December 28, 2000

The Honorable David P. Boergers
Secretary
Federal Energy Regulatory Commission
888 First Street, N.E.
Washington, D.C. 20426

Re: California Independent System Operator Corporation
Docket No. ER01-____- 000
Amendment No. 34 to the Tariff

Dear Secretary Boergers:

Pursuant to Section 205 of the Federal Power Act, 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. 34") to the ISO Tariff. Amendment No. 34 will facilitate implementation of the new transmission Access Charge methodology proposed in Amendment No. 27.

In addition, the ISO is providing information as to the new transmission Access Charge rates that will be in effect if the Commission approves the City of Vernon, California ("Vernon") joining the ISO effective January 1, 2001 and the amount of Firm Transmission Rights ("FTRs") that will be given to Vernon in accordance with the ISO Tariff.

I. BACKGROUND - THE REVISED ACCESS CHARGE METHODOLOGY

On March 31, 2000, the ISO filed Amendment No. 27 to the ISO Tariff, proposing a new methodology for determining 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

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

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. *California Independent System Operator Corporation*, 91 FERC ¶ 61,205 (2000). 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.[3]

The current Access Charge methodology consists of three separate zone rates based on the Transmission Revenue Requirement of the Original Participating TO. Under Amendment No. 27, this methodology continues in effect until a New Participating TO joins the ISO. Once that occurs, the Access Charge for High Voltage Transmission Facilities will be assessed based on the combined High Voltage Transmission Revenue Requirements of all the Participating TOs in each TAC Area.[4]

Over a ten-year transition period, the High Voltage Access Charge (“HVAC”) for these TAC areas would 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. The TAC Area component is based on the individual Participating TO's High Voltage Transmission Revenue Requirement in that TAC Area divided by the Gross Load. During the ten-year transition, ten percent per year of each TAC Areas High Voltage Transmission Revenue Requirement will be combined as the ISO Grid-wide component of the HVAC. The proportion represented by the ISO Grid-wide portion increasing by ten percent each year, then at the end of the ten-year period the HVAC will be one rate for the entire ISO Controlled Grid. In addition, capital investments in any new High Voltage Transmission Facilities, or additions to existing facilities, would be included in the ISO Grid-wide component of the HVAC. The Low Voltage Transmission Access Charge would continue to be a license plate rate based on Participating TO's Low Voltage Transmission Revenue Requirements.

Under the procedure outlined in Section 3.1 of the ISO Tariff as revised by Amendment No. 27, Vernon filed with the ISO a notice of intent on June 30, 2000

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

[3] *Id*. Settlement efforts before the Chief Judge are ongoing. The next settlement conference is scheduled for February 8, 2001.

[4] If the Los Angeles Department of Water and Power chooses to become a Participating TO, its Control Area would become a fourth TAC Area.

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 effective 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 High Voltage Transmission Revenue Requirement ("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, FERC issued an order in Docket No. EL00-105-000 revising and conditionally accepting Vernon's TRR.[5]

On November 1, 2000, the ISO filed an application pursuant to Section 203 of the Federal Power Act to assume Operational Control of the transmission facilities and Entitlements being turned over by Vernon. That application is pending in Docket No. EC01-14-000.

At its meeting on November 30, 2000, the ISO Governing Board unanimously approved Vernon's application, as modified by the ISO, to join the ISO and authorized ISO management to file the necessary amendments to the Transmission Control Agreement ("TCA").[6] The ISO made this filing on December 21, 2000 in Docket No. ER01-724-000.

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[5] *City of Vernon, California*, 93 FERC ¶ 61,103 (2000) ("Vernon Order"). The Vernon Order also required Vernon to work with the ISO to revise its TO Tariff to address concerns raised regarding the adequacy of Vernon's initial, single-page proposal. *Id.* at 61,286. Vernon made its compliance filing on November 9, 2000. In as much as Vernon's TO Tariff does not meet the direction of the Commission in the Vernon Order that Vernon's TO Tariff be substantially similar to the TO Tariffs of the Original Participating TOs or that any differences be justified by Vernon and because Vernon failed to work with the ISO on revisions to the TO Tariff, the ISO filed a protest in Docket No. EL01-105-001 seeking additional modifications to Vernon's TO Tariff. The Original Participating TOs also filed protests of Vernon's compliance filing concerning its TO Tariff.

[6] The Governing Board also authorized the ISO to file TCA amendments: (1) to update ISO Maintenance Standards in Appendix C to the TCA (changes that were previously authorized by the Governing Board at its meeting on September 7, 2000) and to include a new Appendix F identifying the persons to contact for notice purposes; (2) to add a commitment to Section 16 of the TCA requiring any Participating TO, including Participating TOs that are not subject to the Commission's jurisdiction under Sections 205 and 206 of the FPA, to make any necessary refunds and adjustments to their TRBAs or balancing accounts and to undertake any other actions necessary to implement relevant Commission orders and the ISO Tariff; and (3) to revise Sections 4.1.5, 6.2.2, 9.4, and 10.1.1

The information pertaining to the new transmission Access Charge rates and FTRs is based on the presumption that the Commission will accept the ISO's Section 203 application, the TCA amendments, and Vernon's TO Tariff such that Vernon will become a Participating TO as of January 1, 2001, thereby initiating the new transmission Access Charge methodology proposed in Amendment No. 27. The proposed tariff changes address disbursement of Access Charge revenue and would facilitate implementation of Amendment No. 27, whether or not Vernon joins.

II. TARIFF CHANGES

In the expectation that Vernon would join the ISO effective January 1, 2001, the ISO has been working both internally and with the Original Participating TOs in developing the necessary data and changes to the billings and settlement systems to implement the new Access Charge methodology. Indeed, the ISO would like to express its sincere appreciation for the hard work of the Original Participating TOs in this regard. In a period of immense pressure on all the California Market Participants, the Original Participating TOs devoted significant time and resources to ensuring that the new Access Charge methodology could be implemented on an aggressive schedule.

As a result of their work in preparing to implement the new Access Charge methodology, the ISO and the Original Participating TOs agreed that certain clarifications and revisions should be made to the ISO Tariff. These changes are as follows:

<u>Section 7.1.3</u>

The ISO proposes to modify this section to parallel Section 7.1.2 of the ISO Tariff regarding the collection of the High Voltage Access Charge and to cross-reference the proposed revisions to the disbursement methodology described below in Section 10 of Appendix F, Schedule 3.

<u>Sections 7.1.4.1, 7.1.4.2, 7.1.4.3.1, and 7.1.4.3.2</u>

The ISO proposes that these provisions be clarified to specify that in the determination of the Wheeling Access Charge, the proper calculation is to use transmission facility ownership and Entitlements less all *Encumbrances.* This is how the ISO is currently calculating to Wheeling Access Charge. The ISO believes that this practice should continue. To do otherwise would be improper since it would allow a Participating TO to recover from the ISO revenue from

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of the TCA to clarify the TCA in response to the concerns raised by Vernon in Vernon's proposed clarifications to the TCA.

transmission facilities that are not available for the ISO's use because they are "Encumbered". Additionally, if revenue were received for these transmission facilities, the Participating TO would be recovering costs twice for the use of the same transmission capacity -- once when that capacity was sold under the Existing Contract that gave rise to the Encumbrance and then a second time if it is permitted to share in the wheeling revenue. Additionally, the reference to "less the Transmission Revenue Requirement associated with Existing Rights" was deleted in Section 7.1.4.3.1 as the reference is redundant based on the definition of High Voltage Transmission Revenue Requirement.

Appendix F. Schedule 3, Section 1.2

The ISO proposes to add two new definitions to Section 1.2: "High Voltage Utility-Specific Rate" and "Transition Date." The High Voltage Utility-Specific Rate is defined as a "Participating TO's High Voltage Transmission Revenue Requirement divided by such Participating TO's forecasted Gross Load." This definition is used in the revised disbursement calculation described below with respect to the modification to Appendix F, Schedule 3, Section 10.

The definition of Transition Date specifies that it is the date described in Section 4.2. of Appendix F, Schedule 3.

Appendix F. Schedule 3, Section 8.1

The proposed revision to Section 8.1 of Appendix F, Schedule 3 provides additional detail concerning the methodology for updating the High Voltage Access Charge and the Transition Charge. It specifies that these updates will be done twice a year and that the ISO will perform the necessary calculations to enable the Participating TOs to make the necessary adjustments to their balancing mechanisms.

Appendix F. Schedule 3, Section 8.2

The proposed addition to Section 8.2 of Appendix F, Schedule 3 clarifies that the new transmission Access Charge methodology in Amendment No. 27 does not modify the manner in which refunds will be processed by the Original Participating TOs for service rendered prior to the Transition Date.

Appendix F. Schedule 3, Section 10

This is a new section being added to Appendix F, Schedule 3, that addresses concerns over how the ISO's disbursement of High Voltage Access Charge revenues are applied to the differences between actual loads and the filed and approved test year loads that, in connection with filed and approved

High Voltage Transmission Revenue Requirements, are used in determining the ISO's High Voltage Access Charge.

Under traditional utility-specific rate making, increased revenues associated with a utility's load growth (i.e., differences between the utility's actual load and the test-year load used to determine current rates) fully or partially offset the utility's cost increases. This revenue effect associated with load growth tends to reduce the frequency of required rate cases. If the ISO had implemented the revenue disbursement originally proposed in Amendment 27, then the excess revenue above the test year load associated with the actual revenue would have been distributed to all of the Participating TOs in proportion to their High Voltage Transmission Revenue Requirement. This would have resulted in overpayment to Participating TOs who have recently filed for rate increases and underpayment to Participating TOs that had not recently filed for rate increases. The modified revenue disbursement methodology more closely retains this relationship between revenue and load variances under traditional utility-specific rate making and should result in few changes to a Participating TO's Transmission Revenue Requirement.

The addition of the new section clarifies the actual process the ISO will use in calculating the monthly disbursement to the Participating TOs. Additionally, subsections were added to clarify: (i) that netting is allowed if a UDC or MSS and Participating TO are the same corporate entity; and (ii) that if a entity wants to become a Participating TO that does not sell to End-Use Customers, a premise in the existing text, then the revenue disbursement method would be amended.

III. REVISED RATES

The ISO understands that coincident with this filing, the Original Participating TOs will be making separate filings with the Commission to split their respective Transmission Revenue Requirements into High Voltage and Low Voltage components. Based on what it understands these splits will be and based upon the High Voltage Transmission Revenue Requirement from Vernon's November 9, 2000 Compliance filing in Docket No. EL00-105-001, the ISO has calculated the new High Voltage Transmission Access Charge rates. These rates are shown in Attachment C to this filing. The rates for each of the TAC Areas are as follows:

Northern Area -	$1.41/MWH
East Central Area -	$2.04/MWH
Southern Area -	$1.99/MWH

Amendment No. 27 provided in Section 8.6 of the ISO Tariff that New Participating TO will be "held harmless" for the Transition Period from charges associated with the Access Charge and the Grid Management Charge ("GMC"). The change of the new Access Charge rate is calculated based on what the New Participating TO would pay under the ISO's High Voltage Access Charge versus what the New Participating TO would have paid based on its High-Voltage Utility-Specific Rate. Additionally, the ISO determines the amount that the New Participating TO pays for the GMC in accordance with Schedule 1 of Appendix F and the amount that the New Participating TO would have paid for the GMC if that entity had not become a New Participating TO[7]. These two amounts are combined and should not result in an increased overall cost to the New Participating TO. As shown in the spreadsheet in Attachment C, because Vernon's benefit under the transmission Access Charge is so significant (an approximate savings of $7.387 million), this amount far exceeds the expected increase in Vernon's GMC payments (approximately $336,000). Thus, there is no need to hold Vernon harmless from the GMC increase.

In addition, Amendment No. 27 provided in Appendix F, Schedule 3, Section 7, the maximum amounts for the Transition Payment from Section 8.6 of the ISO Tariff are capped at specified levels. As shown in Attachment C, the addition of Vernon does not reach the capped levels.

IV. FIRM TRANSMISSION RIGHTS

Under Section 9.4.3 of the ISO Tariff as revised by Amendment No. 27,

> For the ten-year period described in Section 4 of Schedule 3 to Appendix F, a New Participating TO shall receive FTRs for Inter-Zonal Interfaces to which the transmission facilities and Converted Rights for Inter-Zonal Interfaces that the New Participating TO turns over to the ISO's Operational Control give it transmission rights. The amount of FTRs will be determined when the Transmission Control Agreement is executed and shall be commensurate with the transmission capacity the New Participating TO is turning over to ISO Operational Control. FTRs issued in accordance with this section shall entitle the FTR Holder to receive Usage Charge revenues and to priority in the scheduling of Energy in the Day-Ahead Market in accordance with the provisions of the ISO Tariff. FTRs associated with Converted rights shall terminate on the earlier of termination of the Existing Contract or the end of the ten-year transition period.

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[7] With the implementation of the unbundled GMC on January 1, 2001, the only component that will change when an entity becomes a Participating TO is the Inter-Zonal Scheduling component. Prior to becoming a Participating TO, Existing Contracts are exempt from this charge. Once the Existing Contracts have been converted, then the charge will apply.

For the Entitlements that Vernon is turning over during the Access Charge transition period, Vernon will receive directly the following FTRs on the respective paths:

Branch Group	From	To	FTR MWs
NOB_BG	NW3	SP15	93
NOB_BG	SP15	NW3	82
MEAD_BG	SP15	LC1	26
MEAD_BG	LC1	SP15	26
VICTVL_BG	LA4	SP15	75
VICTVL_BG	SP15	LA4	75

Vernon's Entitlement to the California - Oregon Transmission Project is fully encumbered with an Existing Contract with Pacific Gas and Electric Company ("PG&E") and no FTRs will be received for that path until the Existing Contract is terminated. PG&E, who is the Existing Rightsholder, currently receives and will continue to receive Usage Charge revenue until the contract is terminated. Vernon's Encumbrance is 121 MW North to South and 92 MW South to North.

V. EFFECTIVE DATE AND REQUEST FOR WAIVER

The ISO respectfully requests waiver of the notice requirements of Section 35.3 of the Commission's regulations, 18 C.F.R. § 35.3, to permit Amendment No. 34 to become effective as of January 1, 2001. The ISO submits good cause exists for granting the waiver. The ISO and the Original Participating TOs have worked extremely hard over the past several months and despite numerous other pressing issues to implement the new transmission Access Charge methodology. If the Commission approves the other filings necessary for Vernon to join the ISO effective as of January 1, 2001, the proposed implementation date for Amendment No. 34 will permit these clarifications to go into effect coincident with the start of the new Access Charge methodology. As noted above, for Vernon to join the ISO, the Commission must approve the ISO's Section 203 application, the TCA amendments, and Vernon's TO Tariff.

VI. NOTICE AND SERVICE OF DOCUMENTS

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:

- X Revised Tariff sheets (Attachment A);
- X Black-lined Tariff provisions showing the changes (Attachment B);
- X A spreadsheet showing the revised transmission Access Charge rates (Attachment C)
- X A form of notice suitable for publication in the Federal Register (Attachment D), which is also provided in electronic form on the enclosed diskette.

Two additional copies of this filing are 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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ATTACHMENT A

ATTACHMENT B

ATTACHMENT C

ATTACHMENT D

NOTICE SUITABLE FOR PUBLICATION IN THE FEDERAL REGISTER

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

California Independent System Operator Corporation) Docket No. ER01-_____ -000

Notice of Filing
[ ]

Take notice that the California Independent System Operator Corporation ("ISO"), on December 28, 2000, tendered for filing a revision to the ISO Tariff, Amendment No. 34 for acceptance by the Commission. The ISO states that the purpose of the amendment is to clarify certain issues associated with implementation of the new transmission Access Charge methodology proposed in Amendment No. 27. In addition, the ISO is providing information as to the new transmission Access Charge rates that will be in effect if the Commission approves the City of Vernon joining the ISO effective January 1, 2001 and the amount of Firm Transmission Rights that will be given to Vernon in accordance with the ISO Tariff.

The ISO states that this filing has been served the Public Utilities Commission of California, the California Energy Commission, the California Electricity Oversight Board, and all parties, including Vernon, with effective Scheduling Coordinator Agreements under the ISO Tariff.

The ISO is requesting waiver of the 60-day notice requirement to allow the amendment to be made effective January 1, 2001.

Any person desiring to be heard or to protest the filing should file a motion to intervene or protest with the Federal Energy Regulatory Commission, 888 First Street, N.E., Washington, D.C. 20426, in accordance with Rules 211 and 214 of the Commission's Rules of Practice and Procedure (18 C.F.R. §§ 385.211 and 385.214). All such motions or protests must be filed in accordance with § 35.9 of the Commission's regulations. Protests will be considered by the Commission in determining the appropriate action to be taken, but will not serve to make protestants parties to the proceeding. Any person wishing to become a party must file a motion to intervene. Copies of this filing are on file with the Commission and are available for public inspection in the Public Reference Room. This filing may also be viewed on the Internet at http://www.ferc.fed.us/online/rims.htm (call 202-208-2222 for assistance).