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July 26, 2006

Honorable Magalie R. Salas
Secretary
Federal Energy Regulatory Commission
888 First Street, N.E.
Washington, D.C. 20426

Re: California Independent System Operator Corporation,
Docket No. ER06-___-000

Pacific Gas and Electric Company,
Docket No. ER06-___-000

Dear Secretary Salas:

Pursuant to Section 205 of the Federal Power Act ("FPA"), 16 U.S.C. § 824d, and Part 35 of the Commission's Regulations, 18 C.F.R. Part 35, the California Independent System Operator Corporation ("ISO") and Pacific Gas and Electric Company ("PG&E") submit for filing six copies of revised sheets of the ISO Tariff and PG&E's Pass-Through Tariff ("PTT"), designed to continue, with slight modifications, the current Grid Management Charge ("GMC") rate design for a period of up to one year, as described below.[1] The GMC is the mechanism through which the ISO recovers its administrative and operating costs, including the costs of servicing debt. The ISO's revised tariff sheets are proposed to take effect on January 1, 2007.

I. INTRODUCTION

The current formula and rate design for the GMC imposed by the ISO was established by an Offer of Partial Settlement dated July 29, 2004 in Docket No. ER04-

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1 All capitalized terms used herein and not otherwise defined herein shall have the meanings assigned to such terms in the ISO's tariff.

115-000 ("2004 Settlement Agreement" or "Settlement Agreement"), which was approved by the Commission in a February 2, 2005 Order.[2] Among other things, the 2004 Settlement Agreement required the ISO to submit a filing under Section 205 of the Federal Power Act ("FPA") to modify or confirm the GMC rate design with a proposed effective date no later than December 31, 2006.

After extensive discussions with stakeholders, including active parties to Docket No. ER04-115-000, the ISO and PG&E submit this filing in compliance with the Settlement Agreement. The ISO and PG&E propose to continue in effect provisions of the 2004 Settlement Agreement and related provisions of the ISO Tariff and PG&E's PTT, including the current GMC formula and rate design, with only a minor change. The ISO and PG&E propose that the current GMC formula and rate design remain in effect until the earlier of: (a) January 1, 2008; or (b) the effective date of the implementation of the ISO's Electric Tariff Filing to reflect a new market design, such as the ISO's Market Redesign and Technology Upgrade ("MRTU"), which is based in whole or in part on a nodal system of Congestion Management employing Locational Marginal Pricing (the "Interim Period"). The minor change proposed in the GMC formula and related tariff sheets does not affect the revenue requirement that the ISO recovers through the GMC. The ISO has conducted a series of stakeholder meetings and conferences to discuss its reasons for seeking to extend the terms of the 2004 Settlement Agreement until implementation of MRTU, and has received broad support for this approach from the stakeholders participating in those sessions.[3]

II. BACKGROUND

On October 31, 2003, the ISO submitted to the Commission revisions to its GMC for 2004 in Docket No. ER04-115-000. The Commission accepted and suspended the ISO's revised GMC rates subject to refund, initiated the Commission's settlement process

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2 *California Independent System Operation Corporation, et al.,* 110 FERC ¶ 61,090 (2005) ("February 2 Order").

3 The following stakeholders either support or do not oppose this proposal: the Modesto Irrigation District, Southern California Edison, PG&E, San Diego Gas & Electric Corporation, San Francisco Bay Area Rapid Transit District (BART), the California Department of Water Resources State Water Project, the Cogeneration Association of California, the Energy Producers and Users Coalition, TransAlta Energy Marketing (U.S.) Inc., the California Public Utilities Commission and the California Electricity Oversight Board. Inasmuch as this filing proposes to extend certain terms of the 2004 Settlement Agreement and related provisions of the ISO Tariff and PG&E PTT, the ISO, PG&E and stakeholders recognize that Section 7.2 of the 2004 Settlement Agreement applies to this extension of the Settlement Agreement as proposed in this filing. Furthermore, the ISO, PG&E and the stakeholders agree that any stakeholder's support or non-opposition to this filing shall not be relied upon or otherwise cited as support for any particular methodology or used to otherwise constrain such stakeholder's position on any issue in any other proceeding, or if the Commission rejects this filing or sets it for hearing.

and stated that the matter would be set for hearing in the event that the parties could not resolve their differences in settlement. On November 28, 2003, PG&E submitted to the Commission revisions to its PTT in Docket No. ER04-242-000. Pursuant to the PTT, PG&E recovers the GMC from entities for which PG&E acts as a Scheduling Coordinator. PG&E's filing sought to align its PTT with the rate structure in the ISO's GMC filing. On January 23, 2004, the Commission accepted and suspended PG&E's revised PTT subject to refund, and consolidated PG&E's November 28, 2003 PTT submission with the ISO's GMC filing.

On July 29, 2004, the ISO and PG&E submitted the 2004 Settlement Agreement to the Commission as the resolution of all issues in the 2004 GMC case, and all issues in PG&E's companion PTT case. The application of the GMC charges to the Energy Schedules of the Arizona Public Service Company and the Imperial Irrigation District on their respective shares of the Southwest Powerlink was reserved (the "Reserved Issue"). The Commission approved the 2004 Settlement Agreement on February 2, 2005.[4] On May 23, 2005, the ISO and San Diego Gas & Electric Company reached a settlement agreement that, among other issues, resolved the Reserved Issue. The Commission approved that settlement on September 22, 2005.[5]

Pursuant to the 2004 Settlement Agreement, the GMC formula in the ISO Tariff permits the ISO to collect adjusted GMC charges, without the need for a filing under Section 205 of the FPA, subject to certain restrictions. Specifically, the Settlement Agreement and the ISO Tariff provide that if the ISO sought a revenue requirement for either 2005 or 2006 that exceeded a specified level, the ISO would have to seek Commission approval of GMC charges designed to collect the higher revenue requirement pursuant to Section 205.[6] This obligation was to ensure that the ISO's customers would not be subject to substantially increased GMC charges without a Section 205 filing. If the ISO's revenue requirements for 2005 and 2006 were at or below the amounts specified in the Agreement, GMC charges designed to collect the 2005 and 2006 revenue requirements could go into effect with prior notice posted on the ISO's internet site, but without the need for a filing under Section 205 of the FPA.[7] Also pursuant to the 2004 Settlement Agreement, PG&E is entitled to collect, and its PTT customers are required to pay, all charges contained in the PG&E PTT.

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4 *See* February 2 Order.

5 *See California Independent System Operation Corporation, et al.*, 112 FERC ¶ 61,329 (2005).

6 The revenue requirement levels specified in the 2004 Settlement Agreement were $218.4 million for budget year 2005 and $221.7 million for budget year 2006. *See* 2004 Settlement Agreement, Section 4.4.1. The Settlement Agreement also specified a 2004 revenue requirement of $215.2 million. *See id.*, Section 4.4.

7 On December 15, 2004, the ISO did submit to the Commission a conditional Section 205 filing for the ISO's 2005 GMC charges because the Commission had not approved the 2004 Settlement Agreement as of late 2004. The conditional filing, however, was automatically withdrawn upon Commission approval of the 2004 Settlement Agreement, which occurred on February 2, 2005. *See* 112 FERC ¶ 61,329 at P 12.

Among the terms contained in the 2004 Settlement Agreement, the ISO agreed (1) to implement a detailed stakeholder budget process, (2) to conduct a Functional Assessment and Review ("FAR") of its management organization, and (3) to participate in and support a study of the costs of North American ISOs and RTOs for the purpose of developing benchmarks upon which to measure the costs and performance of ISOs and RTOs.

Finally, in order to ensure that the Commission and the ISO's customers would have an opportunity to evaluate the continued operation of the GMC formula, the 2004 Settlement Agreement specified that the ISO would seek approval for the GMC rate applicable on January 1, 2007 whether or not it made any changes to the GMC formula in the ISO Tariff. The ISO is submitting this filing to fulfill that commitment.

III. PROPOSED 2007 GMC

A. CONTINUATION OF THE GMC FORMULA AND CHANGES TO THE ISO TARIFF

The ISO proposes in this filing to continue in effect certain provisions of the 2004 Settlement Agreement, including the current GMC formula and related provisions of the ISO Tariff, with only one change. As discussed in section B below, provisions of the 2004 Settlement Agreement that do not impose an ongoing obligation on the ISO will not continue in effect.

The sole change the ISO proposes in this filing concerns the provision of the 2004 Settlement Agreement under which the ISO agreed that in lieu of the Modesto Irrigation District ("MID") indirectly paying a GMC charge to PG&E for load scheduled by PG&E on MID's behalf, that MID would pay a flat monthly charge of $75,000 directly to the ISO. On December 1, 2005, MID transferred its electric operations from the ISO control area to the Sacramento Municipal Utility District's ("SMUD") control area. Consequently, PG&E no longer provides Scheduling Coordinator services to MID and MID is no longer subject to PG&E's PTT. Because the basis for the flat GMC charge for MID no longer exists and MID is therefore no longer eligible for the consideration provided in the 2004 Settlement Agreement, the ISO proposes to delete from the tariff those provisions that provide for this consideration, effective January 1, 2007.[8]

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8 MID has confirmed to the ISO that it is no longer eligible for the consideration provided in the 2004 Settlement Agreement and does not contest the ISO's proposed revision to the ISO Tariff. In Docket No. EL06-70, MID has petitioned for a declaratory ruling that its obligation to pay the fixed monthly charge ended on December 1, 2005. The ISO has intervened in that proceeding. Neither the ISO's proposal to remove the tariff provisions relating to MID's fixed charge in this filing nor the decision of MID or any other affected stakeholder to support or not to contest that revision will prejudice the position of any party with respect to the proceedings in Docket No. EL06-70.

The ISO proposes to continue the current operation of the GMC formula, as set forth in the 2004 Settlement Agreement and ISO Tariff, for 2007. The process for determining the ISO's revenue requirement for budget year 2007 is ongoing. The ISO currently expects the revenue requirement for 2007 to be no greater than $195 million. The enclosed revised ISO Tariff sheets provide that in order to collect a revenue requirement for budget year 2007 that exceeds $195 million through the GMC charges, the ISO must make a Section 205 filing. Such Section 205 filing would support the GMC revenue requirement but, consistent with Section 4.4.2 of the 2004 Settlement Agreement, would not include modifications to the GMC formula. A 2007 revenue requirement at or below this level will be recovered through adjustments to the GMC charges in accordance with the GMC formula rate and will go into effect with prior notice posted on the ISO's internet site, but without the need for a filing under Section 205 of the FPA. Further, the revised tariff sheets provide that the ISO shall, in any event, submit a Section 205 filing for approval of GMC charges to be effective January 1, 2008, whether or not the ISO proposes any change in the GMC formula. As explained below, the stakeholders have endorsed this continuation of certain provisions of the 2004 Settlement Agreement and related ISO Tariff provisions, including the GMC formula mechanism, through the Interim Period.

Clean revised tariff sheets incorporating this agreement and the change in rate design to reflect the removal of the MID flat rate charge are contained in Attachment A to this filing. Changes to the existing tariff sheets are marked on the redlined replacement tariff sheets contained in Attachment B to this filing.

The ISO proposes no other changes to its GMC formula as contained in the 2004 Settlement Agreement and the ISO Tariff. The GMC will continue to be collected through the same eight unbundled charges identified in Appendix F, Schedule 1, Part A of the ISO's Tariff, which have formed the basis of the GMC rate design since 2004. Similarly, the ISO's Tariff revenue requirement will continue to be allocated to each of those eight charges based on the same allocation factors described in the 2004 Settlement Agreement and specified in Tables 1 and 2 in Appendix F, Schedule 1, Part A of the ISO's Tariff.

B. STATUS OF OTHER COMMITMENTS IN THE 2004 SETTLEMENT AGREEMENT

In addition to the provisions affecting the GMC formula, the ISO agreed to five other obligations as part of the 2004 Settlement Agreement. As described below, the ISO has met each of these obligations and, where applicable, commits to continue to do so through the period that the GMC formula proposed in this filing remains in effect.

(1) *Moratorium:* The ISO committed not to file an application under Section 205 of the FPA to modify the GMC formula with an effective date before the earlier

of January 1, 2007 or the effective date of the ISO's MRTU initiative. The ISO has not filed an application under Section 205 to modify the GMC rate design prior to this filing. Consistent with the commitment in the 2004 Settlement Agreement, as part of this filing, the ISO commits not to file an application under Section 205 of the FPA to modify the GMC rate design that proposes an effective date for a modified GMC rate design that is earlier than the first to occur of: (a) January 1, 2008; or (b) the effective date of modifications to the ISO Tariff to implement MRTU.

(2) *Section 205 Filing for 2007 GMC*: The ISO agreed to submit a filing under Section 205 of the FPA for approval of the GMC rate to be effective as of January 1, 2007, whether or not it made any changes to the GMC formula. (2004 Settlement Agreement, Sec. 4.4.3; ISO Tariff, Fourth Revised Sheet No. 375A.) This filing fulfills the ISO's commitment to seek approval for its GMC formula rate effective January 1, 2007.

(3) *Functional Assessment Review*: The ISO agreed to engage an independent consultant to perform a Functional Assessment and Review ("FAR") of the ISO's management organization. The Final Report of the FAR, dated August 1, 2005, was transmitted to the Reviewing Parties identified in the 2004 Settlement Agreement on September 16, 2005. On October 20, 2005, the Reviewing Parties sent a letter to the ISO, attached to this filing (Attachment C), confirming that they had reviewed the Final Report of the FAR, and concluding that the ISO fulfilled its obligation pursuant to the 2004 Settlement Agreement.

(4) *Benchmarking*: The ISO agreed to support and participate in a study coordinated by the North American ISOs and RTOs to assess the operations and costs of the North American ISOs and RTOs on a comparable basis and to develop benchmarks against which to measure the costs and performance of ISOs and RTOs ("North American Study"). After the completion of the North American Study in February 2006, the CAISO posted the benchmarking study on its website, thereby fulfilling its commitment under the 2004 Settlement Agreement (see letter at Attachment D).

(5) *Budget Process*: The ISO agreed to specified commitments as part of its annual budget development process in order to provide greater transparency and an enhanced understanding of the ISO's spending priorities, as well as to allow stakeholders greater access to ISO budget data. The ISO has implemented the detailed budget process described in Section 4.2 of the 2004 Settlement Agreement and the ISO Tariff (Schedule 1, Part D), and is using that process to give stakeholders opportunities to review and comment upon the development of the ISO's budget for 2007. The ISO commits to the Commission to extend the application of that budget process through the preparation of the ISO's budget for 2008, with one modification. Section 4.2.6 of the 2004 Settlement Agreement

permitted the ISO to seek waiver of the prior notice requirement in FERC's regulations, if necessary to provide stakeholders 45 days to review the ISO's budget and place the revised charges into effect by January 1 of the following year. The ISO agreed, however, that it would not ask for waiver of the 60-day prior notice requirement of the FERC's regulations for any GMC rate design filing proposed to take effect at the termination of the moratorium period, which currently is December 31, 2006. With this filing, the ISO commits that it will not ask for waiver of the 60-day prior notice requirement of the FERC's regulations for any GMC rate design filing proposed to take effect at the termination of the extended moratorium period on January 1, 2008 or on the effective date of modifications to the ISO Tariff to implement MRTU.

C. PG&E's PTT

The Commission approved PG&E's pass-through of the ISO's GMC to PG&E's PTT customers in Opinion No. 463, issued on May 2, 2003.[9] Subsequently, as noted above, the Commission approved PG&E's request to pass-through the ISO's 2004 GMC in the February 2, 2005 Order.[10]

Consistent with the ISO's proposal to continue using the GMC rate design approved by the Commission in the 2004 Settlement Agreement until the earlier of MRTU implementation or January 1, 2008, PG&E proposes to continue using this same rate design in its PTT. Furthermore, once the ISO has finalized its 2007 revenue requirement and implements new GMC rates, PG&E will likewise modify the rates charged to the PTT customers to be consistent with the ISO's rates. Should the ISO's revenue requirement for 2007 exceed $195 million requiring the ISO, as discussed above, to make a Section 205 filing, PG&E will similarly make a Section 205 filing to seek Commission approval to pass-through the ISO's 2007 GMC to the PTT customers.

Finally, PG&E includes clean and revised tariff sheets, as Attachments E and F to this filing, respectively, noting the current list of PTT customers.

D. 2007 GMC STAKEHOLDER PROCESS

The ISO conducted a series of stakeholder meetings and conferences, as well as website postings, to advise stakeholders of its proposal to continue the 2004 Settlement Agreement provisions currently in effect for the Interim Period. Attachment G contains a description of the stakeholder process bringing about the support/non-opposition of the parties identified in footnote 1 above.

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9 *California Independent System Operator Corp., et al.*, 103 FERC ¶ 61,114 (2003).

10 *See* February 2 Order.

IV. COMMUNICATIONS

Correspondence and other communications regarding this filing should be directed to the following individuals, whose names should be entered on the official service list compiled by the Secretary:

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PG&E requests that overnight deliveries be made to:
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PG&E further requests that a copy of all communications in these proceedings be provided to:

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V. CONTENTS OF FILING AND CONDITIONAL REQUEST FOR WAIVER

The instant filing is an abbreviated filing pursuant to 18 CFR § 35.13(a)(2)(iii), which governs submission for rate schedule changes other than rate increases. Because the only change proposed to the 2007 GMC rate does not affect the revenue requirement recovered through the GMC formula, the ISO believes it does not constitute a rate increase. Accordingly, this abbreviated filing includes:

(1)	Transmittal Letter	
(2)	Attachment A	Clean Revised ISO Tariff Sheets
(3)	Attachment B	Redlined Revised ISO Tariff Sheets
(4)	Attachment C	Letter Explaining How the ISO Met its Obligation to Conduct a Functional Assessment and Review of its Operations
(5)	Attachment D	Letter Explaining How the ISO Met its Obligation to Participate in and Advocate for the Release of ISO/RTO Benchmarking Study
(6)	Attachment E	Clean Revised PG&E Tariff Sheet
(7)	Attachment F	Redlined Revised PG&E Tariff Sheet
(8)	Attachment G	Explanation of Stakeholder Process

In the event the Commission concludes that the abbreviated filing requirements of 18 C.F.R. § 35.13(a)(2)(iii) are not applicable to this filing, the ISO respectfully requests waiver of any requirements of 18 C.F.R. § 35.13 that are not met by this filing. As good cause for this waiver, the ISO states that this filing proposes to continue in effect the existing GMC formula and rate design, with only a single, minor change.

The ISO also notes that the proposed continuation of the existing GMC formula and rate design was discussed with the affected stakeholders, who overwhelmingly approved it. In addition, the ISO's revenue requirement for 2007, which will be recovered through the GMC formula, is being reviewed with stakeholders through the budget review process established by the 2004 Settlement Agreement.

VI. EFFECTIVE DATE

The ISO proposes that the 2007 GMC formula take effect on January 1, 2007.

VII. EXPENSES

No expense or cost associated with this filing has been alleged or judged in any judicial or administrative proceeding to be illegal, duplicative, unnecessary, or demonstratively the product of discriminatory employment practices.

VIII. SERVICE

Copies of this filing have been served on each ISO Scheduling Coordinator, the California Public Utilities Commission, the California Energy Commission and the California Electricity Oversight Board. Two additional copies of this filing are enclosed to be date-stamped and returned to our messenger.

IX. CONCLUSION

Wherefore, the California Independent System Operator Corporation and Pacific Gas and Electric Company request that the Commission accept the Grid Management Charge formula, to be effective on January 1, 2007.

Sincerely,

Judith Sanders / by REM

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Attachment A

Clean Revised ISO Tariff Sheets

The ISO will provide no fewer than 45 days for stakeholder review of its annual budget between initial budget posting and final approval of the budget by the ISO Governing Board.

Budget Posting

After the approval of the annual budget by the ISO Governing Board, the ISO will post on its Internet site the ISO operating and capital budget to be effective during the subsequent fiscal year, and the billing determinant volumes used to develop the rate for each component of the Grid Management Charge, together with workpapers showing the calculation of such rates.

Annual Filing

If the Grid Management Charge revenue requirement for Budget Year 2007 does not exceed $195 million , the ISO shall not be required to make a Section 205 filing to adjust the GMC charges calculated in accordance with this Schedule 1 to recover such Revenue Requirement. In order for the ISO to adjust the GMC charges to collect a Grid Management Charge Revenue Requirement for Budget Year 2007 that exceeds $195 million , the ISO must submit an application to FERC under Section 205. In any event, the ISO shall submit a filing under Section 205 for approval of the GMC charges to be effective the earlier of January 1, 2008 or the effective date of amendments to the ISO Tariff implementing a new market design based on a nodal system of Congestion Management employing locational marginal pricing, such as the ISO's Market Redesign and Technology Upgrade ("MRTU"). In such filing, the ISO may revise the GMC rates set forth in this Schedule 1, but shall not be required to do so.

Periodic Financial Reports

The ISO will create periodic financial reports consisting of an income statement, balance sheet, statement of operating reserves, and such other reports as are required by the ISO Governing Board. The periodic financial reports will be posted on the ISO's Website not less than quarterly.

Part E – Cost Allocation

1. The Grid Management Charge revenue requirement, determined in accordance with Part C of this Schedule 1, shall be allocated to the eight service charges specified in Part A of this Schedule 1 as follows, subject to Section 2 of this Part E. Expenses projected to be recorded in each cost center shall be allocated among the eight charges in accordance with the allocation factors listed in Table 1 to this Schedule 1, subject to Section 2 of this Part E. In the event the ISO budgets for projected expenditures for cost centers are not specified in Table 1 to Schedule 1, such expenditures shall be allocated based on the allocation factors for the respective ISO division hosting that newly-created cost center. Such divisional allocation factors are specified in Table 1 to this Schedule 1.

Debt service expenditures for the ISO's year 2000 (or subsequently refinanced) bond offering shall be allocated among the eight charges in accordance with the allocation factors listed in Table 1 to this Schedule 1, subject to Section 2 of this Part E. Capital expenditures shall be allocated among the eight charges in accordance with the allocation factors listed in Table 2 to this Schedule 1, subject to Section 2 of this Part E, for the system for which the capital expenditure is projected to be made.

1. The GMC chargeable to a Scheduling Coordinator for transactions representing transfers from the Mohave generation facility to the Loads of the Mohave co-owners located outside of the ISO Control Area, will be reduced by excluding 65 percent of those Loads from the Energy Transmission Services Net Energy Charge and the Core Reliability Services – Energy Exports Charge. Such excluded Load shall not be included in the denominators used to calculate the rates for the Energy Transmission Services – Net Energy Charge and the Core Reliability Services – Energy Export Charge.

2. The Forward Scheduling Charge assessed against Schedules submitted by PG&E solely in its role as Path 15 facilitator will be reduced by excluding 65 percent of the number of such Schedules from the Forward Scheduling Charge. Such excluded Schedules shall not be included in the denominator upon which the Forward Scheduling Charge is calculated.

3. San Diego Gas & Electric is the Scheduling Coordinator for transactions on those portions of the Southwest Power Link ("SWPL") which are owned by the Arizona Public Service Company ("APS") and the Imperial Irrigation District ("IID"), and are scheduled by SDG&E under a designated SCID. Schedules submitted to the ISO under that designated SCID shall not be subject to GMC charges. In lieu of GMC charges, SDG&E will pay the ISO a Line Operator Charge, as agreed to in the SWPL Operations Agreement, entered into by the ISO and SDG&E on May 23, 2005, and submitted to the Commission as a rate schedule pursuant to the Federal Power Act.

Attachment B

Redlined Revised ISO Tariff Sheets

ISO TARIFF APPENDIX F
Schedule 1

Grid Management Charge

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Part D – Information Requirements

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The ISO will provide no fewer than 45 days for stakeholder review of its annual budget between initial budget posting and final approval of the budget by the ISO Governing Board.

Budget Posting

After the approval of the annual budget by the ISO Governing Board, the ISO will post on its Internet site the ISO operating and capital budget to be effective during the subsequent fiscal year, and the billing determinant volumes used to develop the rate for each component of the Grid Management Charge, together with workpapers showing the calculation of such rates.

Annual Filing

If the Grid Management Charge revenue requirement for Budget Year 2007~~5~~ does not exceed $195~~218.4~~ million ~~or its revenue requirement for Budget Year 2006 does not exceed $221.7 million~~, the ISO shall not be required to make a Section 205 filing to adjust the GMC charges calculated in accordance with this Schedule 1 to recover such Revenue Requirement. In order for the ISO to adjust the GMC charges to collect a Grid Management Charge Revenue Requirement for Budget Year 2007~~5~~ that exceeds $195~~218.4~~ million ~~or Budget Year 2006 that exceeds $221.7 million~~, the ISO must submit an application to ~~the~~ FERC under Section 205. In any event, the ISO shall submit a filing under Section 205 for approval of the GMC charges to be effective ~~as~~the earlier of January 1, 2008~~7~~ or the effective date of amendments to the ISO Tariff implementing a new market design based on a nodal system of Congestion Management employing locational marginal pricing, such as the ISO's Market Redesign and Technology Upgrade ("MRTU"). In such filing, the ISO may revise the GMC rates set forth in this Schedule 1, but shall not be required to do so.

Periodic Financial Reports

The ISO will create periodic financial reports consisting of an income statement, balance sheet, statement of operating reserves, and such other reports as are required by the ISO Governing Board. The periodic financial reports will be posted on the ISO's Website not less than quarterly.

* * *

Part F – Other Modifications to the Rates

Consistent with a Settlement Agreement accepted by the FERC in Docket Nos. ER04-115-000, et al., GMC rates and charges shall be calculated consistent with the following additional requirements during the period that the GMC rates and charges specified in that Settlement Agreement remain in effect:

1. The GMC chargeable to a Scheduling Coordinator for transactions representing transfers from the Mohave generation facility to the Loads of the Mohave co-owners located outside of the ISO Control Area, will be reduced by excluding 65 percent of those Loads from the Energy Transmission Services Net Energy Charge and the Core Reliability Services – Energy Exports Charge. Such excluded Load shall not be included in the denominators used to calculate the rates for the Energy Transmission Services – Net Energy Charge and the Core Reliability Services – Energy Export Charge.

2. The Forward Scheduling Charge assessed against Schedules submitted by PG&E solely in its role as Path 15 facilitator will be reduced by excluding 65 percent of the number of such Schedules from the Forward Scheduling Charge. Such excluded Schedules shall not be included in the denominator upon which the Forward Scheduling Charge is calculated.

~~3. Modesto Irrigation District (MID) is a Scheduling Coordinator and also is responsible for a portion of the GMC charges payable by another Scheduling Coordinator, Pacific Gas and Electric Company (PG&E) pursuant to a contract between them. MID and PG&E have agreed that MID shall pay the ISO directly $75,000 each month, in lieu of any payments to PG&E for its share of the GMC charges payable by PG&E and the ISO shall credit a portion of the amount received from MID to PG&E as an offset to PG&E's obligation for GMC charges. Any difference, positive or negative, between the amount credited to PG&E and the amount paid by MID to the ISO under this provision shall be reflected in the Operating and Capital Reserves Account. The payment arrangement described in this paragraph is subject to the conditions, and will be implemented pursuant to the procedures, set forth in the Offer of Partial Settlement accepted by the FERC in Docket Nos. ER04-115-000, et al. This arrangement shall not apply to MID's obligation for GMC charges as a Scheduling Coordinator, which shall be governed by the provisions of this Schedule 1 and the other applicable provisions of the ISO Tariff, except that in the event that MID accepts responsibility for scheduling any load currently scheduled by PG&E under SCID PGAB, the ISO will not charge any additional GMC at the tariffed GMC rate, but rather will attribute such schedules and load to the fixed $75,000.00 per month payment set forth above, provided that MID schedules such load under a new and separate SCID and the ISO shall not assess GMC charges to such SCID.~~

3~~4~~. San Diego Gas & Electric is the Scheduling Coordinator for transactions on those portions of the Southwest Power Link ("SWPL") which are owned by the Arizona Public Service Company ("APS") and the Imperial Irrigation District ("IID"), and are scheduled by SDG&E under a designated SCID. Schedules submitted to the ISO under that designated SCID shall not be subject to GMC charges. In lieu of GMC charges, SDG&E will pay the ISO a Line Operator Charge, as agreed to in the SWPL Operations Agreement, entered into by the ISO and SDG&E on May 23, 2005, and submitted to the Commission as a rate schedule pursuant to the Federal Power Act.

Attachment C

October 20, 2005 Letter Explaining How the ISO Met its Obligation to Conduct a Functional Assessment and Review of its Operations

STATE OF CALIFORNIA ARNOLD SCHWARZENEGGER, *Governor*

PUBLIC UTILITIES COMMISSION
505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298

October 20, 2005

Stephen A. S. Morrison, Esq.
Counsel
California ISO
151 Blue Ravine Road
Folsom, CA 95630

RE: FERC Dockets ER04-115-000 and EL04-47-000
Accenture F.A.R. Report

Dear Mr. Morrison:

In conformance with Article IV Clause 4.1 of the Partial Settlement of the California ISO's ("CAISO") 2004 Grid Management Charge ("GMC") case that was filed in the above-referenced dockets on July 29, 2004, the CAISO was to engage an independent consultant to perform a Functional Assessment and Review ("FAR") of the CAISO's management organization. The FAR was to cover issues such as, but not limited to, the CAISO's management structure, its functional organization**,** and work processes.

The Partial Settlement provided that upon submission of the Final Report of the FAR to the CAISO's Board, this Final Report would be provided on a confidential basis to named attorneys representing the California PUC ("CPUC") and the California EOB ("CEOB") and to the FERC Settlement Judge in this docket (collectively, the "Reviewing Parties") for the purpose of reporting to the parties in the above-referenced dockets, within thirty days of their receipt thereof, their opinions regarding whether the Final Report of the FAR satisfied the CAISO's obligations under Article IV Clause 4.1. In addition, the Partial Settlement provided that the Reviewing Parties could provide comments on the Final Report of the FAR to the CAISO's Board.

The Final Report of the FAR, dated August 1, 2005, was transmitted to the Reviewing Parties on September 16, 2005, and we each received it several days later. We are hereby submitting our opinion, within the specified thirty days after our receipt of this document, as to whether the Final Report of the FAR satisfies the CAISO's obligations under Article IV Clause 4.1.

We have each carefully reviewed the Final Report of the FAR, and we conclude that it does satisfy the CAISO's obligations under Article IV Clause 4.1 of the Partial Settlement. In view of the comprehensive management overhaul that the CAISO has recently implemented, which overhaul is now a matter of public knowledge to the various stakeholders in the 2004 GMC case, we do not feel that there is any need for us to submit comments on the substance of this Final Report to the CAISO's Board.

We note that the CAISO's budget for calendar year 2006 is projected to be substantially lower than it was in calendar years 2004 and 2005. To the extent that the management structure changes reported in the Final Report of the FAR have contributed to this significant lowering of the CAISO's budgetary needs for next year (and, presumably, for future years as well), the Reviewing Parties believe that this effort has met the objectives of Article IV Clause 4.1 in the Partial Settlement.

In the circumstances, please transmit our views to the ISO GMC Parties and to the ISO's Board of Directors.

Very truly yours,

/s/ Bruce Birchman

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Bruce Birchman
Settlement Judge
Federal Energy Regulatory Commission

/s/ Laurence G. Chaset

____

Laurence G. Chaset
Staff Counsel
California Public Utilities Commission

/s/ Victoria Kolakowski

____

Victoria Kolakowski
Staff Counsel
California Electricity Oversight Board

cc: Hon. Joseph T. Kelliher
cc (by e-mail): Service list in Dockets ER04-115-000 and EL04-47-000

Attachment D

Letter Explaining How the ISO Met its Obligation to Participate in and Advocate for the Release of ISO/RTO Benchmarking Study

November 17, 2005

Mr. Charles Anthony Braun
California Municipal Utilities District
Braun & Blaising, P.C.
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Ms. Victoria Kolakowski
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Mr. Laurence Chaset
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Mr. Peter Kissel
Law Offices of GKRSE
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Washington, DC 20005

RE: Status Report on Benchmarking Pursuant to Section 4.3 of the Offer of Partial Settlement in ER04-115-000, *et. al.*

Pursuant to Section 4.3.3 of the July 29, 2004 Offer of Partial Settlement ("Settlement"), the CAISO is to provide periodic status reports to the CAISO GMC Parties on the CAISO's efforts to make available benchmarking information as described in Section 4.3.1. This is the first status report on the CAISO's efforts. The CAISO will provide subsequent status reports approximately every 90 days until the North America benchmarking study is released.

North American ISOs/RTOs[1] agreed in mid-2003 to develop a benchmarking study comparing their respective companies on cost and services offered to their customers. All participants agreed that accuracy and validity of metrics were of paramount importance. In order to facilitate the discussions, promote free-exchange of information, and to avoid invalid comparisons, the participants agreed to hold comparison data confidential until the study was completed and all parties agreed to its release. The participants retained a consultant to develop this study, a draft version of which was presented to the ISOs/RTOs in the fall of 2003. At that time, certain participants viewed the report as too limited in scope and depth to provide for a fair comparison of the ISOs/RTOs. They suggested that a more comprehensive study could be completed through the direct efforts of ISO/RTO staff, and the group agreed to pursue this approach.

ISO/RTO staff worked on this study through the fall of 2004. A primary focus of this effort was to develop a set of functions for ISOs/RTOs, and to ensure that each ISO/RTO appropriately classified its costs for such functions. Descriptions of the work performed by each ISO/RTO related to those functions were also developed. Metrics or measures of work output in area were recognized as an

[1] The members of this group are ISO-New England, New York ISO, PJM, Midwest ISO, ERCOT, Independent Market Operator (Ontario), Alberta Electric System Operator (AESO) and the California ISO.

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important tool to normalize costs and better understand differences, but such metrics were not developed at that stage of the study. ISO/RTO staff presented preliminary findings to their respective managements in late 2004 for comment. Representatives of certain ISOs/RTOs indicated that while the study was a good start, it lacked elements to ensure a fair and comprehensive comparison, and without such, readers could unfairly draw inappropriate conclusions about their entities.

Concurrent with discussions about how to proceed from that point, the Federal Energy Regulatory Commission issued a Notice of Inquiry (RM04-12-000) on financial reporting and cost accounting for ISOs and RTOs. Work on the joint study was held in abeyance as staff worked on responding to the NOI in late 2004 and early 2005. The respective managements of the ISOs/RTOs viewed this as an opportunity to develop an updated FERC cost accounting methodology that could facilitate more accurate and appropriate comparisons among the ISOs/RTOs. The participants agreed to focus their immediate efforts on responding to the NOI and developing a chart of accounts that would facilitate cost comparability among the ISOs and RTOs. CAISO representatives agreed to support the effort, but also indicated that the work on the benchmarking study to date should not be lost, and that the results should be published.

As the initial responses to the Commission's NOI have been completed, CAISO will again renew its efforts with the other ISOs/RTOs to advocate the completion and public release of the benchmarking study.

Sincerely,

Philip Leiber

Philip Leiber
Treasurer & Director of Financial Planning

PL:mg

cc: Charles Robinson, California ISO
William Regan, California ISO
Anthony Ivancovich, California ISO
Ben Arikawa, California ISO
Ken Jaffe, Alston & Bird
Ron Minsk, Alston & Bird
Edith Ann Gilmore, FERC
Peter Burger, Bonneville Power Administration
James Donald Pembroke, City of Redding, Duncan, Weinberg, Genzer & Pembroke, P.C.
Ronald D. Pfeifer, City of Santa Clara
Rod Aoki, CAC/EPUC, Alcantar & Kahl LLP
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Lisa S. Gast, MSR Public Power Agency, Duncan, Weinberg, Genzer & Pembroke, P.C.
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Michael A. Yuffee, Morgan Stanley Capital Group, McDermott, Will & Emery
Sean Neal, Modesto Irrigation District, Duncan, Weinberg, Genzer & Pembroke, P.C.
Chad Naylor, Pacific Gas & Electric Company
Natalie L. Hocken, PPM Energy, Troutman Sanders LLP
Greg Barnes, Sempra Energy
Robert B. Gex, Bay Area Rapid Transit, Davis Wright Tremaine LLP
Erin K. Moore, Southern California Edison Company
Stephen Angle, Transalta Energy Marketing, Vinson & Elkins LLP
Derek A. Dyson, Transmission Agency of Northern CA, Duncan, Weinberg, Genzer & Pembroke, P.C.
Andrea Settanni, Powerex, Bracewell & Giuliani LLP

Attachment E

Clean Revised PG&E Tariff Sheets

Appendix A
Control Area Agreement (CAA) Customers

CAA CUSTOMERS	CONTROL AREA AGREEMENTS
Bay Area Rapid Transit District	Service Agreement No. 42 under FERC Electric Tariff, First Revised Volume No. 3 (OAT)
San Francisco (City and County of)	Interconnection Agreement—PG&E Revised Rate Schedule FERC No. 114
Western Area Power Administration (Western)	Transmission Agreement–PG&E Rate Schedule FERC Nos. 60 and 227

Attachment F

Redlined Revised PG&E Tariff Sheets

Appendix A
Control Area Agreement (CAA) Customers

CAA CUSTOMERS	CONTROL AREA AGREEMENTS
Bay Area Rapid Transit District	Service Agreement No. 42 under FERC Electric Tariff, First Revised Volume No. 3 (OAT)
~~Modesto Irrigation District~~	~~Interconnection Agreement—PG&E Rate Schedule FERC No. 116~~
San Francisco (City and County of)	Interconnection Agreement—PG&E Revised Rate Schedule FERC No. 114
~~Turlock Irrigation District~~	~~Interconnection Agreement—PG&E Rate Schedule FERC No. 213~~
Western Area Power Administration (Western)	Transmission Agreement-PG&E Rate Schedule FERC Nos. 60 and 227

Attachment G

Explanation of Stakeholder Process

2007 GMC STAKEHOLDER PROCESS

The ISO initiated the GMC 2007 Options stakeholder process by posting a White Paper on the ISO website on February 24, 2006.[1] In the White Paper, the ISO proposed several options to stakeholders for their review and comment, including a proposal that would involve a modified GMC rate design based on the anticipated implementation of MRTU on November 1, 2007. The ISO also offered, as its preferred approach, a "standstill" option that would extend the existing GMC rate design adopted in the 2004 Settlement Agreement, with minor modifications, through the interim period from January 1, 2007 until October 31, 2007 (the ISO "straw proposal"). A stakeholder conference call was held on March 7, 2006[2] and parties were asked to provide comments on the options presented in the White Paper by March 13, 2006. The stakeholder comments that were submitted were posted on the ISO website.[3]

The ISO held the initial stakeholder meeting regarding the 2007 GMC options on March 20, 2006, with interested parties participating both in person and by telephone.[4] Following a discussion of the comments, there was general agreement among a majority of the participating parties that the ISO's "standstill" straw proposal should be pursued and the 2004 Settlement Agreement, with minor modifications, be extended until the earlier of December 31, 2007 or MRTU implementation. The ISO also agreed to provide GMC bill impact information, by April 10, 2006, to participating parties pursuant to nondisclosure agreements to protect confidential information.[5] Following the first stakeholder meeting, on March 23, 2006, the ISO sent a letter to all parties of record in Docket Nos. ER04-115-000/EL04-47-000 and ER04-242-000/ EL04-50-000 advising them of both the GMC discussions taking place and the apparent direction in those discussions to extend the 2004 Settlement Agreement into 2007, and soliciting their participation in the process.

At a second stakeholder meeting on April 25, 2006,[6] which was attended by interested parties both in person and by telephone, a majority of the participants agreed to the process by which to extend portions of the 2004 Settlement Agreement would be filed with the Commission. A working group was formed to review language to be incorporated into the ISO's transmittal letter accompanying the tariff changes and other non-tariff provisions that would extend into 2007. During the initial review process,

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1 The White Paper is available on the ISO website at: http://www.caiso.com/17a7/17a7885b484d0.html.

2 Documents related to this conference call are available on the ISO website at: http://www.caiso.com/17b5/17b58a16428f0.html.

3 These documents are available on the ISO website at: http://www.caiso.com/17a7/17a7885b484d0.html.

4 On March 10, 2006, prior to the meeting, the ISO issued a market notice informing market participants of the meeting, the topics of concern and the method for participating. Documents related to this meeting are posted on the ISO website at: http://www.caiso.com/17b5/17b589b1424b0.html.

5 A market notice regarding the dissemination of this GMC bill impact information was issued on March 27, 2006.

6 The market notice advising interested parties of this meeting was issued on March 31, 2006. Documents for this meeting are posted on the ISO website at: http://www.caiso.com/17c9/17c9ac60416f0.html.

members of the working group agreed that the ISO filing should be combined with a filing by PG&E requesting Commission approval to continue to pass through approved GMC charges to PG&E's PTT customers. The working group exchanged draft language and discussed language changes on a conference call held on May 11, 2006. The draft language developed by the stakeholder working group was made publicly available for all interested parties to review.[7] No participant in the stakeholder process expressed opposition to the standstill approach or its description in the draft transmittal language; the parties listed in footnote [1] of the transmittal expressed support for or non-opposition to the approach reflected in the draft language.

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7 Draft language was posted on the ISO website on April 25, 2006.