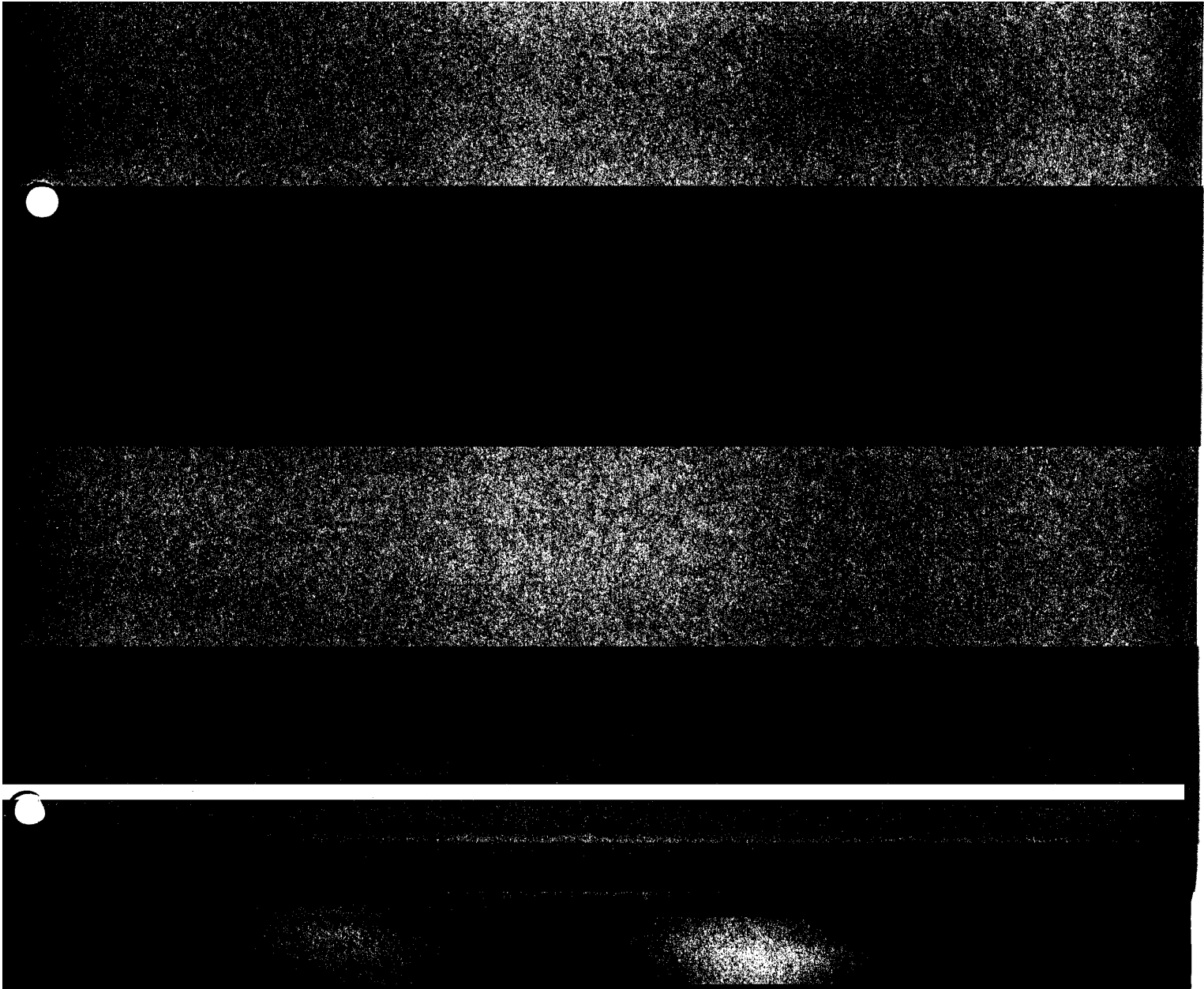


July 23, 1998

AUDIT/FINANCE COMMITTEE MEETING





CALIFORNIA ISO

DRAFT
Released: July 16, 1998

PUBLIC NOTICE OF ISO BOARD OF GOVERNORS MEETING

The Board of Governors of the California Independent System Operator will meet:

Date: July 23, 1998
Time: 1:00 p.m. – 6:00 p.m. (Pacific Time)
Location: Sacramento Convention Center

During the above-noticed meeting, the Board will discuss and possibly take action on the following agenda items:

GENERAL SESSION

- 1) Public Comment
- 2) Management Report
 - Ancillary Services Market Issue
 - Miscellaneous FERC Filings
 - Transmission White Paper #2 Draft
 - ISO Comparative Analysis
- 3) Committee Reports
 - a) Ad Hoc Strategic Planning Committee
 - Committee Report
 - b) Grid Reliability / Operations
 - Committee Report
 - Work Prioritization Plan
 - Short Term Transmission Planning Process Approval
 - c) Audit
 - Committee Report
 - Grid Management Charge Study
 - d) Finance
 - Committee Report
 - Temporary Debt Ceiling Extension
 - e) Governance
 - Committee Report
 - Bylaw Amendments
 - Board Member Support
 - f) Market Issues / ADR
 - Committee Report
- 4) New Business and Future Agenda Items

All public documents, notices, and information are posted to the Web site as they are provided to the Board of Governors.
The California ISO Web site address is: <http://www.caiso.com>

EXECUTIVE SESSION

- 1) Finance Committee
 - Pacific Gas & Electric / Duke Settlement
 - Phase I Settlement
 - Work Prioritization Plan Cost
 - Insurance Program
- 2) Governance Committee
 - Impact of the Utility Rate Reduction and Reform Act (Initiative on November 1998 Ballot)
 - Litigation Update
 - Governance Issues – Status of Appeal
 - Impact of TURN Complaint at FERC
 - San Jose Mercury News Litigation
- 3) Grid Reliability / Operations Committee
 - RMR Contract and Rate Negotiations
 - Work Prioritization – Phase I Settlements
- 4) HR/Comp Committee
 - Committee Report
- 5) New Executive Session Business and Future Executive Session Agenda Items

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CALIFORNIA ISO

California Independent
System Operator

GMC Unbundling Presentation

Audit Committee - Governing Board

July 23, 1998



CALIFORNIA ISO Summary

California Independent
System Operator

- Background
- Rudden Recommendation
- Impact on ISO Market Participants
- Feedback from July 9 Stakeholder Meeting
- Process - Where do we go from here?



CALIFORNIA ISO Background

California Independent
System Operator

- Board briefing only this month - decision sought at August Board meeting
- FERC driver - Unbundling study committed as part of GMC settlement
- Goals - Independent ideas, participative, ISO as facilitator.
- Independent consultant selected
- Stakeholder meetings and focus group interviews by consultant



CALIFORNIA ISO

Rudden Recommendation

California Independent
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- Split ISO into 4 functions
 - Grid Operations
 - Facilitation of new market
 - Settlements, metering, and billing
 - Existing contracts



CALIFORNIA ISO Billing Determinants

California Independent
System Operator

- Grid Operations -
 - Volume based - 73%
- Market Facilitation and Settlements, metering, and billing
 - Activity Based - 27%
- Placeholder for Existing Contracts



CALIFORNIA ISO

Activity based Factor Options

California Independent
System Operator

- Criteria - indicative of activity level, easily obtainable, immune to behavior changes
- Option 1
 - Schedules submitted - Concern that it would incent SCs to submit very few schedules by Demand Zone.
- Option 2
 - Settlement Transaction Record- more indicative of activity and less likely to change behavior - used in preliminary report.



CALIFORNIA ISO

California Independent
System Operator

Impact on Scheduling Coordinators

Ex. No. ISO-2(7), p. 9 of 11

• Number of SCs	Avg. April GMC Current	Avg April GMC - Proposed
- 1	\$10.6 Million	\$8.5 million
- 2	\$460,000	\$407,000
- 6	\$80,000	\$157,000
- 7	\$15,000	\$104,000
- 9	\$444	\$38,000
- 7	\$0	\$162



CALIFORNIA ISO

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Feedback from July 9 Stakeholder Meeting

- Little support for Rudden recommendation now.
 - Shifts too much cost to smaller SCs
 - Insufficient operating data (one month) to support a change now
 - Need a better activity based determinant
 - Insufficient unbundling, i.e. Ancillary Service and Congestion Management.
- Postpone change in GMC until these issues can be addressed.
- Rudden report provided value and should be completed in August.
- Participants must deal with GMC Settlement.



CALIFORNIA ISO Process

California Independent
System Operator

- Comments on report due July 21
- Revised Report issued August 17
- August Board meeting - August 27
 - ISO Staff recommendation:
 - FERC - Whether and how to file report with FERC
 - Timeframe for concluding GMC recommendation.
 - GMC Settlements.