November 1, 2000

The Honorable David P. Boergers
Secretary
Federal Energy Regulatory Commission
888 First Street, NE
Washington, DC 20426

Re: California Independent System Operator Corporation
Docket No. ER01-___-000

Dear Secretary Boergers:

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, the California Independent System Operator Corporation ("ISO") submits for Federal Energy Regulatory Commission ("FERC" or "the Commission") approval an unbundled Grid Management Charge ("GMC").[1] The purpose of the unbundled GMC is to allow the ISO to recover its administrative and operating costs, including the costs incurred in establishing the ISO before operations began, in a manner that attributes those costs to the entities that caused them to be incurred. The ISO requests an effective date of January 1, 2001.

I. Background

A. Original Filing

The ISO originally proposed a Grid Management Charge in a filing made on October 17, 1997 in Docket No. ER98-211-000. The original GMC was a bundled formula rate designed to collect the costs of operating the ISO. Such costs included the ISO's start-up and development costs as well as ongoing operation and maintenance costs. The GMC took the form of a monthly charge assessed on all Scheduling Coordinators ("SCs").

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[1] Capitalized terms that are not defined in this transmittal letter are used in the sense given in the Master Definitions Supplement, Appendix A to the ISO Tariff.

The original GMC filing was met with numerous interventions and protests. Among the chief concerns of intervenors were the appropriateness of imposing the GMC on parties to Existing Transmission Contracts ("ETCs")[2] or on internal or "behind-the-meter" Load;[3] the failure of the original GMC to disaggregate the costs of various services and charge Market Participants only for those services they use;[4] and whether the cost of the GMC was just and reasonable and supported by evidence.[5]

B. April 1998 Settlement

The original filing resulted in an uncontested settlement agreement ("April 1998 Settlement" or "Settlement") filed on April 7, 1998. The Settlement represented a compromise intended to produce a GMC for 1998 only. It left the more difficult questions to be worked out by the ISO and stakeholders, with the resolutions intended to be included in a new GMC filing by the end of that year.

The Settlement provided for:

1) A 50 percent discount for ETC Load volumes (those transmitted using the ISO Controlled Grid under Existing Contracts with the Investor Owned Utilities in effect at startup);

2) A 100 percent exclusion for Load volumes in the ISO Control Area but not transmitted using the ISO Controlled Grid; and

3) A 100 percent exclusion for Load served by Qualifying Facility ("QF") generation on-site (*i.e.*, internal Load).

Under the Settlement, the GMC was assessed to each SC based on monthly Metered Consumption, and the ISO agreed to make annual informational filings calculating the GMC for the upcoming year based on the GMC formula and the year's projected cost data and transmission volumes.[6]

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2 Intervenors expressing this concern included the Northern California Power Agency ("NCPA"); the Transmission Agency of Northern California ("TANC"); Sacramento Municipal Utility District ("SMUD"); the California Municipal Utilities Association ("CMUA"); and the City and County of San Francisco.

3 Intervenors expressing this concern included CMUA; SMUD; and the Energy Producers and Users Coalition.

4 Intervenors expressing this concern included Nichols Consulting; the Cities of Anaheim, Azusa, Banning, Colton, and Riverside, California ("Southern Cities"); TANC; and SMUD.

5 Intervenors expressing this concern included Nichols Consulting; the City and County of San Francisco; the Bonneville Power Administration; TANC; and SMUD.

6 The ISO made its first such filing on December 15, 1998 in Docket No. ER99-921-000. The charge calculated in that filing, and accepted by the Commission, was $0.7781 per MWh. *California Independent System Operator Corporation*, 87 FERC ¶ 61,106 (1999). The second informational filing was made on December 15, 1999 in Docket No. ER00-800-000. The charge calculated in that filing, and

Additionally, in the Settlement the parties agreed that the ISO would not assess any Grid Operations Charge, charge for Black Start, Voltage Support, or Unaccounted For Energy (together, "the Specified Charges") or a GMC for any transmission service that did not use any part of the ISO Controlled Grid. Finally, the parties agreed not to challenge the level of the GMC for 1998 at any time in any forum.

In the Settlement, the ISO agreed to "act as the facilitator for the performance of an unbundling study to identify if any ISO services should be separately priced." Settlement, paragraph 19. The decision as to whether to file new GMC rates on the basis of such an unbundling study was left to the discretion of the ISO Governing Board ("Board"). As required by the Settlement, a stakeholder Steering Committee was created to assist in the selection of a consultant to conduct the study, to receive periodic progress reports from the consultant, and to review the study and provide advice on the proposal to be presented to the Board.

A letter order accepting the Settlement was issued on June 1, 1998. 83 FERC ¶ 61,247.

On August 17, 1998, an Unbundling Study was produced by R. J. Rudden Associates, Inc., the consultant selected by the Steering Committee. This study is included in the instant filing as Ex. No. ISO-3. The Rudden Unbundling Study proposed a two-service category structure, dividing ISO services into Control Area Operations and Market Operations.

C. <u>October 1998 Filing</u>

After reviewing the results of the Rudden Unbundling Study, the members of the Steering Committee determined that more time and additional data not then available were necessary before a new GMC structure could be filed. In light of this, the ISO on October 28, 1998 filed in Docket No. ER99-473-000 a proposal to extend the current GMC rate methodology through June 30, 1999 (*i.e.*, six months beyond the date authorized by the April 1998 Settlement) ("October 1998 Filing"). The ISO proposed to retain the existing GMC formula, but to use projected 1999 figures.[7] The result was a bundled GMC rate of $0.7781 per MWh. This filing also extended the exemptions from both GMC and Specified Charges in the original Settlement.

Only one party, Enron Power Marketing, Inc., ("Enron") objected to the extension of the GMC through June 30, 1999. In pleadings filed on November 12 and 17, 1998,

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accepted by the Commission, was $0.830 per MWh. *California Independent System Operator Corporation*, 89 FERC ¶ 61,196 (2000). As described later in this Transmittal Letter, the ISO intends to supplement the instant filing with a third such filing on December 15, 2000 to reflect the unbundled GMC structure.

[7] These figures were presented in the December 15, 1998 Settlement-mandated informational filing. *See* note 6, *supra*.

Enron argued that it was inappropriate to extend the April 1998 Settlement, as the ISO was required to file a new GMC regardless of the status of the unbundling effort. Enron requested that the Commission either require the ISO to file a new GMC or to instigate an FPA §206 (16 U.S.C. §824e) investigation of the existing GMC.

On December 23, 1998, the Commission issued an Order accepting the October 1998 Filing, subject to refund.[8] The ISO had characterized this filing as a settlement, but the Commission determined that it should be treated as a rate filing under FPA §205, with a concomitant refund[9] effective date of January 1, 1999, the date upon which the rate went into effect. Both Enron and the ISO, in requests for rehearing, argued that refunds could be instituted only through an FPA §206 investigation, as the requested rate did not represent an increase over the existing rate.[10] By Order on Rehearing issued April 2, 1999,[11] the Commission altered its earlier decision and determined that the October 1998 Filing should be subject to an FPA §206 investigation. The Commission assigned Docket No. EL99-47-000 to this investigation. The refund effective date for the GMC of the October 1998 Filing was June 7, 1999, which was 60 days from Federal Register Notice of the commencement of the Commission's investigation into the filing. Such Notice was published on April 8, 1999 (64 FR 17150).

On January 20, 1999, the Western Power Trading Forum ("WPTF")[12] filed a Complaint against the ISO in Docket No. EL99-30-000. In its Complaint, WPTF argued that the October 1998 Filing violated the terms of the April 1998 Settlement, which required a new GMC to be filed by the end of the year. WPTF also argued that the existing GMC was unduly discriminatory, as it required some Market Participants to subsidize the activities of others, especially the holders of ETCs, and that the GMC had not been shown to be just and reasonable. The WPTF requested that the Commission set the matter for hearing and establish a refund effective date no later than 60 days from the date the Complaint was filed. The Commission dismissed the Complaint as moot by Order issued on April 2, 1999, the same day as its Order on Rehearing.[13] The

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8 *California Independent System Operator Corporation*, 85 FERC ¶ 61,433.

9 The Commission's decision to accept that GMC filing subject to refund prompted the ISO to request surcharge authority should such refunds be ordered. The ISO first sought such authority in its Request for Rehearing dated January 22, 1999. In the Order on Rehearing of April 2, 1999, the Commission denied the ISO's request for the authority to impose surcharges should refunds be ordered as being "premature." *California Independent System Operator Corporation*, 87 FERC ¶ 61,023, 61,095. The ISO again requested surcharge authority in the Amendment No. 16 proceeding described later in this letter. Again, the Commission declined to grant the ISO surcharge authority at that time. *California Independent System Operator Corporation*, 87 FERC ¶ 61,304, 62,229 (1999).

10 Indeed, the rates for 1999 represented a *decrease* from those in effect in 1998, from \$0.783 to \$0.7781 per MWh.

11 *California Independent System Operator Corporation,* 87 FERC ¶ 61,023 (1999).

12 Among the member of the WPTF is Enron Corporation.

13 *California Independent System Operator Corporation,* 87 FERC ¶ 61,016 (1999).

Commission found that WPTF's Complaint essentially duplicated arguments in Enron's Request for Rehearing of the December 23, 1998 Order, discussed above.

D. Amendment No. 16

On April 30, 1999, the ISO filed Tariff Amendment No. 16 in Docket No ER99-2730-000 to extend the GMC Settlement until December 31, 2000. The tariff provisions altered through Amendment No. 16 were those of Schedule 1 to Appendix F of the ISO Tariff, which contained references to the effective dates of the existing GMC formula.

The GMC Settlement extension proposed in Amendment No. 16 met with the support of most, but not all, stakeholders. In a Motion to Intervene and Protest filed on May 20, 1999, the WPTF requested that Amendment No. 16 be suspended, its rates be made subject to refund, and the matter be set for hearing and consolidated with Docket Nos. ER99-473-000 (the October 1998 Filing) and EL99-47-000 (the FPA §206 investigation of the October 1998 Filing). The WPTF reiterated its arguments from earlier GMC proceedings that the GMC was discriminatory in providing a discount or exemption to certain Market Participants at the expense of others, and that the filing lacked evidence to support the GMC.[14]

Among the parties to file pleadings supporting Amendment No. 16 were the Cities of Redding and Santa Clara, California and the M-S-R Public Power Agency, the CMUA[15], the EPUC and the Cogeneration Association of California ("CAC"), Modesto Irrigation District ("MID"), the Western Area Power Administration ("WAPA")[16], SMUD, the California Electric Oversight Board, and the NCPA.[17]

On June 17, 1999, the Commission accepted Amendment No. 16 and instituted an FPA §206 investigation of the filing, as it had in the ER99-473-000 proceeding.[18] *California Independent System Operator Corporation*, 87 FERC ¶ 61,304. The Commission assigned Docket No. EL99-67-000 to that investigation. Also like the earlier proceeding, the Amendment No. 16 filing was accepted subject to refund.[19] The

[14] Enron Energy Services Power, Inc. and Coral Power, LLC filed pleadings in support of the WPTF protest. Coral Power is a member of the WPTF.

[15] The Cities of Redding and Santa Clara, California, the M-S-R Public Power Agency, the CMUA, MID, and WAPA all supported the GMC proposal in Amendment No. 16, but not the ISO's request for surcharge authority in that filing.

[16] The EPUC and the CAC supported Amendment No. 16, but asked the Commission to require the ISO to submit a reliable cost study and to file for unbundled rates by a date certain, and did not endorse the ISO's request for surcharge authority.

[17] NCPA supported the extension of the GMC structure, but expressed concerns about how a surcharge might be passed on to it by Pacific Gas & Electric Company.

[18] *California Independent System Operator Corporation,* 87 FERC ¶ 61,304 (1999).

[19] The refund effective date for the Amendment No. 16 GMC is August 23, 1999. 64 FR 33854.

Commission did not set the proceeding for hearing, but stated that Docket Nos. ER99-473-000 (the October 1998 Filing) and ER99-2730-000 (Amendment No. 16) would be subject to the outcome of the proceeding in which the ISO filed a new GMC proposal (*i.e.*, the instant proceeding).[20]

E. Stakeholder Process[21]

As described in the testimony and supporting exhibits of Michael K. Epstein (Ex. Nos. ISO-1, ISO-2(1-34), and ISO-4) the ISO went through a lengthy and productive stakeholder process in developing the unbundled GMC presented in this filing. The process began in February 1998, when the ISO and stakeholders recognized that the negotiations that resulted in the April 1998 Settlement would not produce an unbundled GMC upon which all parties could agree, and that many issues needed to be resolved. The Commission, in response to the October 1998 Filing, encouraged the ISO and stakeholders "to pursue settlement of these issues even before the ISO files a new GMC based on the unbundling analysis."[22] The ISO took the lead in responding to the Commission's request and has since held numerous meetings to provide stakeholders a substantive role in shaping the GMC, in determining appropriate service categories and billing determinants, and in reviewing tariff language to implement the unbundled GMC methodology proposed by ISO Management to the Board. Even after the methodology and tariff language had been approved by the Board, the ISO continued to work with stakeholders, in particular with regard to the mechanisms by which the ISO could obtain the information necessary to calculate the GMC according to the billing determinants that had been developed and to implement the billing process.

II. Purpose of Filing

A. Cost Causation

The main objective of unbundling the GMC is to allocate costs fairly among all ISO system users, and minimize cost subsidization among Market Participants. In achieving this goal, the ISO has been guided by the principle of cost causation, *i.e.*, the principle that the ISO's costs, to the extent possible, should be attributed to those entities that caused them to be incurred. It is only when this has been achieved that the market can operate efficiently, with price signals directing market behavior towards optimum results.

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[20] The WPTF, supported by Enron Energy Services and Coral Power in a separate pleading, requested rehearing of the June 17, 1999 Order on July 19, 1999. The WPTF contended, *inter alia*, that the Commission had abused its discretion in failing to establish hearing procedures for the Amendment No. 16 proceeding. The Commission issued an Order Granting Rehearing for Further Consideration on August 10, 1999. No further action on the requests for rehearing has been taken.

[21] The stakeholder process is discussed in the Direct Testimony of Michael Epstein, Ex. No. ISO-1.

[22] 87 FERC at 61,095, n. 10.

Charging entities for the services they use is also important for reasons of fairness. The entire ISO Control Area, and not just those that use the ISO Controlled Grid, benefits from the ISO's services as operator of the Control Area. In order to promote use of the ISO Controlled Grid, and to encourage new entrants in the California electricity market, it is important that the market operation be fair, and also that it appear to be fair.

The ISO is confident that the GMC mechanism it has designed, with the considerable input of stakeholders, achieves the goals of fairness and cost causation. The proposed GMC assigns cost to those entities that cause them to be incurred, and treats all Market Participants equally.

B. Commission Guidance

In addition to concerns of equity and fairness, the ISO has also been influenced to file this GMC mechanism by guidance from FERC. The Commission has stated that costs should be assigned to those entities that cause them to be incurred: it "has long been a central tenet of [Commission] regulation that cost responsibility should track cost causation."[23] As well, the Commission's view that the next GMC should reflect the results of the unbundling stakeholder process was made apparent in Orders on the October 1998 Filing and on Amendment No. 16.[24] Moreover, Commission approval of unbundled cost recovery mechanisms filed by other Independent System Operators has contributed to the evidence that FERC favors unbundling such charges.

The other Independent System Operators that have undergone some form of service charge unbundling include the Pennsylvania - New Jersey - Maryland Interconnection ("PJM") and ISO New England ("ISO-NE").

PJM originally recovered its costs of administering its Tariff and operating its PX through a single charge. Pursuant to a settlement agreement filed with the Commission on May 12, 2000 and approved by letter Order on July 31, 2000,[25] PJM's costs are recovered through formula rates based on budget projections for the coming year and separated into eight different service categories.[26]

ISO-NE has a three-part fee structure for recovering its operating and administrative expenses. The three-part charge recovers expenses related to: (1)

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[23] *New England Power Pool*, 86 FERC ¶ 61,262 (1999).

[24] *See, e.g.*, 85 FERC at 62,633.

[25] *PJM Interconnection, L.L.C.*, 92 FERC ¶ 61,114.

[26] These service categories are: control area administration; capacity adequacy administration; point-to-point and network import transmission administration; fixed transmission rights administration; market support service; regulation and frequency response administration; internal energy transaction administration; and capacity resource and obligation management.

scheduling, system control and dispatch service; (2) energy administration service; and (3) reliability administration service. This three-service structure is the result of a settlement agreement filed with the Commission on June 16, 1999 and approved by letter Order issued July 19, 1999.

III. Structure of the Grid Management Charge

In unbundling its GMC, the ISO's process analysis focused on: 1) developing costs for various services (revenue requirement categories), and 2) developing billing determinants for these services. As a result of that analysis, the ISO will unbundle its services into three "buckets", or service categories, to be calculated using three billing determinants. The three service categories are A) Control Area Services/Scheduling, B) Inter-Zonal Scheduling, and C) Market Operations/Billing and Settlements.[27] These Service Categories were determined through extensive discussion and negotiations. They are the most suitable categories for the ISO at its current stage of development, and have met with widespread stakeholder support.

A. Control Area Services

Control Area Services include the ISO's costs, as the Control Area operator, of ensuring reliable, safe operation of the transmission grid and the entire Control Area. Among the services that the ISO undertakes to meet its Control Area operator responsibilities are: scheduling generation, imports, exports, and wheeling transactions the day before and the hour before actual operations; insuring adherence to regional and national reliability standards;[28] monitoring and developing transmission maintenance standards; performing operational studies and system security analyses; dispatching bulk power supplies; conducting system planning to ensure overall reliability; integrating with other Control Areas; providing emergency management; overseeing outage coordination; and performing transmission planning.

The billing determinant for Control Area Services is based on Control Area Gross Load and exports. Control Area Gross Load is defined as all Demand for Energy within the ISO Control Area. Control Area Gross Load does *not* include auxiliary Load (*i.e.*, energy used in the power production process) or Load that is electrically isolated from the ISO Control Area (*i.e.*, Load that is not synchronized with the ISO Control Area).

There is a philosophical disagreement between the ISO and certain Market Participants about the appropriateness of charging "behind-the-meter" Load, notably QF Load, their share of the Control Area Service Charge. Although the Board approved

[27] The methodology by which the ISO allocated its costs to the service categories is described in the Direct Testimony of Philip R. Leiber, Ex. No. ISO-7, and in an analytical support document appended thereto as Ex. No. ISO-9.

[28] Among the reliability standards that the ISO must uphold are those of the North American Electric Reliability Council and the Western Systems Coordinating Council.

Control Area Gross Load as the billing determinant for the Control Area Services Charge, QF representatives continued to express the opinion that "behind-the-meter" Load and Generation should be netted in establishing the billing determinants for the charge. Since all Market Participants, including QFs, benefit from the Control Area Services the ISO provides, the ISO's unbundling proposal assigns a share of the Control Area Services costs to the QFs.[29] While the QFs were exempted from the bundled GMC under the terms of the non-precedential settlement, the proposed unbundled charge properly assigns costs to the entities that cause them to be incurred.

A challenge associated with implementing the Board-approved billing determinant for Control Area Services, *i.e.*, Control Area Gross Load and exports, is the absence of metered data from all Market Participants. The ISO's current methods of obtaining Load data from SCs, however, include the use of estimated or profiled data and reflect the fact that most end-use customers are not ISO Metered Entities. With regard to the Control Area service Charge, most market Participants have agreed to provide the ISO with necessary Load data on which to bill the charge, whether or not there is ISO metering in place. The Direct Testimony of Michael K. Epstein (Ex. No. ISO-1) describes the ISO's efforts to design mechanisms to calculate the Control Area Services Charge in the absence of metered data (or receiving the Load data directly from customers). The Direct Testimony of James E. Price (Ex. No. ISO-12) describes the mechanism that the ISO utilized for this purpose.

B. Inter-Zonal Scheduling

Inter-Zonal Scheduling Services include the ISO's costs of Congestion Management. Congestion Management takes place during the scheduling process, and involves economically rationing transmission service in order to prevent congestion. Among the activities undertaken by the ISO and attributed to this service category are: Congestion Management, the Firm Transmission Right ("FTR") auction, FTR monitoring, FTR secondary market monitoring and scheduling.

The billing determinant for Inter-Zonal Scheduling Services is the absolute value of the net scheduled inter-zonal flow (excluding ETCs) per path for a given SC.

C. Market Operations

Market Operations Services include the ISO's costs of market and settlement related services. Settlement services include the billing of, and payments for, Energy, Ancillary Services capacity, and transmission service into, within, and out of the ISO Control Area. Settlement services also include the use of information from Day-Ahead scheduling, Hour-Ahead scheduling, and Real Time operations, as well as Market Clearing Prices, bid prices, Ex-Post Prices, and metered information from Generators, Loads, and Control Area inter-tie points.

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[29] *See* Direct Testimony of Trent A. Carlson, Ex. No. ISO-10.

Market operation services include: providing open and non-discriminatory transmission access, conducting Ancillary Services auctions, providing an Energy balancing service; posting market information; and conducting market surveillance and analysis.

The billing determinant for Market Operations Services is the proportion of a given SC's total purchases and sales of Ancillary Services, Supplemental Energy, and Imbalance Energy (both instructed and uninstructed), to the total purchases and sales of all SCs.

IV. Structure of Filing

The instant filing includes this Transmittal Letter, tariff revisions, testimony and exhibits explaining and justifying the unbundled GMC components and methodology, and Period 1 cost data in the form of the Cost Statements required under 18 CFR §35.13(h). For purposes of this filing, the ISO has used actual 1999 figures for its Period 1 data. Due to the timing of the ISO's budget process, Period 2 cost data is not yet available. The Period 2 data is proposed to be approved by the Board on November 30, 2000. Accordingly, on or before December 15, 2000, the ISO will submit Period 2 cost data, in the form of 18 CFR §35.13(h) Cost Statements using budgeted 2001 figures. The ISO regrets its inability to include both Periods of data in today's filing, but the ISO budget process was not complete, and the Period 2 data thus was not available, on this date. The December filing will be similar to the annual informational filings the ISO has made pursuant to the 1998 Settlement. *See* footnote 6, *supra*.

V. Description of Tariff Revisions

As described in the Direct Testimony of Michael K. Epstein, the tariff revisions necessary to implement the new GMC are as follows:

- Section 2.2.7.3 was revised to reflect the current calculation of estimated aggregate liabilities.
- Section 8.2, which describes the costs to be recovered through the GMC, has been revised to combine Start Up and Development Costs with Financing Costs.
- Section 8.3 now describes the three Service Categories of the GMC and the basis for their billing:
  (1) Control Area Services based on Control Area Gross Load and exports;
  (2) Inter-Zonal Scheduling based on net scheduled inter-zonal flow; and
  (3) Market Operations based on Purchases and Sales of Ancillary Services and Supplemental and Imbalance Energy (instructed and uninstructed).

- Section 8.4 describes the adjustments made to the annual rate and quarterly adjustments that may be made if forecast determinant volumes change by more than five percent.
- Definitions of the three Service Categories have been added, as has a definition of Control Area Gross Load. The definition of Gross Load has been revised to distinguish this concept, applicable to the transmission Access Charge, from Control Area Gross Load.
- Schedule 1 Part A was revised to reflect the three Service Categories.
- Schedule 1 Part B describes the adjustments made to the annual rate and quarterly adjustments that may be made if forecast determinant volumes change by more than five percent. It has been revised to reflect the three Service Categories.
- Schedule 1 Part C describes the costs recovered through the GMC and the maintenance of three separate memoranda accounts for each Service Category.
- Schedule 1 Part D describes the Budget process and information requirements that result in revenue requirements for the GMC.
- Scheduling and Billing Protocol ("SABP") 2.2.1 was revised to reflect the three Service Categories.
- SABP 3.1 was revised to provide for the use of the best available information where Metered Demand data is not provided, and to reflect the three Service Categories.
- SABP 3.2.1 and SABP 5 were revised to describe the details of the GMC Service Categories that will be provided on the invoices.
- SABP Appendix A was revised to describe the three Service Categories of the GMC, and how the rates of each are calculated.

A matrix of Tariff changes suggested by stakeholders, and the ISO's response to these suggestions, is included in this filing as Ex. No. ISO-4.

VI. Request for Surcharge Authority

The ISO requests the Commission to grant it surcharge authority, in the event that refunds of GMC payments previously made are deemed appropriate. As a non-profit entity, the ISO must remain revenue neutral and hence has no source from which to make such refunds, apart from funds that could be secured through a surcharge on SCs. If the Commission were to award refunds to Market Participants, but fail to allow the ISO to institute a surcharge from which to make such refunds, the ISO would suffer irreparable harm.

VII. Relationship to Other Proceedings

Currently, the ISO is undertaking a Comprehensive Market Reform/Congestion Management Redesign ("CMR") process. The result of this process will be filed with the Commission. One possible outcome of this process is that proposed changes to ISO markets could result in the creation of a greater number of Congestion Zones or locational pricing areas, which accordingly could have an impact on this GMC, particularly on the Inter-Zonal Scheduling Services charge. As the CMR process is ongoing, it is not possible at this time to predict the changes existing Congestion Zones may undergo, or how the GMC should be structured to accommodate any such changes. The proposed unbundled GMC mechanism does provide for necessary changes through the quarterly adjustment mechanism provided for in Appendix F, Schedule 1, Part B of the ISO Tariff and discussed in the testimony of Philip R. Leiber, Ex. No. ISO-7. Should any corrections in the GMC be made necessary by the CMR process, they can be made through this quarterly adjustment mechanism.

VIII. Request for Waiver

Because this filing consists of rate formulas, rather than numeric rates, and because the ISO is not a traditional vertically-integrated public utility, many of the standard rate change statements described in §35.13(h) of the Commission's regulations are not appropriate for this filing. The ISO has included these statements to the extent applicable, and is including a detailed explanation and justification of this filing in the form of narrative testimony. In light of this, the ISO requests that the Commission waive its remaining filing requirements, to the extent such waiver is necessary.

IX. Effective Date

The ISO requests an effective date of January 1, 2001, to allow the instant GMC to go into effect at the time the current GMC expires. This effective date would meet the requirement under FPA §205(d) that rates be effective within 60 days is provided by filing.

If, for any reason, the Commission does not act on this filing by December 31, 2000, the ISO requests that the current GMC structure be permitted to continue until a new structure is accepted.[30] If this is not permitted, the ISO would experience serious financial difficulties. As a non-profit entity, the ISO has no alternative sources of funds should its GMC be suspended. The ISO depends upon the funds secured through GMC payments to continue meeting its obligation to maintain reliable electric service in California.

X. 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.

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[30] The 2001 GMC in that case would take the form of the current GMC structure and be based on the 2001 budget figures to be filed with the Commission in the December 15, 2000 filing described above.

XI. Communications

The ISO requests that all correspondence, pleadings and other communications concerning this filing be served upon the following:

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* Individuals designated for service pursuant to Rule 203(b)(3), 18 C.F.R. § 385.203(b)(3).

XII. Service

Copies of this filing have been served on the California Public Utilities Commission; the persons listed on the Secretary's official service lists in Docket Nos. ER98-211-000, ER99-473-000, ER99-2730-000, EL99-47-000, and EL99-67-000; and each ISO Scheduling Coordinator.

XIII. Contents of Filing

Enclosed for filing are six (6) copies of each of the following:

(1) Revised ISO Tariff sheets, in both clean and redline versions (Attachments A and B);
(2) Direct Testimony of Michael K. Epstein (Ex. No. ISO-1), Philip R. Leiber (Ex. No. ISO-7), Trent A. Carlson (Ex. No. ISO-10), James E. Price (Ex. No. ISO-12), and Deborah A. Le Vine (Ex. No. ISO-14), together with exhibits supporting the testimony;
(3) Section 35.13(h) Cost Statements (Ex. No. ISO-8);
(4) A document providing support for the ISO's cost allocations (Ex. ISO-9);
(5) a Notice of Filing suitable for publication in the Federal Register (Attachment D) (and one 3 ½-inch diskette version of the Notice saved in WordPerfect format); and
(6) a Certificate of Service (Attachment E).

Also enclosed are three additional copies of the filing, to be date stamped and returned via our courier.

XIV. Conclusion

Wherefore, the California Independent System Operator Corporation requests that the Commission accept this unbundled Grid Management Charge rate filing, to be effective on January 1, 2001.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify I have this day served this document on the California Public Utilities Commission, each California ISO Scheduling Coordinator, and the persons listed on the Secretary's official service lists in the following Grid Management Charge dockets: ER98-211-000, ER99-473-000, ER99-2730-000, EL99-47-000, EL99-67-000

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Dated Washington, DC, this 1st day of November, 2000.

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Julia Moore