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June 28, 2002

The 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. ER02-____-____
Amendment No. 45 to the ISO Tariff**

Dear Secretary Salas:

Pursuant to Section 205 of the Federal Power Act ("FPA"), 16 U.S.C. § 824d, and Section 35.13 of the Commission's regulations, 18 C.F.R. § 35.13, the California Independent System Operator Corporation ("ISO")¹ respectfully submits for filing an original and six copies of an amendment ("Amendment No. 45") to the ISO Tariff. Amendment No. 45 would modify the Tariff to revise the process of updating the ISO's transmission Access Charge to reflect updated revenue requirements of Participating Transmission Owners. Currently, the ISO Tariff only provides for updating the rates twice a year. In addition, rather than requiring refunds, the ISO Tariff provides that overcollections will be treated as reductions of future charges. This amendment will require the ISO to revise the Access Charge when the Commission makes a new rate for a Participating Transmission Owner effective and on January 1 when the adjustment is made to the Transmission Revenue Balancing Account, and allows for refunds if the Commission approves such refunds. Additionally, the Amendment clarifies that only a UDC or MSS in the Service Area of a Participating TO pays the High Voltage and Low Voltage Access Charge, if applicable.

¹ Capitalized terms not otherwise defined herein are defined in the Master Definitions Supplement, Appendix A to the ISO Tariff, as filed August 15, 1997, and subsequently revised.

I. BACKGROUND

On March 31, 2000, in Docket No. ER00-2019-000, the ISO filed Amendment No. 27 to the ISO Tariff, proposing a new methodology for determining the transmission Access Charges, through which the embedded costs of the transmission facilities comprising the ISO Controlled Grid are recovered. The filing was required by legislation restructuring the California electric industry, and later by the Commission.² The ISO Governing Board approved the transmission Access Charge filing after an extensive stakeholder process. By Order dated May 31, 2000, the Commission accepted Amendment No. 27 for filing, suspended it, and set for hearing the proposed Access Charge methodology and related tariff revisions. The Commission also held the hearing in abeyance pending efforts at settlement and established settlement judge procedures with the Chief Judge acting as Settlement Judge. *California Independent System Operator Corporation*, 91 FERC ¶ 61,205 (2000) ("Amendment No. 27 Order"). Settlement efforts before the Chief Judge are ongoing.

Additionally, in the Amendment No. 27 Order, the Commission required the ISO to submit a compliance filing. The ISO submitted its compliance filing on August 6, 2000, as amended on August 7, 2000. On October 27, 2000, the Commission issued an order conditionally approving the ISO's compliance filing, subject to the outcome of the proceeding in Docket No. ER00-2019-000. *California Independent System Operator Corporation*, 93 FERC ¶ 61,104 (2000), *reh'g denied*, 94 FERC ¶ 61,148 (2001).

The original Access Charge methodology consisted of utility-specific rates for the three Original Participating TOs based on the Transmission Revenue Requirements ("TRRs") of each Original Participating TOs. Under Amendment No. 27, this methodology continued until a New Participating TO joined the ISO, which occurred when the City of Vernon, California ("Vernon") became a New Participating TO.³ Under the new methodology, the Access Charge for High

² Section 9600(a)(2)(A) of the California's AB 1890 required the ISO to recommend a new rate methodology within two years after commencement of operations. See *Pacific Gas and Electric Company, et al.*, 77 FERC ¶ 61,204 at 61,827 (1996).

³ Vernon filed with the ISO a notice of intent on June 30, 2000, and an application on August 2, 2000, that proposed turning over Operational Control of its undivided minority ownership interests in certain transmission facilities to the ISO. Vernon stated its intent to become a Participating TO on January 1, 2001. On August 30, 2000, as amended on August 31, 2000, Vernon filed a Petition for Declaratory Order with the Commission to determine that Vernon's proffered TRR was appropriate for inclusion in the ISO's transmission Access Charges. As part of that docket Vernon also filed a proposed Transmission Owner Tariff ("TO Tariff"). On October 27, 2000, the Commission issued an order in Docket No. EL00-105-000 revising and conditionally accepting Vernon's TRR. *City of Vernon, California*, 93 FERC ¶ 61,103 (2000), *reh'g denied*, 94 FERC ¶ 61,148 (2001). On November 1, 2000, the ISO filed, in Docket No. EC01-14-000, an application pursuant to Section 203 of the Federal Power Act to assume

Voltage Transmission Facilities is assessed based on the combined High Voltage Transmission Revenue Requirements of all the Participating TOs in each TAC Area, which now correspond to each of the four control areas that have been combined to form the ISO Control Area.⁴ Over a ten-year transition period, the High Voltage Access Charge ("HVAC") for these TAC Areas will be combined to form a single ISO Grid-wide Access Charge. The HVAC consists of a TAC Area component and an ISO Grid-wide component based on the individual Participating TO's High Voltage Transmission Revenue Requirement in that TAC Area divided by the Gross Load. The ISO Grid-wide component includes the costs of all capital investments in any new High Voltage Transmission Facilities, or additions to existing facilities, and a portion of all Participating TO's High Voltage Transmission Revenue Requirement divided by the total Gross Load that will increase by ten percent each year. At the end of the ten-year period, the HVAC will be one rate for the entire ISO Controlled Grid. The Low Voltage Access Charge continues to be a license plate rate based on the individual Participating TOs' Low Voltage Transmission Revenue Requirements.

On October 6, 2000, Pacific Gas and Electric Company ("PG&E") in Docket No. ER01-66-000 filed a revised TO Tariff ("TO5") revising their Transmission Revenue Requirement. TO5 revised the utility-specific rate for PG&E from \$1.3766/MWh to \$1.7021/MWh. The Commission accepted the filing, suspended it for five months, and made it effective subject to refund on May 6, 2001. The parties in the proceeding reached agreement in a settlement filed at the Commission on June 6, 2001 which the Commission approved on July 26, 2001. *Pacific Gas & Electric Company*, 96 FERC ¶ 61,122 (2001) The settled utility-specific rate is \$1.5518/MWh. The settlement requires that refunds be made to wholesale High Voltage and Low Voltage Wheeling customers pursuant to 18 C. F. R. Section 35.19a. Any amounts refunded to Wholesale Wheeling Customers shall be debited to the TRBAA in the first restatement of PG&E's TRBAA following all approvals of this Settlement

On December 28, 2000, in Docket No. ER01-819-000, the ISO filed Amendment No. 34 to the ISO Tariff to clarify certain issues associated with implementation of the transmission Access Charge methodology contained in Amendment No. 27; to provide information as to the new transmission Access Charge rates to reflect that Vernon would be joining the ISO as a New Participating TO effective January 1, 2001; and to provide information as to the

Operational Control of the facilities and Entitlements being turned over by Vernon. The Commission approved that application in an order issued on January 9, 2001. *California Independent System Operator Corporation*, 94 FERC ¶ 62,016 (2001).

⁴ High Voltage is defined as 200 kV and above. The ISO Control Area is now based on the previous Control Areas of PG&E, Southern California Edison Company, San Diego Gas & Electric Company, and the City of Pasadena, California.

amount of Firm Transmission Rights that would be given to Vernon in accordance with the ISO Tariff.

On December 29, 2000, San Diego Gas & Electric Company ("SDG&E") (in Docket No. ER01-831-000), Southern California Edison Company ("SCE") (in Docket No. ER02-832-000), and Pacific Gas and Electric Company ("PG&E") (in Docket No. ER02-839-000) each submitted for filing modifications to their respective TO Tariffs in order to implement the transmission Access Charge methodology proposed in Amendment No. 27 and Amendment 34. Collectively ER01-819-000, ER01-831-000, ER01-832-000 and ER01-839-000 are referred to as the "Implementation Dockets".

By Order dated February 21, 2001, the Commission accepted Amendment No. 34 for filing, suspended it, made it subject to refund, and consolidated it with Docket No. ER00-2019-000 for purposes of hearing and settlement discussions. The Commission also accepted for filing, suspended, made subject to refund, and set for hearing, in part, the filings submitted by SDG&E, SCE, and PG&E on December 29, 2000, and consolidated these three dockets. *California Independent System Operator Corporation, et al.*, 94 FERC ¶ 61,147, clarified, 95 FERC ¶ 61,090 (2001) ("Amendment No. 34 Order").⁵

On June 29, 2001, the ISO submitted an informational filing updated the proposed Access Charge to reflect the biannual change of the Access Charge and the changes to PG&E's Transmission Revenue Requirement. By Order dated August 28, 2001, the Commission accepted the filing subject to the outcome of the proceedings in Docket Nos. ER00-2019-000, *et al.* *California Independent System Operator Corporation*, 96 FERC ¶ 61,231 (2001).

On December 21, 2001, in the proceedings established by the Amendment No. 34 Order concerning Docket Nos. ER01-831-000, ER01-832-000, and ER01-839-000, SCE, SDG&E, and PG&E submitted an offer of settlement. *Inter alia*, the offer of settlement specified, for each of those Participating TOs, agreed-upon Transmission Revenue Requirements, including specific rate components for the development of High Voltage and Low Voltage Access Charges and Wheeling Access Charges.⁶ The Commission accepted the settlement on February 27, 2002.

⁵ On February 21, 2001, the Commission also issued an order accepting amendments to the Transmission Control Agreement entered into by the ISO and the Participating Transmission Owners to recognize Vernon's status as a Participating TO. *California Independent System Operator Corporation*, 94 FERC ¶ 61,141 (2001).

⁶ The offer of settlement also provided that the Participating TOs' Transmission Revenue Requirements, agreed to in the offer of settlement, and the Transmission Revenue Requirement of Vernon, would not be subject to retroactive adjustment as a result of any Commission decision in Docket Nos. ER00-2019-000, *et al.* (or any successor docket). Moreover, the offer of settlement was not intended to affect or limit, in any way, implementation of the transmission

On December 28, 2001, SDG&E (in Docket No. ER02-635-000, SCE (in Docket No. ER02-636-000), and PG&E (in Docket No. ER02-637-000) each submitted for filing a revision to the rates for the Transmission Revenue Balancing Account Adjustment and the Transmission Access Charge Balancing Account Adjustment set forth in its respective TO Tariff, to become effective January 1, 2002. This adjustment is anticipated to be done annually.

On January 31, 2002, SCE (in Docket No. ER02-925-000) submitted for filing a revision to its TO Tariff to reflect: (1) an increase in the Base transmission rate levels applicable to wholesale and retail service consistent with the increase in the Base Transmission Revenue Requirements; (2) a reduction to the Transmission Revenue Balancing Account Adjustment; and (3) changes to certain terms and conditions of the TO Tariff necessitated by the proposed transmission rate changes. This SCE's is the first Transmission Revenue Requirement increase since the ISO Operations Date.

On May 2, 2002, SDG&E submitted an Application for Approval of Increase to Transmission Supplemental Surcharge Rate that revised SDG&E's TRR and Gross Load.

II. PROPOSED TARIFF REVISIONS

The ISO Tariff as filed in Amendment 27 and 34 provided that rates would be modified twice annually on January 1, and July 1. This was intended to give Market Participants a measure of rate stability. The rate stabilization program is reflected in Appendix F, Schedule 3, Section 8 of the ISO Tariff. Overcollections were addressed as reductions to future Access Charges. The impact of the rate stabilization methodology is discussed more fully in the Prepared Direct Testimony of Deborah A. Le Vine, Attachment C.

The settlement regarding PG&E's TO5 rate requires the ISO to make refunds to the Wheeling customers. Since the rate stabilization plan works on a going forward basis, however, the ISO does not have the ability to revise the charges to the Wheeling customers and not the other Access Charge customers. If the ISO were to implement these refunds, it would then be required to charge

Access Charge, including the transmission Access Charge methodology and the level of the transmission Access Charge cost-shift effective January 1, 2001, as determined through any final Commission resolution in Docket Nos. ER00-2019-000, *et al.* (or any successor docket). Wholesale refunds related to High and Low Voltage Wheeling Access Charges were to be made on a biannual basis only, pursuant to 18 C.F.R. Section 35.19a. Any amounts refunded to Wholesale Wheeling Customers were to be debited to the TRBAA. Nothing with respect to the treatment of refunds was to affect a party's rights with regard to Section 8.1 of Schedule 3 of Appendix F of the ISO Tariff.

Wheeling customers a different rate than Access Charge customers, while both are receiving the same transmission service from the ISO.

With eighteen months experience with the ISO's Access Charge methodology, and the eleven filings the Participating TOs have made, the ISO believes the original rate stabilization plan is not practical. The ISO now proposes to recalculate updated transmission Access Charges and Wheeling Access Charges based on the effective date the Commission establishes for a revision to the Transmission Revenue Requirement of a Participating TO. The updated transmission Access Charge and Wheeling Access Charge will be reflected in the invoices for the trade months coincident with the effective date for the new Transmission Revenue Requirement adopted by the Commission. Additionally, the ISO proposes that refunds associated with Commission Orders reducing proposed increases of Transmission Revenue Requirements or accepting settlements reducing proposed increases of Transmission Revenue Requirements will be calculated, with interest, in accordance with the order on the filing or the settlement.

To assist Market Participants, the ISO will post on the ISO Home Page notice of the FERC filing and a status page of rate increases. This will allow Market Participants to know the cost of transmission based on the most current information.

Additionally, the ISO proposes to clarify an issue regarding payment of the Access Charges versus the Wheeling Access Charges. Currently, the ISO has agreements with a total of eight UDCs. Only four of the UDCs, however, are Participating TOs. UDCs who are Participating TOs should pay the Access Charge. UDCs who are not Participating TOs should pay the Wheeling Access Charges.⁷ If the ISO implements Metered Subsystems ("MSS"), a MSS will be treated the same as a UDC. Additionally, Non-Participating TOs who are not UDCs who schedule transactions on the ISO Controlled Grid should pay the Wheeling Access Charge.

Lastly, while the existing Participating TOs have been revising their Transmission Revenue Balancing Account on an annual basis, the specific requirement is not yet reflected in the ISO Tariff. Additional language is being proposed to provide uniformity among the Participating TOs regarding the timing of the calculation of revisions to the Transmission Revenue Balancing Account.

⁷ PG&E, SCE, SDG&E and Vernon are Participating TOs and UDCs. The Cities of Anaheim, Pasadena and Riverside, along with Lassen Municipal Utility District are UDCs but not Participating TOs.

III. ACCESS CHARGE RATES

In accordance with the existing ISO Tariff, the ISO would be making an informational filing to identify the new rates effective July 1, 2002. If the Commission makes this Tariff amendment effective July 1, 2002, the ISO will provide cash refunds as required in the PG&E TO5 case and would refund the differences between the initial and final rates approved by the Commission in the Implementation Dockets. The rate going forward would not include the rate stabilization methodology, but instead provide immediate refunds to Market Participants and would allow for the Access Charge and Wheeling Access Charge to change as ordered by the Commission. Attachment D provides the ISO Access Charge rates for July 1, 2002 based on this premise.

Attachment D provides the Access Charge and Wheeling Access Charge based on the current Transmission Revenue Requirements ("TRR") and Transmission Revenue Balancing Accounts ("TRBA") of the Participating TOs. These rates will change: (1) when any Participating TO submits a change to their TRR or TRBA and the Commission makes such change effective, (2) whenever a New Participating TO joins the ISO, and (3) on January 1 of every year when the Participating TOs adjust their TRBA. Refunds and credits will be done in accordance with Commission orders.

If the Commission does not allow this Tariff amendment to become effect on July 1, 2002, the ISO's Access Charge will include the settlement for the Implementation Docket but not for the PG&E TO5 case. Attachment E provides the Access Charge and Wheeling Access Charge based on the current TRR and TRBA of the Participating TOs, including the refunds directed in the Implementation Dockets but not the PG&E TO5 refund to Wheeling customers. The refunds are included based on the 90/10 transition for 2001, including interest calculated in accordance with 10 CFR 35.19(a).

IV. EFFECTIVE DATE

The ISO respectfully requests waiver of the Commission's 60-day prior notice requirement, pursuant to Section 35.3 of the Commission's regulations, 18 C.F.R. § 35.3 in order to make these revisions effective on July 1, 2002. Good cause supports the request for waiver as it will enable the ISO to process the PG&E TO5 settlement in accordance with Commission orders, and allow the ISO to continue charging similarly situated transmission customers the same rate for transmission.

V. SERVICE

The ISO has served this filing on the Public Utilities Commission of the State of California, the California Energy Commission, the California Electricity Oversight Board, and all parties with effective Scheduling Coordinator Service Agreements under the ISO tariff. In addition, the ISO has posted a copy of the filing on its Home Page.

VI. COMMUNICATIONS

Communications regarding this filing should be addressed to the following individuals, whose names should be placed on the official service list established by the Secretary with respect to this submittal:

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VII. SUPPORTING DOCUMENTS

The following documents, in addition to this letter, support this filing:

Attachment A	Revised Tariff Sheets
Attachment B	Blackline of Tariff provisions
Attachment C	Testimony of Deborah A. Le Vine
Attachment D	Access Charge Rates for July 1, 2002, if the proposed amendment is accepted.
Attachment E	Access Charge Rates for July 1, 2002, if the proposed amendment is not accepted.
Attachment F	Notice of this filing, suitable for publication in the Federal Register (also provided in electronic format)

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An additional copy of this filing is enclosed to be date-stamped and returned to our messenger. If there are any questions concerning this filing, please contact the undersigned.

Respectfully submitted,



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