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October 24, 2002

The Honorable Magalie R. Salas  
Secretary  
Federal Energy Regulatory Commission  
888 First Street, NE  
Washington, DC 20426

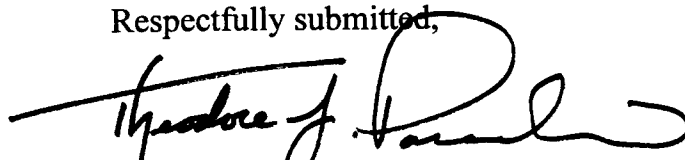
Re: *California Independent System Operator Corporation*, Docket Nos. ER02-250-000 and ER02-527-000; *Pacific Gas and Electric Company*, Docket No. ER02 479-000

Dear Secretary Salas:

On October 17, 2002, the California Independent System Operator Corporation ("ISO") filed an Offer of Settlement and Settlement Agreement ("Settlement Agreement") along with a Motion to Shorten Comment Period and various supporting documents in the above dockets. Intended to be a part of that filing, but omitted due to an error in the production process, were Appendices A and B to the Settlement Agreement. Appendix A provides an outline of the ISO's 2003 budget development process, while Appendix B outlines the reevaluation of the GMC being conducted in 2003 and 2004. To remedy this omission, the ISO is enclosing an original and 14 copies of Appendices A and B with this letter. Two copies are also enclosed to be date stamped and returned to our messenger.

All parties, including Commission Staff and the Public Utilities Commission of California, scheduling coordinators, and the Presiding Judge were sent hard copies of the Settlement Agreement package on October 17, 2002. This package included all settlement documents except for the enclosed Appendices A and B. However, because these appendices, along with the rest of the Settlement Agreement documents, were sent electronically to all participants in the docket, *all* ISO market participants via ISO market notice, and the Presiding Judge on October 17, 2002, all parties received copies of Appendices A and B as of October 17, 2002 and no party would be prejudiced by retaining October 17, 2002 as the time from which the comment period is measured. The ISO, therefore, respectfully requests that the date from which the comment period is measured remain October 17, 2002.

Respectfully submitted,



Theodore J. Paradise

Counsel for the California Independent  
System Operator Corporation

## Appendix A

## Appendix A

- 1.1 Terms provided in this Article V of the Settlement Agreement describe Stakeholder<sup>1</sup> input into the ISO's 2003 budgeting and GMC rate development process. The 2003 budgeting/rate development process formally began in July of 2002.
- 1.2 For the 2003 budgeting/rate development process, the ISO will provide Stakeholders with access to the following events and/or documents:
  - 1.2.1 September - Board of Governors Meeting. The proposed budget will be reviewed by the Board of Governors at its meeting in September. The ISO will provide Stakeholders with access to the materials presented to the Board of Governors in advance of, or concurrent with, this meeting. The materials need not include the entire ISO "budget book," but will include significantly more detailed information than typically has been available through ISO website postings. The ISO also agrees that the September Board of Governors meeting will be held open to all Stakeholders. The open nature of the Board of Governors meeting in September is not intended to preclude additional communications between ISO management and Board of Governors, on budget matters. Any changes to the proposed budget as a result of the Board of Governors meeting and other communications with the Board of Governors will be reflected in subsequent communications made available to Stakeholders in the course of the budgeting/rate development process.

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<sup>1</sup> Stakeholders are all ISO customers and regulators.

1.2.2. October - Budget Workshop. This aspect of the Stakeholder process will continue as established in prior years. After review of The ISO Governing Board, a summary of the budget is posted on the ISO website, and a Budget Workshop is held in early October (*i.e.*, on October 8, 2002).<sup>2</sup> The ISO will continue its practice of providing Stakeholders with an opportunity to submit questions in advance of the Budget Workshop. The ISO will respond to Stakeholder questions either prior to or during the Budget Workshop.

1.2.3 October - Board of Governors. The budget will be presented to the Board of Governors, and its review will be an agenda item for a Board of Governors meeting in mid-October. Stakeholders can exercise their existing right to provide comments or recommendations to the Board of Governors in advance of the meeting, or during the public comment portion of the Board of Governors meeting.

1.2.4 Questions, Answers and Feedback. At reasonable times throughout the budgeting/rate development process described above, and subject to resource constraints, the ISO will be responsive to questions from Stakeholders. The ISO will also provide feedback on the position it ultimately takes regarding any of the Stakeholder proposals. The Stakeholders' point of contact with the ISO for such communications will be the ISO Treasurer (or a party designated by him).5.2.5

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<sup>2</sup> In prior years, the budget was presented to the Finance Committee for review and approval, subject to modification. Because the ISO currently has no Finance Committee, the budget was presented in September 2002 for review by the ISO Governing Board.

1.2.5 Grouping. The ISO will hold the Stakeholder process open to all Stakeholders. Certain Stakeholders may choose to coordinate their efforts in reviewing and analyzing the ISO budget materials and when making “public comment” presentations to the Board.

## Appendix B

## Appendix B

1.1 Certain procedures and milestones will be followed for the general GMC re-evaluation process required by the Initial Decision of Judge McCartney in the 2001 GMC proceeding, *California Independent System Operator Corporation*, 99 FERC ¶ 63,020 (2002).

1.1.2 As a threshold matter, the following preliminary questions will frame the discussions:

- I) What are the parameters of the stakeholder process?
  - a) How do we incorporate stakeholder comments?
  - b) How do we address confidentiality concerns?

1.1.3 Next, the following issues will be taken into account in re-evaluating the GMC:

- I) Review of ISO Budget
  - a) ISO Goals
  - b) Financial structure
  - c) Rate structure
- II) Principles of rate design
  - a) Used to arrive at current structure
  - b) Possibilities for new structure

1.2 The following are milestones for the re-evaluation process for GMC 2004:

- a) Begin – August 2002
- b) End –late May 2003
- c) Board approval of new GMC structure – June 2003



- d) Commence Budget process – July 2003
- e) Board approval of 2004 Budget – October 2003
- f) 2004 GMC filing at FERC – November 1, 2003

1.3 The following issues were identified in the Initial Decision cited in Section 6.1 of this Settlement Agreement as requiring consideration during the re-evaluation process

- a) Dr. Kirsch's proposal – Rate Design for CAS
- b) CPUC/EOB suggestions to use demand charges
- c) Behind the meter load to pay a lesser CAS charge
- d) Allocation to cost center 1424 (page 53) and 1441
  - i) Cost of successor contract to MCI (1441)
  - ii) Information technology allocation methods
- e) Full review of GMC
  - i) Increased granularity of CAS
  - ii) Formula rate development
  - iii) Cost study for Modesto

1.4 The following additional issues should be considered during the re-evaluation process for GMC 2004:

- a) How does the process for GMC 2004 mesh with MD02 (particularly in light of the 7/17/02 FERC Order)?
  - i) MD02 timeline calls for LMP by October 2003; does that entail switching over to new GMC allocations?

- b) What will be the billing determinant for the congestion management bucket after the market separation constraint is removed?
  - i) Unlikelihood of the CM definition to remain in use, as if ISO still had zones.
    - (1) Reduction in real time volumes and possibly variable costs since less is left to real time.
    - (2) Increase in CAS variable costs as congestion is managed day ahead.
    - (3) Need to identify changes to schedule due to congestion management and due to trades needed to balance schedules.
- c) What will the effect of LMP be on the collection of GMC?
  - i) No zones, so what is congestion management?
  - ii) Is adjustment for feasibility the same as management of congestion?
- d) Will the use of Day Ahead congestion management and unbalanced schedules result in less real time load and a reallocation of CAISO resources to other functions?
- e) How will MD02 costs be recovered?
- f) Process for Stakeholder review of Budget process prior to finalization of Budget
  - i) How to continue stakeholder feedback/participation in budgeting process
  - ii) Need for a process to reduce litigation

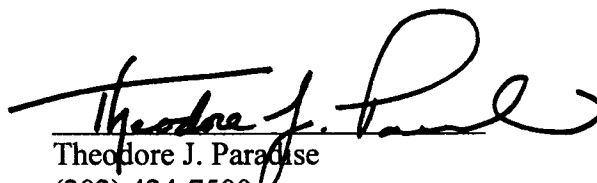
- g) Impact of MSS and new control area(s)
  - i) On revenue requirement
  - ii) On billing determinants
  - iii) On revenues
  - iv) On costs
- h) Other areas for study
  - i) Comparison of rate structures at other ISOs
  - ii) Consideration of further unbundling of CAS category
  - iii) Two part rates vs. per MWh charge
  - iv) Alternative cost tracking mechanism and allocation methods
  - v) Other
- i) Use of rate design consultant to assist CAISO staff
  - i) Development of cost allocations
  - ii) Development of rate design
- j) Reservation of Additional Issues – The Parties reserve the ability to address issues other than those specified in the above preliminary outline.

1.4.1 The inclusion of an issue on the above list does not indicate the extent to which that issue will be addressed in the GMC reevaluation process for GMC 2004. Some issues may be addressed to a greater or lesser extent than others.

## CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon each person designated on the official service list compiled by the Secretary in this proceeding. The foregoing document has also been served on the Public Utilities Commission of California, the California Energy Commission, the California Electricity Oversight Board, all entities with effective Scheduling Coordinator Service Agreements under the ISO Tariff.

Dated this 24<sup>th</sup> day of October 2002 at Washington in the District of Columbia.

  
Theodore J. Paradise  
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