

**UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION**

California Independent System Operator Corporation)	Docket Nos. ER01-313-000 and ER01-313-001
)	
Pacific Gas and Electric Company)	Docket Nos. ER01-424-000 and ER01-424-001
)	

**SUMMARY OF THE REBUTTAL TESTIMONY OF
PHILIP R. LEIBER ON BEHLF OF THE CALIFORNIA
INDEPENDENT SYSTEM OPERATOR CORPORATION**

Mr. Leiber addresses testimony of Staff and intervenors regarding the ISO's revenue requirement and its allocation of costs among the three categories of the Grid Management Charge ("GMC").

With respect to the revenue requirement, Mr. Leiber first explains that the ISO, as a non-profit corporation with no rate base, has no incentive to increase its costs and has implemented various cost-control measures; thus, he does not agree with witnesses' calls for additional cost control measures. He explains that the historical increase in the ISO's revenue requirement has been due to the difficulties in the California markets and the electricity industry in general, which – along with regulators responding to those difficulties -- have constantly imposed additional responsibilities and obligations on the ISO. Exh. No. ISO-21 at 5-10. He specifically addresses, and explains the shortcomings of, cost-control measures recommended by Mr. Jobson, Mr. Helsby and Mr. Pointer. Exh. No. ISO-21 at 10-15. He notes that the ISO believes the recommendation of Mr. Ramirez, testifying for the California Public Utilities Commission, has merit. Under that proposal, the ISO would be required to file under the Federal Power Act to implement rate increases only whenever the ISO's overall revenue requirement, or the revenue requirement for any of the three categories of the GMC, increased above certain pre-determined "trigger" amounts. Exh. No. ISO-21 at 15-18.

Mr. Leiber explains why several proposals by witnesses for specific reductions in the ISO's filed revenue requirement should not be adopted. These proposals include a freeze on the number of ISO employees; implementation of certain alleged "reductions" discussed in a memorandum from ISO management to the ISO Governing Board during the budgetary process for 2001; elimination of amounts in the budget for debt service; and elimination of employee bonuses. Exh. No. ISO-21 at 18-28.

With respect to allocations among the three categories of the GMC, Mr. Leiber reviews the background of the unbundling of the GMC and the selection and description of the three cost categories, as well as the manner of allocating costs to the three categories for 2001. Exh. No. ISO-21 at 28-34. He then addresses specific criticisms of

the allocation process interposed by witnesses, as well as witnesses' specific recommendations for re-allocations. Exh. No. ISO-21 at 34-54. Mr. Leiber explains why the ISO believes its method of allocation for 2001 should be acceptable, Exh. No. ISO-21 at 35-39, and addresses the suggestion by some that ISO employees should keep timecards. Exh. No. ISO-21 at 39-43. He addresses criticisms of headcount as an allocation mechanism, Exh. No. ISO-21 at 43-45, and suggestions for re-allocation of certain specific cost centers. Exh. No. ISO-21 at 45-54. He also explains various procedural concerns and problems with Dr. Kirsch's proposal for an entirely different approach to allocating the costs of Control Area Services, one of the three categories of GMC costs. Exh. No. ISO-21 at 54-57.

In discussing witnesses' testimony concerning allocation of costs, Mr. Leiber emphasizes several over-arching points. First, he explains that, as other witnesses have noted, the unbundling of the GMC is a "work in progress," and notes that the ISO has continued to make improvements in the process, many of which will be evidenced in the allocations for 2001. Second, he suggests that because unbundling is a work in progress, the appropriate course for the Commission to take, should it disagree with any allocations as filed by the ISO, is to make any re-allocations prospective only from the date of the Commission's decision. Third, he points out that the ISO is a non-profit, revenue-neutral entity that must recover its costs to remain in existence; as a consequence, should the Commission decide to order retroactive re-allocations, it should also make clear that the ISO may re-adjust billings to entities as necessary to ensure that the entities pay as if the Commission-ordered allocations had been in effect from the outset; after all, as Mr. Leiber emphasizes, re-allocation does not mean that the ISO has incurred costs imprudently, but that entities should pay different portions of those costs than was the case under the ISO's filing. Exh. No. ISO-21 at 50-53; 56-68.