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October 31, 2007

The Honorable Kimberly D. Bose  
Secretary  
Federal Energy Regulatory Commission  
888 First Street, NE  
Washington, DC 20426

**RE: California Independent System Operator Corporation  
Docket No. ER08-\_\_\_-000  
Revisions to Grid Management Charge**

**Pacific Gas and Electric Company  
Docket No. ER08-\_\_\_-000  
Pass Through Tariff**

Dear Secretary Bose:

Pursuant to Section 205 of the Federal Power Act ("FPA"), 16 U.S.C. § 824d, and Section 35 of the Commission's Regulations, 18 C.F.R. § 35 (2007), the California Independent System Operator Corporation ("ISO") and Pacific Gas and Electric Company ("PG&E") submit for filing six copies of revisions to the ISO's Grid Management Charge ("GMC") rate formula and PG&E's Pass-Through Tariff ("PTT") designed to continue the current Grid Management Charge ("GMC") rate design until the earlier of January 1, 2009, or the implementation of the ISO's Market Redesign and Technology Upgrade ("MRTU").<sup>1</sup> Two additional copies are enclosed to be time-stamped and returned to our messenger.

The GMC is the rate through which the ISO recovers its administrative and operating costs, including the costs incurred in establishing the ISO prior to the commencement of operations. The GMC operates on a formula basis, subject to certain restrictions. In particular, the ISO is authorized to implement changes to the GMC

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

charges by applying the GMC formula rate to the ISO's budgeted revenue requirement, as long as the ISO's annual budget does not exceed \$195 million. The current GMC was established by the ISO's filing of minor revisions to the GMC rate formula on July 26, 2006, which were accepted by an order issued on delegated authority on September 6, 2006. That filing established the GMC rate design through the earlier of the implementation of the ISO's MRTU, which was then projected for November 1, 2007, or January 1, 2008.

The purpose of this filing is to establish the GMC rate design to take effect on January 1, 2008 (the "2008 GMC Rate Design"), because MRTU is now scheduled to take effect on March 31, 2008. As explained below, the ISO proposes to continue in effect the existing GMC rate design without change. Accordingly, PG&E proposes to continue the current rate design for its PTT, with only one minor modification to PG&E's tariff regarding the list of customers that take service under its PTT. At a later date, in advance of the scheduled effective date of MRTU, the ISO will submit to the Commission any necessary revisions to the GMC rate design that it proposes to make in connection with the implementation of MRTU.

The ISO has conducted an extensive stakeholder process, during which an extension of the current GMC rate design, and the GMC rate design to be implemented when MRTU goes into effect, were discussed with all interested parties. While discussions regarding the GMC rate design to be implemented concurrent with MRTU are ongoing, the ISO is authorized to state that numerous stakeholders who participated in that process support or do not oppose the continuation of the current GMC rate design in 2008, pending the start-up of MRTU.<sup>2</sup>

The ISO respectfully submits that the continuation of the existing GMC rate formula, as proposed in this filing, is just, reasonable and neither unduly discriminatory nor unduly preferential. The ISO requests that the Commission accept the enclosed tariff sheets to continue in effect the existing GMC rate design with an effective date of January 1, 2008.

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<sup>2</sup> 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, the California Department of Water Resources State Water Project, the Cogeneration Association of California, the Energy Producers and Users Coalition, Portland General Electric, the California Public Utilities Commission, Bonneville Power Administration and the California Electricity Oversight Board. The ISO 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.

The Honorable Kimberly D. Bose  
October 31, 2007  
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I. COMMUNICATIONS

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

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## II. CONTINUATION OF CURRENT GMC RATE DESIGN

The 2007 GMC filing, *i.e.*, ER06-1281 and ER06-1282, continued in effect, with one minor modification, the GMC formula rate established by the Commission's September 22, 2005 Order in Docket No. ER04-115, accepting a settlement that established the GMC rate design from January 1, 2004, through December 31, 2006. Like the GMC rate design adopted in that order, the current GMC provides that as long as the ISO's budgeted revenue requirement for 2007 did not exceed a trigger specified in the tariff (\$195 million for 2007), it could employ the 2007 GMC rate design to establish charges to recover that revenue requirement without the need for a section 205 filing. Because the ISO's revenue requirement for Budget Year 2007 was \$190 million, the ISO's current GMC charges were established to collect that amount. The current GMC also requires the ISO to submit a filing under section 205 seeking approval of GMC rates to become effective on the earlier of January 1, 2008 -- even if it makes no changes to the rate design -- or MRTU implementation. This filing fulfills that obligation.

Because the proposed effective date for the MRTU initiative has been postponed beyond December 31, 2007, the ISO proposes to maintain the existing GMC formula rate without modification until the earlier of the implementation date of MRTU or January 1, 2009. This proposal includes maintaining the current revenue requirement filing trigger of \$195 million for budget year 2008. The ISO anticipates that the 2008 budget will not exceed this revenue level, but, consistent with the current GMC, should budgeted revenues exceed this level the ISO will submit a filing under section 205 requesting approval for GMC charges to collect an increased revenue requirement. A revenue requirement that is \$195 million or less will be collected through adjustments to the GMC without a section 205 filing. Because the ISO is proposing to extend the current GMC without modification, the revised tariff sheet that implements the 2008 GMC Rate Design makes only a single change: it replaces the December 31, 2007 outside date for the submission of the current GMC rate design with a date of December 31, 2008. A replacement tariff sheet is contained in Attachment 1 of this filing; a black-lined tariff sheet, marked to show this change, is included in Attachment 2.

In addition, the ISO acknowledges that the Commission required the ISO to address the "application of GMC to TORs ['Transmission Ownership Rights'] in its section 205 filing addressing the GMC to become effective in January 2008." *California Independent System Operator Corp.*, 119 FERC ¶ 61,313 at P 325 n.210 (2007), *reh'g pending*. The ISO is working on this issue with stakeholders in the context of the GMC rate design under MRTU and, in an attempt to achieve as wide-ranging a consensus as possible on this issue, proposes that this issue be addressed in its future filing on GMC rate design under MRTU.

### III. PG&E'S PASS-THROUGH TARIFF

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. Subsequently, the Commission approved PG&E's request to pass-through the ISO's 2004 GMC in its February 2, 2005 Order.

Consistent with the ISO's proposal to continue using the current GMC rate design until the earlier of MRTU implementation or January 1, 2009, PG&E proposes to continue using this same rate design in its PTT. Furthermore, once the ISO has finalized its 2008 revenue requirement and implements new GMC rates, PG&E will likewise modify the rates charged to its PTT customers to be consistent with the ISO's rates. Should the ISO's revenue requirement for 2008 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 blacklined tariff sheets, as Attachments 3 and 4 to this filing, respectively, noting the current list of PTT customers.

### IV. PROPOSED EFFECTIVE DATE

The ISO requests that its 2008 GMC Rate Design take effect on January 1, 2008.

### 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 no change is proposed to the existing GMC rate formula, the ISO believes it does not constitute a rate increase. Accordingly, this abbreviated filing includes the following, in addition to this transmittal letter:

- (1) Attachment 1: Clean Revised ISO Tariff Sheets
- (2) Attachment 2: Blacklined Revised ISO Tariff Sheets
- (3) Attachment 3: Clean Revised PG&E Tariff Sheets
- (4) Attachment 4: Blacklined Revised PG&E Tariff Sheets

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, without any changes.

**VI. 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.

**VII. SERVICE**

A copy of this filing has been served on each ISO Scheduling Coordinator, the California Public Utilities Commission, the California Electricity Commission, and the California Electricity Oversight Board.

**VIII. CONCLUSION**

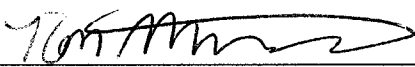
WHEREFORE, the California Independent System Operator Corporation requests that the Commission accept the 2008 GMC Rate Design, and Pacific Gas and Electric Company requests that the Commission accept the 2008 Pass-Through Tariff, to be effective, and supersede the current rates, on January 1, 2008.

Respectfully submitted,

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# **Attachment 1**

## 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 2008 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 2008 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, 2009 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.



# **Attachment 2**

## Blacklined ISO Tariff Sheets

**ISO TARIFF APPENDIX F**  
**Schedule 1**

**Grid Management Charge**

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**Part D – Information Requirements**

**Budget Schedule**

The ISO will convene, prior to the commencement of the Annual Budget process, an initial meeting with stakeholders to: (a) receive ideas to control ISO costs; (b) receive ideas for projects to be considered in the capital budget development process; and, (c) receive suggestions for reordering ISO priorities in the coming year.

Within 2 weeks of the initial meeting, the ideas presented by the stakeholders shall be communicated in writing to the ISO's officers, directors and managers as part of the budget development process, and a copy of this communication shall be made available to stakeholders.

Subsequent to the initial submission of the draft budget to the finance committee of the ISO Governing Board, the ISO will provide stakeholders with the following information: (a) proposed capital budget with indicative projects for the next subsequent calendar year, a budget-to-actual review for capital expenditures for the previous calendar year, and a budget-to-actual review of current year capital costs; and, (b) expenditures and activities in detail for the next subsequent calendar year (in the form of a draft of the budget book for the ISO Governing Board), budget-to-actual review of expenditures and activities for the previous calendar year, and a budget-to-actual review of expenditures for the current year. Certain of this detailed information which is deemed commercially sensitive will only be made available to parties that pay the ISO's GMC (or regulators) who execute a confidentiality agreement.

The ISO shall provide such materials on a timely basis to provide stakeholders at least one full committee meeting cycle to review and prepare comments on the draft annual budget to the finance committee of the ISO Governing Board.

At least one month prior to the ISO Governing Board meeting scheduled to consider approval of the proposed budget, the ISO will hold a meeting open to all stakeholders to discuss the details of the ISO's budget and revenue requirement for the forthcoming year. To the extent that such a meeting will deal with complex matters of budgetary and policy import, the ISO will endeavor to host a workshop on the ISO's budget preparation process in advance of the meeting to better prepare stakeholders.

Prior to a final recommendation by the finance committee of the ISO Governing Board on the ISO's draft annual budget, the ISO shall respond in writing to all written comments on the draft annual budget submitted by stakeholders and/or the ISO shall issue a revised draft budget indicating in detail the manner in which the stakeholders' comments have been taken into consideration. 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 2008~~7~~ 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 2008~~7~~ 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, 2009~~8~~ 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.

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# **Attachment 3**

## Clean Revised PG&E Tariff Sheets

**Appendix A**  
**Control Area Agreement (CAA) Customers**

<b>CAA CUSTOMERS</b>	<b>CONTROL AREA AGREEMENTS</b>
Bay Area Rapid Transit District	Service Agreement No. 42 under FERC Electric Tariff, First Revised Volume No. 3 (OAT)

**Attachment 4**  
Blacklined 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)
<del>San Francisco (City and County of)</del>	<del>Interconnection Agreement PG&amp;E Revised Rate Schedule FERC No. 114</del>
<del>Western Area Power Administration (Western)</del>	<del>Transmission Agreement PG&amp;E Rate Schedule FERC Nos. 60 and 227</del>