

Exhibit No. ISO-6



California Independent
System Operator

Memorandum

To: Grid Reliability/Operations Committee
 From: Deborah Le Vine, Director of Contracts & Compliance
 CC: ISO Board of Governors; ISO Officers
 Date: November 9, 1999
 Re: **Access Charge Tariff Language**

EXECUTIVE SUMMARY

This memorandum requires Board action.

The ISO Governing Board at its October Board meeting resolved certain fundamental issues affecting the Access Charge methodology that the ISO is required, by FERC order and the provisions of AB1890, to file to take effect next year. The Governing Board directed Management to develop a comprehensive proposal based on the Board's determinations, including a plan for mitigating the impact of cost increases and decreases among New and old Participating Transmission Owners (PTOs) and their customers.

Management has been working with Market Participants through the Market Issues Forum and the Transmission Access Charge Work Group (TACWG) to develop tariff language, including a cost mitigation proposal based on the principles approved by the Board. Draft tariff language is attached to this memorandum (**Attachment A**). Management proposes that it continue to work with the TACWG and the negotiating group the Board directed the CEO to appoint, to refine and file in December Tariff amendments. The detailed Tariff amendments include resolution of a number of details that are driven by the general policies. The most significant are as follows:

- The TAC Area rate will be initiated once one New PTO executes the Transmission Control Agreement (TCA).
- Regional Transmission Facilities include all facilities at Scheduling Points where Energy exists the ISO Controlled Grid.
- Existing Contracts are to be converted to New Firm Uses effective upon the effectiveness of regional TAC Area rates.
- Load will be billed the Access Charge on a gross, not net, basis, through UDCs and, where applicable, Metered Subsystems (MSSs), except for exports or Load not associated with a MSS or UDC, which will be billed to Scheduling Coordinators.

In addition, certain details are *not* included in the Tariff amendment because we believe that they are best handled at the time that a New PTO gives notice of intent to join. They include details on how FTRs are assigned to Converted Rights (Existing Contracts); MSSs; and any cost mitigation plan.

Management therefore recommends the following motion:

MOVED, that the Committee recommends that the Board:

- ***direct the President and Chief Executive Officer to finalize and file at FERC the Access Charge Tariff amendments, substantially in the form presented at the November meeting, with such changes as the CEO determines to be necessary based on further input from stakeholders and the ad hoc negotiating group.***

BACKGROUND

As discussed last month, the ISO is required by AB1890 and a FERC order to develop an Access Charge and file it with FERC, to be effective two years after the commencement of operations. At the October Board meeting the Board approved:

- An Access Charge methodology that uses Utility-Specific rates for the ISO Controlled Grid facilities below 200 kV and a regional rate for ISO Controlled Grid facilities at 200kV and above, all based on \$/MWh, to be filed and effective June 1, 2000, provided that the methodology not preclude different retail rate designs;
- Network facilities at 200 kV and above be charged initially on the basis of three or four interim "TAC Areas" and transitioned over a period of years into a ISO Grid-Wide rate, commencing when a critical mass of New Firm Use import transmission capacity is obtained; and
- Development of a plan for mitigating the cost increases and decreases among the New and existing PTOs and their customers.

The Governing Board recognized that development of an Access Charge proposal reflecting these principles would also require the development of approaches to numerous additional details, including the treatment of Existing Contracts, billing and settlement. The Governing Board expressly refrained from adopting at the October meeting all of the approaches to these issues that were reflected in a compromise proposal that the ISO had presented to the TACWG in an effort to obtain a consensus. Instead, recognizing that a consensus was not achieved, the Governing Board directed Management to work with a negotiating group to develop tariff language that would constitute a comprehensive Access Charge methodology based on the principals approved by the Board.

Since the October Board meeting, Management has developed proposed tariff language, summarized the language at the Market Issues Forum on November 3 and circulated it to Market Participants and the TACWG. The draft tariff language attached to this memorandum is the product of comments received throughout these activities. Management will also discuss the language with all Board members who expressed an interest in participating in the *ad hoc* negotiating group at a special meeting called for November 12, 1999 and may have a revised draft of the Tariff language available after that meeting incorporating the negotiating groups comments. The proposed schedule for implementing the new Access Charge is as follows:

10/28/99	Board approved Policy Direction
11/18/99	Board approves Tariff language
11/19-12/15/99	ISO continues to refine and finalize tariff language, consistent with the authority in the Board motion
12/15/99	ISO files Access Charge with FERC
1/1/00	Potential PTOs must declare intent to join the ISO

2/15/00	FERC issues an Order on the Access Charge filing
3/15/00	Agreements for New PTO must be negotiated and executed
4/1/00	Agreements for New PTO are filed with FERC along with new PTO's Transmission Revenue Requirements
4/1/00	Existing PTOs file updates to Transmission Revenue Requirements and Loads. If an update is not filed by this time then the existing FERC approved values will be used in the ISO's formula rate for the Access Charge
6/1/00	TAC Area/Utility-Specific Access Charge effective

Because the new Access Charge will not materially change the current TO-specific rates, there is not a major change until there is a New PTO. For that reason, we believe a schedule leaving existing rates in place until a New PTO executes the TCA, to accommodate the extensive work that must be done to incorporate any New PTOs meets the intent of FERC's Order and better achieves the policy behind it because the timing reflects stakeholder requests. Once a New PTO executes the TCA, all Access Charges will transition to TAC Area.

ISSUE STATEMENT

The Governing Board previously provided policy direction for the development of the Access Charge. The policy direction results in our replacing in its entirety the existing text on Access Charge and making a number of conforming changes throughout the Tariff wherever "Access Charge" is treated. The major policy directive of October drives resolution of a number of more detailed decisions that must be reflected in Tariff language. So that the Board can focus on those details in approving the draft amendment, we summarize them in this memorandum. They are as follows:

- The TAC Area rate will be initiated once a New PTO executes the TCA.
- Regional Transmission Facilities will by definition include all facilities at Scheduling Points where Energy exits the ISO Controlled Grid (wheeling out), even if at voltages below 200 kV.
- The amendment requires Existing Contracts held by the New PTO to be converted to New Firm Uses effective upon execution of the TCA by the New PTO and its entitlement to rolled-in TAC Area Regional Rates. *This requirement forms the basis for making the new Access Charge methodology a "win-win." The immediate conversion creates savings in congestion management and market efficiency to offset the shift among customers of transmission revenue requirements.*
- The amendment provides that gross Load be billed through UDCs (and, if applicable, MSSs or Scheduling Coordinators) and only exports to Scheduling Coordinators.
- The amendment subjects UDCs and MSSs to financial security requirements.
- The Access Charge is based on gross Load.
- The amendment presumes a filing at FERC, under whatever procedures and standards FERC deems applicable, as the appropriate means to validate non-FERC-regulated transmission revenue requirements.
- The amendment *does not* include specifics on how Converted Rights are treated under FTRs. Absent additional language, additional FTRs created by the transmission capacity that the New PTO turns over to the ISO would receive the same treatment as FTRs associated with current PTOs' transmission

capacity. We believe details on implementation are best left to the negotiations with specific New PTOs.

- The amendment *does not* include specifics on mitigation of cost shifts. Again, we believe this is properly addressed in negotiations with specific New PTOs. Instead, we include a provision providing the assumption that mitigation measures will be required.
- The amendment does not include specifics on MSSs. If negotiations with New PTOs progress, and the specifics are then agreed to, a separate Tariff filing would be made to implement MSSs.

OPTIONS CONSIDERED AND PROS AND CONS

Access Charge Timing

In comments to date, a concern was raised regarding the time and commitment of resources needed to amend existing Access Charges and file them with FERC and whether the effort is warranted if no New PTOs have given notice of intent to execute the TCA. To address this concern, Management is proposing that the Access Charge remains Utility-Specific as each PTO has currently promulgated it before FERC until there has been a notice of intent from a New PTO. Once that occurs (by January or July notice cut-off), existing PTOs will be obligated to make the necessary filing and the Access Charge will transition to TAC Area for network facilities above 200 kV and exit points, and Utility-specific for network facilities below 200 kV on the scheduled effective date. Once critical mass is obtained, the regional Access Charge will transition over a period of years to ISO Grid-Wide.

Wheeling

In drafting Tariff language for review, it became evident that the Wheeling component could be very complex, or very easy to administer depending on whether *all* exit points are considered regional facilities or not. The ISO Controlled Grid, if expanded to include all utilities in California, would only include six Scheduling Points at which Energy exits the ISO Controlled Grid at voltages below 200 kV. To avoid, confusion, possible error in calculation and for ease of administration, the proposed Tariff language includes deeming these facilities Regional Transmission Facilities regardless of voltage level. These facilities would be part of the ISO Controlled Grid and the Transmission Revenue Requirement for these facilities would be included in the Regional Transmission Revenue Requirement.

Existing Contracts

Currently, the ISO Tariff allows a PTO the option, upon joining the ISO in that capacity, either to convert its Existing Contract rights to Converted Rights or to continue to exercise Existing Contract rights, as Non-Converted Rights, until March 31, 2003. *This conversion option would not be retained under the Access Charge proposal; principally because the market efficiency savings projected to make the proposed Access Charge a "win-win" are available only upon elimination of the "two pipe" congestion management model.*

In addition, this option was part of an Access Charge structure in which each PTO's Access Charge reflects only the costs of its own facilities and contract entitlements. Retention of this option is problematic if the Access Charge is to be based initially on TAC Areas, transitioning to an ISO Grid-wide charge for regional facilities. It would give a new PTO the ability to shift costs associated with some of its transmission facilities and entitlements to other PTOs and their customers, while retaining other contract rights (presumably those that are more valuable, from a market perspective). Because the ISO will continue to have to administer and schedule the retained contract rights, savings that would otherwise offset a portion of the cost shifts associated with the proposed Access Charge methodology could not be obtained.

In order to avoid cherry picking and to obtain the administrative and cost savings, the Tariff language requires a New PTO to convert its Existing Contracts to the ISO's scheduling and operational procedures, rules and protocols. Thus Section 2.4.4 has been modified to require PTOs to convert their Existing Contracts immediately. We have therefore deleted the concept of Non-Converted Rights. We have also deleted the Self-Sufficiency Test.

The proposed amendment does not address how Converted Rights for Existing Contracts are treated under FTRs. The ISO has made various proposals to the Governmental Entities regarding conversion of Existing Rights. No agreement has been reached regarding the various proposals. This is detail we believe can be treated in a supplemental filing once a New PTO has given notice of intent to join.

Billing and Settlement

As discussed last month, the new Access Charge will be billed to Utility Distribution Companies (UDCs) and, if applicable, MSSs or Scheduling Coordinators by the ISO. Because the Access Charge was previously utility-specific, each of the PTOs did its own billing and the ISO was only responsible for billing and settlement of Wheeling charges. The new Access Charge will be filed as a formula rate with FERC, initially based on aggregation of the PTOs' Transmission Revenue Requirements within their respective TAC Areas. Each PTO will be responsible for obtaining regulatory approval of its Transmission Revenue Requirement. Various sections in the Tariff have been modified to incorporate the ISO performing this function and the actual formula rate.

The Access Charge uses in its denominator the gross Load connected to the systems of the PTOs in the TAC Area. The forecast of the gross Load and the exports will be done by the ISO based on data from the PTOs, Scheduling Coordinators, UDCs and MSSs. This will avoid any gaming by participants in determining the Access Charge for each year. With the addition of a balancing account, any errors in forecasting gross Load and exports, and/or Transmission Revenue Requirement will be resolved in the true up at the end of the year.

The settlement section also requires UDCs and MSSs to maintain Approved Credit Ratings, similar to Scheduling Coordinators. If Approved Credit Ratings are not maintained, then like a Scheduling Coordinator, the UDC or MSS must provide a form of security as defined in sections 2.2.3.2 and 2.2.3.3 of the ISO Tariff. If an outstanding liability is not covered by the security, then a limitation will be placed on the trading ability of the UDC's or MSS's Scheduling Coordinator.

Review for Rate Consistency

All transmission revenue requirements will be filed with FERC, regardless of jurisdiction. The investor-owned utilities will file their rates with FERC, just like they do today, and FERC will determine the just and reasonableness of the Transmission Revenue Requirement. Governmental Entities who are not FERC jurisdictional, will be required to file their costs at FERC, and the ISO will abide by the procedures and standards FERC deems applicable for this type of filing. We are not proposing to substitute the self-regulatory status of public power entities for some sort of FERC regulation (nor could we, without FERC being given statutory jurisdiction). Nor do we suggest that parties concerned about costs included in Transmission Revenue Requirements of a self-regulated entity should not be required to raise those concerns in the local regulatory proceeding. Rather, we are seeking a means to make the Transmission Revenue Requirements ultimately subject to a public filing with an interstate regulatory body on a basis that assures that the costs are presented accurately and according to agreed accounting principles. We have expressly declined to specify the exact type of filing (such as the "NJ" filings that have been made by public power entities seeking a declaratory order that their 888 Tariff meets reciprocity requirements). Rather, we will seek FERC guidance on what process the Commission feels is appropriate for an ISO.

Mitigation Plan

The draft tariff amendment has provided a placeholder for mitigation. Management believes that mitigating cost increases and decreases among New PTOs and existing PTOs is an integral part of the Access Charge filing, but the ongoing negotiations should address this issue. We believe a placeholder is important for the filing to signal that the new Access Charge is available only if suitable mitigation can be negotiated.

Metered Subsystems

Finally, the draft does not include the details for implementation of Metered Subsystems. This functionality is something that we recommend be available only to a New PTO. We believe, like cost mitigation, that the details on MSSs is best handled in a supplemental filing when a New PTO has given notice of intent to join.

POSITIONS OF THE PARTIES

Positions of the various Parties who have commented as of 5 p.m. on November 8, 1999 are included in Attachment B.

MARKET ANALYSIS OPINION

The Department of Market Analysis (DMA) previously expressed its support, in the October 19, 1999 memo on the Access Charge, for the design principles that Management recommended and the Board adopted last month. The DMA believes that the Tariff language being developed for filing in December is consistent with those design principles and the Board's October resolution, and moreover, resolves additional details in ways that will enhance the efficiency of the ISO markets. In particular, the following are important efficiency-enhancing features of the Access Charge design: (1) designation of all ISO-controlled facilities as regional for Access Charge purposes, regardless of their actual voltage levels; (2) conversion of all Existing Contract capacity to New Firm Uses at the same time as the rolled-in TAC regional rate becomes effective; and (3) assessing the Access Charge based on gross Load. These will help to maximize and to distribute equitably the system benefits achieved when New PTOs join the ISO system.

The DMA also noted in the October memo that the alternative models for conversion of Existing Contract capacity should be evaluated carefully for their impacts on the FTR market. Because this issue is complex and the best approach is not yet apparent, we believe it should not be pushed to resolution in time for the December filing. The cost mitigation issue is similarly complex and would not benefit from trying to resolve it in the next month.

MANAGEMENT RECOMMENDATION

Management recommends that the Board approve the draft Tariff language and authorize Management to make a filing at FERC to seek approval of the proposed Access Charge and that Management be authorized to finalize and file language concerning the Access Charge consistent with the principles provided to the Board by working with the negotiating group appointed by the Board.

Attachment B**STAKEHOLDER POSITIONS****California Public Utilities Commission**

- Deeming exit points Regional Transmission Facilities should be included in the definition of Regional Transmission Facilities versus in Section 7.1.4.1.
- A provision should be included that would ensure the reasonableness of revenue requirements that publicly owned electric utilities seek to include in the ISO's TAC. For example, a provision that allows a PTO to bring challenges to the ISO Board if a publicly owned utility asks to change its revenue requirement due to changes in its ratemaking methodology.
- Mitigation is essential to maintaining some level of consensus and support by stakeholders for the complete package.

Pacific Gas and Electric Company

- Concerned with who is responsible for forecasting the Load and specifically forecasting wheeling revenues.
- Urges an audit or independent review of the Regional Transmission Revenue Requirements of PTOs not subject to FERC jurisdiction.
- New PTOs should be required to file a TO Tariff to define the terms and conditions of local transmission service.
- There should be a mitigation plan.
- Billing should be based on settlement quality meter data.
- PTOs with Existing Rights should be required to sign a Scheduling Coordinator Agreement and schedule their transactions.
- Proposes that the Access Charge not be changed from Utility-Specific until a new Transmission Owner executes the Transmission Control Agreement. Then, once a New PTO joins, the Regional Access Charge would be TAC Area. Additionally, PG&E propose that only a portion of the New PTOs Regional Transmission Revenue Requirement is included in the ISO's Access Charge.

Transmission Agency of Northern California

- Cost mitigation and billing based on gross load are unjust and unreasonable.
- FTR language does not allow Existing Contract Rightsholders to retain or repurchase their FTRs for their Existing Contract rights.
- Regulatory authority for rate design should be clearly stated as vested with the local regulatory authority.

Sacramento Municipal Utility District

- All section regarding Existing Contracts and elimination of Non-Converted Rights should be deleted; no changes to these sections are necessary to implement the Access Charge. Additionally, the changes undermine key compromises made early in the WEPEX process and will result in more disputes at FERC.
- Revise Section 3.1 to allow Governmental Entities to retain certain transmission systems and not put such systems under ISO operational control. To the extent the Governmental Entity retains the transmission line, the operational control and/or revenue requirement for certain transmission lines that perform generation tie functions and/or are needed for operation of a MSS, the Load served by such facilities should not pay the Access Charge.
- Only Load specifically using the ISO Controlled Grid should pay the Access Charge.
- Strike the requirement that Governmental Entities are required to file their Transmission Revenue Requirement with FERC.
- Sections on Wheeling and definitions need to be revised, as there are internal inconsistencies.

City and County of San Francisco

- Supports implementation of TAC Areas, but not ISO Grid-Wide. A future rate design should be included when the ISO is ready to implement the future methodology.

The Metropolitan Water District of Southern California

- Supports a cost mitigation plan because of concerns that entities such as Metropolitan would be significantly and adversely affected by the cost shifts. Metropolitan proposed a mitigation plan featuring special transmission pricing for unique entities. Eligible entities consist of:
 1. Entities who own transmission related assets that are substantially paid for and not identified in existing WSCC path ratings.
 2. Those that serve static Load with no Load growth expected in the future.
 3. Transmission facilities that directly connect generation to wholesale Load.
- Entities that meet this eligibility test would pay a percent (i.e. 95%) of the utility-specific rate plus a percent of the ISO Access Charge (i.e. 5%). Other users of this system would be charged the same to meet comparability standards.

Western Area Power Administration

- Immediate conversion of Existing Contracts is not required for the Access Charge and should be addressed by the Board directed stakeholder group.

- Conversion of Existing Contracts to FTRs is not required for the Access Charge and should be addressed by the Board directed stakeholder group.
- The ISO does not have the right to limit scheduling for Existing Rights and Participating TO's with Existing Contracts should not be required to abide by the ISO Scheduling Protocols.
- The ISO Governing Board should establish criteria to identify transmission facilities for which the ISO should assume operational control.
- Revised the proposed tariff language to allow publishing rates in the Federal Register to be sufficient notice.
- Western is concerned with application of the Tracking Account and believes that the Board directed stakeholder group should address it.
- The Board directed stakeholder group should determine the definition of critical mass.
- The Board directed stakeholder group should determine the mitigation adjustments.

California Municipal Utilities Association

- The Board directed Management to form a group of major stakeholders to develop proposals and it would be inappropriate for the tariff language prepared by Management to preempt or prejudice the outcome in the above-described fora.
- The proposal for credit ratings and other security issues would increase costs and is draconian. Further development of reasonable needs for adequate security is required to more appropriately tailor the exposure created by the Access Charge.
- The ISO needs to consider the case whereby a PTO is not an UDC or MSS and how the Access Charge will be assessed.
- Immediate conversion of Existing Contracts is not required by the implementation of the Access Charge and is properly discussed in crafting a comprehensive package. Additionally, it alters a fundamental principle and is inappropriate in isolation.
- CMUA questions the need for operating instructions of Existing Contracts if both parties are PTOs.
- Section 3.1 inappropriately vests unfettered discretion in the ISO Governing Board to add or exclude additional facilities. This determination should be as set forth in the Transmission Control Agreement and as guided by FERC or FERC resolution.
- The enrollment process identified in Section 3.1 could impede participation and the addition of new facilities to the ISO Controlled Grid. CMUA will be developing a suggested resolution.
- The tariff should be expanded to address the different rate treatment currently in place for the Local transmission facilities.
- CMUA does not accept the FERC filing requirement and opposes the imposition of FERC jurisdiction over the revenue requirement of non-jurisdictional PTOs.

- CMUA is concerned with Uniform accounting systems because of the lack of specificity. Regardless, whatever system is used, sufficiently flexibility needs to be included to allow for different cost structure.
- The language needs to clarify UDC, MSS, Wheeling, and monthly Regional Access Charge.
- Mitigation is properly the discussion of the Board directed stakeholder group and cannot be developed in isolation.
- FTRs should allow a complete hedge against exposure to Usage Charges.
- The Northern Area does not include all Potential PTOs.
- IID should not be singled out and the discretion granted the ISO Governing Board on determining how IID would participate is potentially discriminatory.
- The Board directed stakeholder group should determine whether gross Load or net Load is used in the Access Charge calculation.
- CMUA is concerned with policy issues such as critical mass that should be addressed in other fora.
- Transfer of operational control must be contingent upon payment of revenue requirement. Any regulatory lag must be resolved.

CONFIDENTIAL
STAKEHOLDER POSITIONS

California Department of Water Resources

- removal of the 5-year transition period is neither the product of Stakeholder consensus nor the result of Board directive
- If the draft tariff can be read to require DWR to pay both regional and local rates for DWR's regional transmission service, DWR would find such a cost shift completely unacceptable.
- DWR's high priority rights on Path 15 need to be recognized. FTR auction proceeds must keep Existing Rightsholders whole from their exposure to congestion charges.
- Mitigation is not addressed.
- Some issues addressed in the proposed tariff language are currently being litigated at FERC. Until FERC completes action on these issues, the ISO should not take any actions.
- Sufficient time needs to be provided for Stakeholder input before the Board takes any final actions. Urge the ISO to make whatever schedule adjustments are necessary to assure adequate opportunities for Stakeholder input and full consideration of Stakeholder concerns by ISO Staff and the Board.