

December 15, 1998

HAND DELIVERY

Mr. David P. Boergers
Secretary
Federal Energy Regulatory Commission
888 First Street, N.E.
Washington, DC 20426

Re: *California Independent System Operator Corporation,*
Docket No. ER99-

Dear Mr. Boergers:

The California Independent System Operator Corporation (ISO) hereby submits an original and six copies of its informational filing pursuant to the April 7, 1998 Settlement filed by the ISO in Docket Nos. ER98-211-000, ER98-210-000, ER98-1729-000, ER98-462-000, ER98-556-000 and ER98-557-000. The April 7, 1998 Settlement resolved all issues in those dockets relating to the ISO's Grid Management Charge (GMC), a formula rate designed to recover the ISO's administrative and operating costs, including costs incurred in establishing the ISO before its operations began.

As discussed below, the informational filing calculates the GMC for 1999 by incorporating 1999 operating expenses, and the forecasted annual transmission volumes for 1999. The resulting GMC of \$0.7781/MWh, which is \$.005/MWh lower than 1998 GMC, will become effective January 1, 1999. In addition, this filing includes the 1999 Operating Budget, cost data on the ISO presented in conformance with the FERC Uniform System of Accounts (USA), and all information presented in the ISO's monthly financial report.

COMMUNICATIONS

Correspondence and other communications regarding this filing should be directed to:

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CONTENTS OF FILING

The following documents are included with this filing:

- (1) Transmittal Letter
- (2) Notice of Filing
- (3) Certificate of Service
- (4) Attachment A – The 1999 GMC Calculation
- (5) Attachment B – The 1999 Budget Report to the ISO Board of Governors.
- (6) Attachment C – Cost data on the ISO presented in conformance with the FERC Uniform System of Accounts (USA), Statements AA through BK.
- (7) Attachment D – ISO Budget to FERC Account Reconciliation

PROCEDURAL BACKGROUND

On October 17, 1997, the ISO filed with the Commission for approval of its GMC, pursuant to Section 205 of the Federal Power Act and Section 35.13 of the Commission's regulations, 18 C.F.R. § 35.13 (1998) (October 17 rate filing). The October 17, 1998 rate filing was designated as Docket No. ER98-211-000. On April 7, 1998, the ISO filed a comprehensive settlement offer, which fully resolved the issues in Docket Nos. ER98-211-000, *et al.* The April 7, 1998 Settlement was approved by the Commission on June 1, 1998. The April 7, 1998 Settlement requires, among other things, that the ISO make an informational filing each year that calculates the GMC, based on the ISO's GMC formula and the following year's projected cost data and transmission volumes. The April 7, 1998 Settlement requires that the informational filing contain all the information presented in the ISO's monthly financial reports, the criteria used to set the projected volumes and any additional information as is required to set the GMC for the following calendar year.

The April 7, 1998 Settlement also provided that the ISO would facilitate an independent study to determine what, if any, of the ISO's services could be unbundled and separately priced. On October 28, 1998, the ISO filed an Offer of Settlement to extend the provisions of the April 7, 1998 Settlement for six months to allow for further study of the unbundling of the GMC. The unbundling study working group (a stakeholder group), concluded that based on the unbundling study conducted to that point, additional time was needed to gather additional operating data and to further study the unbundling methodology. The overwhelming majority of stakeholders supported the extension of the April 7, 1998 Settlement as a more cost-effective alternative to requiring the ISO make a new rate filing that did not have any stakeholder support. The Commission noticed the October 28, 1998 filing on November 10, 1998 in Docket No. ER99-473-000. Only one party, Enron Power Marketing opposed the extension of the April 7, 1998 settlement provisions. As of the date of this filing, the Commission has not acted on the October 28, 1998 filing.

BUDGET PROCESS

In accordance with the procedures set forth in Paragraph 17 of the April 7, 1998 Settlement, the Preliminary 1999 GMC Report was made available to all stakeholders and posted on the ISO Website on October 2, 1998. On October 15, 1998, the 1999 GMC Report was presented at the ISO's GMC 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 GMC. Stakeholders also had the option to submit written questions to the ISO management prior to the workshop.

A deadline of November 5, 1998 was set for written comments from stakeholders on the Preliminary 1999 GMC Report. No comments were received. There have been no changes in the proposed budget between the Preliminary 1999 GMC Report and the Proposed 1999 GMC Report (submitted herewith as Attachment B – 1999 Budget Report to the ISO Board of Governors). The 1999 Budget Report to the ISO Board of Governors was reviewed by the Finance Committee and the final revenue requirement, transmission volumes and resulting GMC were approved by the Board of Governors at the November board meeting.

DESCRIPTION OF THE RATE

The ISO charges each Scheduling Coordinator a GMC for use of the ISO Controlled Grid. The GMC is a volumetric charge based on the formula contained in Schedule 1 of the April 7, 1998 settlement. Attachment A to this informational filing, entitled the 1999 GMC Calculation, provides a step-by-step analysis of the determination of the GMC. Below is a summary of the key elements of the 1999 GMC revenue requirement:

The Total Operating Expense is calculated by adding the five operating expense categories:

Transmission	\$59,202,000
Customer Accounts	\$ 8,215,000
Customer Service and Informational Expenses	\$ 2,841,000
Administration and General	<u>\$42,801,000</u>
Total Operating Expense	\$113,059,000

The GMC revenue requirement is calculated by adding the Total Operating Expense, the Total Debt Service and the Coverage Requirement and then subtracting the interest earnings:

Total Operating Expense	\$113,059,000	
Principal Reserve Funding	\$ 25,600,000	
Interest Reserve Funding	\$ 13,456,000	
		Total Debt Service \$39,056,000
Coverage Requirement	\$ 9,764,000	
Interest Earnings	(\$ 200,000)	
Other Earnings	(\$ 2,948,000)	
Total GMC Revenue Requirement	\$158,734,000	

The GMC rate is calculated by dividing the GMC Revenue Requirement by the projected annual transmission volume:

GMC Calculation

$$\text{GMC} = \frac{\text{Total GMC Revenue Requirement of } \$158,734,000}{\text{Forecasted Annual Transmission Volume of } 204,000,000 \text{ MWh}} = \$0.7781/\text{MWh}$$

While the 1999 GMC Revenue Requirement is slightly higher than the 1998 revenue requirement (the numerator of the GMC calculation), there are higher annual transmission volumes in the denominator of the GMC calculation. The 1999 transmission volume is projected to increase by 9,000,000 MWh (4.62%) from 195,000,000 MWh in 1998 to 204,000,000 MWh in 1999, as a result of normal load growth and higher wheeling volume. The wheeling or export volume estimates are based on historical data from April to August 1998.¹ Thus, the 1999 GMC will decrease by \$0.0050/MWh (0.64%) from \$0.7831 in 1998 to \$0.7781 in 1999, as shown below:

1998/1999 Grid Management Charge Comparisons

	<u>1998 GMC</u> ²	<u>1999 GMC</u>
Revenue Requirement	\$152,710,000	\$158,734,000
Transmission Volume (MWh)	195,000,000	204,000,000
Grid Management Charge (\$/MWh)	\$0.7831	\$0.7781

¹ See Attachment B at 15, n.6. The estimated ISO load for 1998 is expected to be approximately 200,000 GWh, a 2% load growth over the forecast for 1998. *Id.* at n.7.

² Based on the April 7, 1998 Settlement.

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The 1999 GMC Calculation, contained in Attachment A hereto, should be incorporated into the ISO's current GMC rate schedule on file with the Commission for determining the revised GMC for 1999.

Copies of the filing have been served on the official and restricted service lists for Docket Nos. ER98-211-000, *et al.* If anyone has questions regarding the calculations in this filing, please call Stephen Greenleaf at the ISO. He can be reached at (916) 351-2126.

Sincerely,

Stephen Angle
Linda L. Walsh
Maria Farinella*
Counsel for the Independent System Operator
Corporation

cc: Service list in Docket Nos. ER98-211-000, *et al.*

*Admitted in other than DC.