

Memorandum

To: CAISO Board of Governors

From: Michael Epstein, Controller
Anthony Ivancovich, Acting Vice President of Legal Affairs

Date: April 12, 2007

Re: Decision on Tariff Proposal to Bill Western Electricity Coordinating Council Reliability Costs

This memorandum requires Board action.

EXECUTIVE SUMMARY

In order to facilitate the collection of charges associated with Electric Reliability Organization ("ERO") and Regional Entity activities under the Energy Policy Act of 2005 ("EPAct 2005"), the CAISO proposes to invoice Scheduling Coordinators ("SCs") for such charges invoiced to the CAISO by the Western Electricity Coordinating Council ("WECC"). The CAISO will seek Federal Energy Regulation Commission ("FERC") approval for authority to bill SCs for such ERO and Regional Entity costs through a Tariff amendment. Management recommends that the Board of Governors approve the filing of such a tariff amendment.

Background

On July 20, 2006, FERC issued an order certifying the North American Electric Reliability Corporation ("NERC") as the ERO in accordance with EPAct 2005. In the July 20, 2006 Order, FERC also authorized Regional Entities to bill and collect ERO costs, as well as their own costs, incurred to carry out the reliability functions specified in EPAct 2005 (hereinafter referred to as "Reliability Costs"). Reliability Costs are to be allocated based on "net energy for load" which FERC defined as "balancing authority generation (less station use), plus energy received from other balancing authority areas, less energy delivered to other balancing authority areas through interchange. It includes balancing authority losses, but excludes energy required for storage at electric energy storage facilities, such as pumped storage."

On October 24, 2006, FERC issued an order approving NERC's proposal to have the WECC -- as the Regional Entity for the Western Interconnection (which includes the CAISO Control Area) -- bill and collect ERO costs and remit such funds to NERC. On November 29, 2006, NERC filed with FERC a Delegation Agreement ("DA") between NERC and the WECC for the WECC to serve as the Regional Entity for the Western Interconnection. The DA included provisions related to the allocation and billing of Reliability Costs to load-serving entities in the Western Interconnection.

On December 14, 2006, the CAISO received an invoice from the WECC for Reliability Costs. Since then, the CAISO

and the WECC have had discussions to work out an arrangement whereby the CAISO would serve as a collections agent on behalf of the WECC to invoice and collect Reliability Costs from load in the CAISO Control Area.

Stakeholder Process

On March 30, 2007, the CAISO posted its proposal for billing Reliability Costs. The CAISO discussed its proposal with representatives of the WECC prior to posting the proposal. On April 6, 2007, the CAISO held a conference call with stakeholders to discuss the CAISO's proposal. A matrix of written stakeholder comments on the CAISO's posted proposal, and the CAISO's response to those comments, is attached hereto.

Proposed Tariff Amendment

The CAISO proposes to bill SCs for the Reliability Costs that WECC invoices the CAISO on behalf of load-serving entities in the CAISO's Control Area. Billings will be based on each SC's metered CAISO Demand, plus transmission losses, less metered CAISO Demand for Station Power and energy required for storage at electric energy storage facilities (*e.g.*, pumped storage). For 2007 Reliability Costs, the CAISO will send a single invoice to each SC for amounts that add up to the total amount that WECC has invoiced the CAISO. For 2008 Reliability Costs, the CAISO will send a preliminary invoice to each SC based on the 2007 rate, followed by a final true-up invoice after the CAISO receives WECC's invoice for 2008 Reliability Costs in late 2007. For subsequent years, the CAISO will bill SCs quarterly, and then will issue a final true-up invoice after the CAISO receives WECC's invoice for Reliability Costs for the relevant calendar year.

The Reliability Costs will be invoiced separately and will not be included in the market invoices that the CAISO sends to SCs. SC obligations for Reliability Costs will not affect SC credit requirements under the CAISO Tariff. The CAISO generally will not pursue collections of unpaid Reliability Costs, provided that the CAISO may, at its sole discretion, apply amounts owed to SCs under other invoices, such as market payments, toward unpaid WECC invoices. Further, the CAISO will not be liable for any SC's failure to pay any charges owed to the WECC and will have no obligation to pursue collection of any Reliability Costs that have been billed by the CAISO to SCs but not paid. The CAISO's roles are simply to invoice and accept payment from SCs, to forward any payments to the WECC, and to report to the WECC which SCs have not paid invoiced Reliability Costs.

Given that the CAISO currently bills certain fees (*e.g.*, reliability coordinator and administrative costs) on behalf of WECC to WECC members in the CAISO Control Area, the CAISO is uniquely situated to act on WECC's behalf to bill and collect Reliability Costs. The CAISO's performance of the services contemplated in the proposed tariff amendment will facilitate the efficient and economical collection of Reliability Costs from load in the CAISO Control Area.

Conclusion of Management and Recommendation

Management recommends that the Board of Governors approve the filing of a tariff amendment consistent with the discussion above. Management recommends the following motion.

MOVED,

That the ISO Board of Governors approve the proposal for the CAISO to bill and collect ERO and Regional Entity Reliability Costs as described in this memorandum dated April 12, 2007 and the related attachments; and

That the ISO Board of Governors authorize Management to make all necessary and appropriate filings with the Federal Energy Regulatory Commission to implement this proposal.