolled into the transmission service rate and spread equally among all ISO users; and
- a determination of which transmission facility costs should be assigned to a specific utility's service area (AB 1890 § 9600(a)(2)(A)).

If there is no ISO Governing Board decision, the rate methodology shall be determined following the Alternative Dispute Resolution (ADR) process in Section 13 of the ISO Tariff. (AB1890 § 9600(a)(2)(B)) If no ADR decision is rendered, the default rate methodology will be a uniform regional transmission Access Charge and a utility-specific local Access Charge. Regional transmission facilities are defined to be 230 kV or above plus an appropriate percentage of facilities operating below 230 kV. However, the default methodology may not be implemented until termination of the competitive transition costs (CTC) recovery or March 31, 2000, whichever is later (AB 1890 § 9600(a)(2)(C)).

If the ISO approves a rate methodology that is different from the utility-specific Access Charge, the amount of the difference between the new rate and the prior rate will be recorded in a tracking account to be recovered from customers and "paid to the appropriate transmission owners by the transmission facility owner after termination of" the CTC recovery. Recovery and payment shall be based on an amortization period not to exceed three years for the investor-owned utilities and five years for local publicly owned electric utilities (AB1890 § 9600(a)(3)).

The transmission Access Charge may not compel any Market Participant to violate restrictions required by tax-exempt bonds or contractual limitations, provided such Existing Contract was executed as of December 20, 1995

(AB 1890 § 9600(a)(6)). Once FERC has approved the charge, no California investor-owned utility or local publicly owned electric utility is authorized to collect any CTC unless it commits control of its transmission facilities to the ISO (AB1890 § 9600(b)).

Additionally, FERC, in its Order of November 26, 1996, states:

> *Regardless of the procedural process, the ISO-recommended rate methodology is to be filed with the Commission at least sixty days before the end of the two-year period. If the ISO-Governing Board recommended or the ADR-recommended rate methodology is accepted, the rates are proposed to go into effect when the two-year period ends. The default rate methodology is proposed to become effective on the latter of the end of the two-year period or the termination of the stranded cost recovery period.*

DISCUSSION ISSUES

Numerous discussions with the Stakeholders have resulted in a number of issues that should be addressed in the Access Charge filing:

- **Cost Shifting**: Any option other than the current methodology would result in cost shifting. The work group is discussing ways to mitigate the cost shifting.

- **Regional/Local Components**: Each methodology currently before the work group could have a regional component and a local component. It is likely that this delineation would be based on a kV split (*i.e.* 200 kV or 500 kV). If the regional/local split were made, then load served solely at the regional level would likely pay only the regional charge. Load served at the local level would pay both the regional and local charges.

- **Who Pays?**: Currently loads and exports pay the Access Charge or Wheeling Charge, respectively. The work group is discussing whether the future Access Charge should be applied to load, exports, generation, imports or some combination of these.

- **Treatment of Existing Contracts**: If a municipal utility or governmental entity joins the ISO, their contracts will be converted. It has not yet been determined either what "converted" actually means. The Tariff presumes that conversion will occur within five years of the ISO Operation Date. There are also disagreements over which contracts must be (or should be) converted.

- **Self-sufficiency Test**: Under the utility-specific Access Charge, a self-sufficiency test is required so that entities "leaning on" other entities' transmission rights should pay for such usage. The self-sufficiency test currently in the ISO Tariff requires that the sum of the generation connected to the Participating Transmission Owners (PTO) system plus the firm import capability must be greater than or equal to the monthly peak demand for the PTO. If the PTO is not self-sufficient, then it is determined to be dependent and must pay the Access Charge of the PTO with which it is physically interconnected for the amount of demand upon which it is dependent. This requirement is objectionable to those entities that would be deemed not to be self-sufficient. Moreover, the issue of credit for facilities would need to be addressed.

- **Transmission Expansions**: The Working Group is discussing how expansions will be determined, who will pay and who will own the new transmission line.

- **Tax-Exempt Financing**: The ISO has an obligation in the ISO Tariff not to compel a transmission owner to violate either the existing restrictions applicable to facilities which are part of a system that was financed in whole or in part with local furnishing bonds or other tax-exempt debt or the contractual restrictions specified in Appendix B of the Transmission Control Agreement. Consequently, the Access Charge needs to consider this issue.

- **Billing**: Issues that are still outstanding include whether the Access Charge should be billed by the PTOs, as it is today, or by the ISO, and whether a balancing account still is needed.

Additionally, the ISO has not yet considered the form of the filing and supporting documentation for the ISO's filing.

NEXT STEPS

ISO staff will present a "strawman" proposal to the Board in October for approval of the conceptual Access Charge. We then plan to present Tariff language at the November Board meeting so that we can file the Tariff language by December 31 and receive a decision from FERC before the April 1, 2000 deadline for the effective date of the access charge.