

December 15, 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:

The California Independent System Operator Corporation (“ISO”) hereby submits an original and six copies of its informational filing pursuant to Part D of Appendix F, Schedule 1 of the ISO Tariff to present information concerning its calculation of the Grid Management Charge (“GMC”) to be effective for calendar year 2001.¹

As discussed below, this informational filing calculates the GMC for 2001 based on the 2001 ISO Operating Budget and pursuant to the unbundled methodology filed with the Federal Energy Regulatory Commission (“FERC” or “Commission”) on November 1, 2000 in Docket No. ER01-313-000 (“GMC Filing”). The GMC Filing unbundled the GMC into three cost categories.² In addition, this filing includes the 2001 Operating Budget itself and cost data on the budget presented in conformance with the FERC Uniform System of Accounts. In accordance with the ISO Tariff, this

¹ Capitalized terms not otherwise defined herein are used in the sense given in the Master Definitions Supplement, Appendix A to the ISO Tariff.

² As described in the GMC Filing, the three cost categories are A) Control Area Services, which is to be assessed based on Control Area Gross Load and exports; B) Inter-Zonal Scheduling, which is to be assessed based on the absolute value of the net scheduled Energy using inter-zonal flow (excluding existing transmission contract volumes or “ETCs”) per transmission path for a given Scheduling Coordinator (“SC”); and C) Market Operations, which is to be assessed based on the proportion of each 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.

information provides the necessary data to set the unit rate for each of the three cost categories of the unbundled GMC for calendar year 2001, including the criteria used to establish the projected billing determinant volumes. This filing is more detailed than the informational filings made by the ISO in the past in order to provide additional support for the new unbundled GMC methodology.

COMMUNICATIONS

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CONTENTS OF FILING

The following documents are included in this filing:

- (1) Transmittal Letter
- (2) Attachment A – Testimony of Michael K. Epstein
- (3) Attachment B – Testimony of Philip R. Leiber
- (4) Attachment C – 18 C.F.R. § 35.13 Cost Statements
- (5) Attachment D – “Analytical Support for the California ISO Grid Management Charge for 2001” (including Cost Allocation Matrix)
- (6) Attachment E – Proposed FY2001 Grid Management Charge Budget Presentation (Dated September 28, 2000)
- (7) Attachment F – Proposed FY2001 Grid Management Charge Budget Presentation (Dated November 29, 2000)
- (8) Attachment G - The Board of Governors Approval of the 2001 Budget
- (9) A Notice of Filing, suitable for publication in the Federal Register, together with a computer disk with a copy of the Notice in Word Perfect
- (10) A Certificate of Service

The Testimony of Mr. Leiber is designed to explain the ISO's budget process and to provide justification for the 2001 GMC costs. The Testimony of Mr. Epstein is designed to explain how this filing is related to the GMC Filing.

PROCEDURAL BACKGROUND

As described in the Testimony of Philip R. Leiber (Attachment B), the ISO's Tariff requires it to make an annual informational filing on December 15, presenting information, cost data, and billing determinant volume projections to be used in the calculation of the GMC for the upcoming calendar year.³ The Tariff also requires the ISO to follow certain procedural steps in developing its Operating Budget. The annual informational filing is based on figures from the ISO's Operational Budget for the coming year.

This filing presents the information required by the ISO's Tariff, as well as a description of the process followed in developing the Operating Budget for 2001.

BUDGET PROCESS

The Preliminary 2001 Budget, including the 2001 Revenue Requirement and information regarding how the unbundled GMC methodology would be applied to the Budget figures, was made available to all stakeholders and posted on the ISO website on September 28, 2000. On October 19, 2000, the 2001 Budget was presented at the ISO's Budget Workshop, which was open to all stakeholders. At the workshop, stakeholders had the opportunity to discuss and comment on the proposed revenue requirement, transmission volumes, and the resulting unbundled GMC charges. Stakeholders also had the option to submit written questions to ISO management prior to the workshop.

The ISO made three minor changes to the budget with respect to cost allocation percentages and billing determinant forecasts after it was first presented to the stakeholders. The first change was to allocate the debt service on bonds issued in 2001 based on the 2001 Capital Budget instead of the 2000 debt service.⁴ The second change was to revise the billing determinant volumes based on the Commission's order of November 1, 2000 in Docket Nos. EL00-95-000, *et al.*

³ Appendix F, Schedule 1, Part D.

⁴ This change was recommended by a Market Participant (David Cohen of Navigant Consulting, Inc.) at the October stakeholder meeting.

(November 1 Order”).⁵ The third change was to treat Market Surveillance in a manner consistent with other directly-assigned cost centers.

The three changes were disclosed and documented in the Budget reviewed and approved by the ISO Board of Governors (“Board”) on November 30, 2000, and were disclosed to the public in advance of the Board meeting. In addition, notice that changes would be necessary was included in the preliminary budget posting provided to stakeholders for comments, inasmuch as the posting was noted as “preliminary”. The changes were:

- 1) allocating the 2001 debt service charges based on the 2001 Capital Budget, which caused the minor shift from Control Area Services and the Market Operations to Inter-Zonal Scheduling;
- 2) including market surveillance in direct operating costs for purposes of allocating the remaining overhead costs, which caused the minor shift from Control Area Services and Inter-Zonal Scheduling to Market Operations; and
- 3) changing the billing determinant volumes, including reducing the volumes projected in the Real Time market due to the November 1, 2000 Order, which proposed to apply penalties on excessive use of the ISO Real Time markets, and a corresponding increase in the billing determinant for the Inter-Zonal Scheduling category as a result of anticipated forward scheduled volumes.

The ISO established a deadline of November 12, 2000 for receiving written comments from stakeholders on the Preliminary 2001 GMC Report. No comments were received. The 2001 Budget Report to the ISO Board was reviewed by the Finance Committee and the final revenue requirement, billing determinant volumes, and resulting GMC were approved by the Board of Governors at the November 30 Board meeting. The record of the Board vote is included with this filing as Attachment G.

⁵ “Order Proposing Remedies for California Wholesale Electric Markets,” *San Diego Gas & Electric Company, et al.*, 93 FERC ¶ 61,121 (November 1, 2000). As described below, the November 1 Order proposed to apply penalties on excessive use of the ISO Real Time markets. 93 FERC at 61,361-62.

DESCRIPTION OF THE RATE

Attachment F to this informational filing, entitled "Proposed FY2001 Grid Management Charge Board Presentation", provides a step-by-step analysis of the determination of the GMC.

The overall GMC revenue requirement for 2001 of \$225,307,000⁶, consists of the following (in thousands):

Operating & Maintenance Budget	\$171,798
Finance Budget (debt service)	63,141
Less: Expense Recovery Budget	(2,402)
Less: Revenue Credit collected in 2000	<u>(7,230)</u>
Total Revenue Requirement	\$225,307

The 2001 GMC Revenue Requirement, \$225,307,000, is approximately 26 percent higher than the 2000 revenue requirement, and is partially offset by the higher annual transmission volumes. The 2001 transmission volume is projected to increase by 12,000,000 MWh (6 percent) from 216,000,000 MWh in 2000 to 228,000,000 in 2001, as a result of normal load growth, allocating costs to entities that benefit from the ISO's services but are not paying today, and higher than budgeted volume in 2000. Thus, the 2001 GMC, if it were to be calculated pursuant to the former bundled methodology, using the Loads used for the GMC Settlement, would have increased by \$0.158/MWh (19.0 percent) from \$0.8300 in 2000 to \$0.9882 in 2001, as shown below.

2000/2001 Bundled Grid Management Charge Comparisons

	<u>2000 GMC</u>	<u>2001 GMC</u>
Revenue Requirement	\$179,283,000	\$225,307,000
Transmission Volume (MWh)	216,000,000	228,000,000
Grid Management Charge (\$/MWh)	\$0.8300	\$0.9882

⁶ Since the 2001 GMC will be calculated on an unbundled basis, this information is for purposes of comparison only. As well, the "bundled" comparison provided here retains the GMC Settlement-mandated partial or complete volume exemptions for certain categories, such as Load served by Qualifying Facilities. These exemptions are not retained in the unbundled GMC.

The cost allocation percentages for the three GMC cost categories are:

<u>Category</u>	<u>Control Area Services</u>	<u>Inter-Zonal Scheduling</u>	<u>Market Operations</u>
Cost Allocation %	48.132%	8.667%	43.201%
Net Revenue Requirement	\$108,446,000	\$19,527,000	\$97,334,000
Volumes	267,289,000	7,536,000	102,394,000
Rate	\$0.406	\$0.223	\$0.951

SERVICE

Copies of this filing have been served on the service lists for the GMC Filing proceeding, Docket No. ER01-313-000, as well as the previous GMC proceedings in Docket Nos. ER98-211-000, ER99-473-000, ER99-2730-000, EL99-47-000, and EL99-67-000; and each ISO Scheduling Coordinator. Three additional copies of this filing are enclosed to be date stamped and returned to our messenger.

If anyone has questions regarding the calculations in this filing, please call Philip Leiber at the ISO. He can be reached at (916) 351-2168.

Sincerely,

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Dated: December 15, 2000