

ATTACHMENT A

PROPOSED ACCESS CHARGE METHODOLOGY DETAILS

Background

The ISO is required to have an ISO grid Access Charge in place within two years of ISO startup (by April 1, 2000) and, based on Federal Energy Regulatory Commission ("FERC" or "Commission") orders, filed with the Commission by December 31, 1999. The ISO's internal Transmission Access Charge ("TAC") team has been working with stakeholders since December 1998 to consider options for an overall methodology to use in developing the proposed Access Charge. As a result of these meetings and discussions, we have narrowed the options to four:

- Utility Specific (the current system used by the investor-owned utilities ("IOUs"));
- Regional/Local split (the default methodology proposed in AB 1890);
- ISO Grid-Wide; and
- TAC Areas.

General Proposal:

Effective June 1, 2000, the ISO proposes to have a two-part Access Charge: a "regional" component to recover costs of ISO Controlled Grid facilities 200 kV and above and a "local" component to recover costs of ISO Controlled Grid facilities below 200 kV. The regional Access Charge would initially be based on "TAC Areas" and, if a "critical mass" of new Participating Transmission Owners ("New PTOs") join the ISO, transition to an ISO Grid-Wide charge in equal percentages over a five-year transition period.¹ Revenue Requirements for the local component (facilities below 200 kV) would continue to be recovered through a utility-specific Access Charge. The TAC Areas would be based on the previous WSCC Control Areas (except for the City of Pasadena, which would be part of the former Southern California Edison ("Edison") Control Area).

Each TAC Area would include all IOUs and Governmental Entities² within that area. The regional Access Charge within that area would be based on the sum of the net Transmission Revenue Requirements for facilities over 200 kV of PTOs within that area and would be billed by the ISO. Transmission Revenue Requirements for facilities under 200 kV would be recovered by a utility-specific local Access Charge billed by Utility Distribution Companies ("UDCs") or Metered Subsystems ("MSS") that enter into an MSS agreement with the ISO in lieu of a UDC agreement.

The longer-term goal of the proposed Access Charge design would be ultimately to merge the TAC Areas into an ISO Grid-Wide regional rate; such transition will commence when "critical mass"³ has been attained. The primary benefit of creating temporary TAC Areas is to provide immediate incentives for ISO participation of Governmental Entities, eliminate currently-existing "barriers to increased ISO participation (e.g., the self-sufficiency test and disputes over facilities crediting), and mitigate rate increases during the transition period. An additional benefit of the TAC Area approach is that it simplifies the Access Charge ratemaking associated with the addition of large PTOs from outside of California to the ISO by permitting the creation of a new TAC Area for any such New PTOs. In this respect, the approach maybe characterized as consistent with FERC's policy in favor of expanded regional transmission organizations. The transition to the ISO Grid-

¹ Joining the ISO means that a transmission owner executes the Transmission Control Agreement, turns over operational control of its transmission to the ISO and therefore becomes a Participating Transmission Owner in accordance with the ISO Tariff.

² Governmental Entities mean municipal utilities, state agencies and federal agencies.

³ Defined below.

Wide Access Charge is only beneficial if sufficient new transmission is available to the entire market structure. Once critical mass is attained, the benefits to the ISO Controlled Grid and the market structure consist of: additional new firm use transmission due to conversion of Existing Contracts and New PTOs joining the ISO; increased market efficiencies; decreased congestion; and decreased Grid Management Charge ("GMC").

Rate Structure:

The regional Access Charge would be calculated for each TAC Area based on the following formula:

$$\text{Access Charge} = \frac{\sum \text{Each PTO's Net Transmission Revenue Requirement}^4}{\sum \text{Each PTO's Gross Load}}$$

For the TAC Area regional Access Charge, the cost of all grid facilities operated at 200 kV and above within that TAC Area will be included in the Transmission Revenue Requirement and the gross Load will be based on the total of all Loads in the TAC Area, including MSS. The use of gross Load is required because all end-use Loads benefit from the regional transmission grid and therefore should pay for such transmission. For the utility-specific local Access Charge, each Transmission Owner shall calculate its own local Access Charge, based on the revenue requirements of its own local facilities and its own load served by those local facilities, and obtain approval from the applicable regulatory authority.

The Access Charge proposal would initially be based on three TAC Areas: "Northern", "East Central" and "Southern". If no New PTO(s) join, the TAC Area rate would consist of Pacific Gas and Electric Company's ("PG&E") rate in the Northern area, Edison's rate in the East Central area and San Diego Gas & Electric Company's ("SDG&E") rate in the Southern area. If the Los Angeles Department of Water and Power becomes a PTO, a fourth area, "West Central", will be added. At full participation, the four TAC Areas and their members would be as follows:

- Northern Area: PG&E, SMUD, WAPA, NCPA, Redding, SVP, Palo Alto, CCSF, CDWR North⁵, Alameda, Biggs, Gridley, Healdsburg, Lodi, Lompoc, MID, TID, Plumas, Roseville, City of Shasta Lake and Ukiah
- East Central Area: Edison, Anaheim, Riverside, Azusa, Banning, Colton, Pasadena, CDWR South, MWD and Vernon
- West Central Area: Los Angeles, Burbank, Glendale⁶
- Southern Area: SDG&E

Imperial Irrigation District ("IID") has not been involved in the working group until very recently. Should IID decide to join the ISO, Management would review their transmission rates to determine whether it would be best to incorporate IID into the Southern Area or to create a separate East Southern TAC Area for the transition period.

Load taking service off the ISO Controlled Grid above 200 kV will pay only the regional Access Charge. Load taking service off the ISO Controlled Grid below 200 kV will pay the utility-specific local Access Charge component

⁴ Net Transmission Revenue Requirement deducts wheeling revenues related to exports.

⁵ CDWR North consists of the portions of the State Water Project physically located in the Northern TAC Area; CDWR South consists of the remainder of the State Water Project.

⁶ If Burbank and/or Glendale join but Los Angeles does not, Burbank and Glendale will be incorporated in the East Central Area.

in addition to the applicable regional Access Charge. Therefore, regional Transmission Revenue Requirements will be recovered from all Load and exports, while local revenue requirements will be recovered only from local Load.

The New PTOs will be required to turn over operational control to the ISO of all regional transmission facilities that meet the FERC seven point test and criteria adopted by the ISO Governing Board, both owned facilities and Existing Contracts.

Self-Sufficiency

For the regional component (for both the TAC Area and ISO Grid-Wide proposals), a Self-Sufficiency test would not be required because all Load and exports in an area will be paying the same Access Charge. Additionally, a credit for facilities at the regional level will not be needed because the Access Charge will include the cost of all facilities.

For the local component, the charge and any customer credit will be based on the utility-specific Access Charge and will be approved by the appropriate local regulatory authority.

ISO Participation

When a New PTO joins the ISO, they will be required to execute the Transmission Control Agreement. Owned transmission facilities will be operationally controlled by the ISO and the New PTO will receive an FTR for its owned transmission capacity during the Existing Contract conversion period (until March 31, 2003). Existing Contracts will be converted as discussed above. If the underlying Existing Contract has not been terminated, financial payments are still made by the New PTO to the original transmission service provider. After the conversion period, owned capacity and Existing Contract transmission capacity will be treated as new firm use transmission capacity available to the market. The New PTO will be required to sell their FTRs and receive the auction revenue or the New PTO has the opportunity to buy back their FTRs in the ISO's primary auction or any secondary auction. However, if the Existing Contract has not been terminated, the financial obligations will still exist.

Existing Contracts

Existing Contracts for New PTOs would be converted in accordance with section 2.4.4 of the ISO Tariff, except as provided below. Conversion of Existing Contracts will:

- require the New PTO to turn over Operational Control of its transmission Entitlement to the ISO immediately and immediately require the SC scheduling the transmission to comply with the ISO's scheduling and operational procedures and protocols.
- require the New PTO to obtain future transmission services within, out of, or through the ISO Controlled Grid using the ISO's scheduling and operational procedures and protocols.
- entitle the New PTO to receive FTRs for 100% of its Existing Contract transmission capacity, adjusted in real-time for transmission line derates, for the Existing Contract conversion period. If the PTO does not want to retain the FTRs, the PTO is entitled to sell the FTRs in the ISO's primary auction and to receive the auction revenues. However, such auction revenues must be deducted from the New PTOs' Transmission Revenue Requirement.
- entitle the New PTO to receive the Usage Charge revenues for transmission capacity that is unscheduled through the Hour-Ahead Market and all Wheeling revenue credits throughout the term that the capacity is

available under Existing Contracts. Usage Charge revenues do not have to be deducted from the New PTO's Transmission Revenue Requirement.

- continue to obligate the New PTO to pay the provider of the service for its transmission service at rates provided in the Existing Contract, including changes pursuant to Federal Power Act Section 205 or 206 rights. The cost of transmission service associated with the Existing Contract will be part of the New PTO's Transmission Revenue Requirement that is recovered through the transmission Access Charge.

Congestion Revenue and FTR

New PTOs that join the ISO with their own transmission are eligible to auction their ownership rights in the FTR auction or retain them. If the New PTO chooses to sell the FTR, they are obligated to deduct the auction revenue from their Transmission Revenue Requirement.

Converted Existing Contracts would be eligible for the ISO's primary FTR auction. The amount of FTRs from the Existing Contract would be 100% of its Existing Contract transmission capacity, adjusted in real-time for transmission line derates, for the duration of the Existing Contract conversion period which is until March 31, 2003. Revenue from the FTR primary auction would be the entitlement of the New PTO but are obligated to be credited against the New PTO's Transmission Revenue Requirement.

Critical Mass and Transition

Critical mass is defined as a minimum amount of additional new firm use transmission capacity on the ISO's existing congested paths or paths that relieve existing congestion within the ISO Controlled Grid. Once 3,500 MW of additional new firm use import capacity participates from three or more New PTOs cumulatively in COI, NOB, Palo Verde, and/or Path 15, then all existing TAC Area-based Access Charges will begin their five-year transition to ISO Grid-Wide.⁷ Following the initial phase-in triggered by the achievement of "critical mass", if a New PTO joins in subsequent years it will be integrated in the appropriate TAC Area and start the five-year phase-in process to a ISO Grid-Wide charge starting in its first year of membership. If a New PTO located outside of California joins the ISO, it will be established as a new TAC Area.

In all cases, the transition would be based on percent of net Transmission Revenue Requirement ("TRR") and gross Load as follows:

	% of TRR and gross Load included in the TAC Area Regional Charge	% of TRR and gross Load included in the ISO Grid-Wide Regional Charge
Year 1	80%	20%
Year 2	60%	40%
Year 3	40%	60%
Year 4	20%	80%
Year 5	0%	100%

⁷ The trigger of 3,500 MW represents greater than 50% of the Existing Contract transmission capacity on the cited paths.

Mitigation of Rate Increases

Rate increases or rate decreases occur when the Access Charge, under either the TAC Area approach or the ISO Grid-Wide approach, is different than what the PTO would have paid if the Access Charge were utility-specific. In some instances, the rate decrease is a benefit, by decreasing the cost the PTO would have paid as compared to its utility-specific rate. In other instances, the rate increase is a burden because the Access Charge is greater than what the PTO would have paid under its utility-specific rate. Consequently, in addition to the market efficiencies and decreases in GMC costs that are of benefit to the existing PTOs, Management believes the rate increases should be mitigated.

Management proposes that any PTO that has a rate increase will contribute a percentage of this incremental benefit, net of the incremental GMC paid above the GMC amount paid in 1999, to first pre-pay the ISO's infrastructure cost, thereby accelerating the repayment of the ISO's debt and decreasing the GMC for all Market Participants. Once the infrastructure cost is repaid, the amounts will be used to accelerate repayment of their transmission debt. The reason for netting the GMC is to avoid a concern raised by potential New PTOs that it is costly to participate in the ISO and that part of the benefits received through the Access Charge methodology is needed to off-set the burdens associated with the additional GMC payments on gross Load. The calculation would be based on estimates at the beginning of the year and trued-up in the first quarter of the following year. The 1999 GMC amount would remain constant. As an example, if the contribution were 75% of the incremental benefit:

If the annual rate decrease is \$9 million, the 1999 GMC paid is \$1 million and the annual GMC cost based on gross Load is \$6 million, then the incremental amount is \$3 million ($\$9 - (\$6 - \$1)$). Consequently, \$3 million (75% of \$4 million) would be used first to pay the ISO's infrastructure and then retire the PTO's transmission debt.

Participation

For implementation and ratemaking purposes, it is advisable to establish an enrollment schedule for New PTOs to join the ISO. If, in any year, a potential PTO declares its intent to join the ISO by January 1, all agreements must be negotiated and executed by March 15 and filed with the FERC on April 1, along with the New PTO's Access Charge. This would allow for a June 1 effective date for the Access Charge including the New PTO. The same process could be available for the second half of the year (i.e. July 1 declaration; October 15 execute agreements; November 1 FERC filing; and January 1 effective date).

Transmission Expansion

Transmission expansion costs will be included in the Transmission Revenue Requirement of the PTO if the transmission expansion project is a local reliability project. If the transmission expansion project is an economic project, then the sponsor of the project will identify the beneficiaries of the project and such beneficiaries will be required to pay the costs associated with the project in accordance with the existing ISO Tariff. In the context of long-term grid planning, the ISO does not intend to change this payment mechanism.

Billing

The ISO will bill UDCs and MSS for the regional component of the TAC and continue to bill SCs for Wheeling charges. After collecting the funds from the UDCs and MSS, the ISO would pay the amounts due to the PTOs, based on their filed net Transmission Revenue Requirement. The monthly payment made by the ISO to

each PTO would be that PTO's pro rata share of the revenue collected.⁸ If the UDC or MSS is also a PTO, then the ISO will net bill the UDC or MSS. The ISO will need software changes in settlements to implement this billing requirement and funds have been budgeted for 2000 to enable such software changes.

Each Transmission Owner will be responsible for billing its own customers to recover the net Transmission Revenue Requirement associated with its own local transmission facilities.

Wheeling

The Access Charge rate schedules also apply to Wheeling. During the transition to an ISO Grid-Wide Access Charge, the location of Scheduling Points will determine which TAC Area charge is applied. The Wheeling rate will equal the TAC Area rate at the Scheduling Point, provided the Scheduling Point is not a jointly owner facility. Each TAC Area may have a different Wheeling rate, depending upon the applicable net Transmission Revenue Requirement. For Scheduling Points that are shared among TAC Areas and Scheduling Points that are joint facilities, a blended rate (as used today) will be applicable. Once TAC Areas transitions to the ISO Grid-Wide Access Charge, the ISO will use a single wheeling rate applicable to all Export Scheduling Points

If the exit Scheduling Point is below 200 kV and therefore utility-specific, the Wheeling Charge will equal the summation of the regional Access Charge and the local Access Charge at that point. Shared and joint facilities will be the weighted average rate based on firm capacity at the exit point, as is the Wheeling Charge today.

Time-of-Use Rates

Time-of-use and seasonal rates often are meant to provide market incentives to levelize Demand over time. With respect to transmission, however, the appropriateness and effectiveness of time-of-use pricing is questionable given that 1) a significant portion of the experienced congestion occurs during off-peak hours and off-peak months; and 2) congestion charges already provides market incentives for transmission demand. While a time-of-use Access Charge may provide additional price signals to further reduce transmission congestion, we believe that any such benefit does not justify the additional administrative burden at this time. The ISO is willing to re-evaluate implementing time-of-use pricing two-years after the Access Charge has transitioned to ISO Grid-Wide. The ISO believes that at that time it will have sufficient data to do an analysis to justify time-of-use rates.

Reliability Must-Run Charges

Reliability Must-Run ("RMR") is a Service Area issue and the Service Area benefiting from the RMR Unit should pay the revenue required for RMR, in accordance with the ISO Tariff. RMR costs at this time should be allocated using the existing ISO Tariff mechanisms and not included in the ISO's Access Charge.

FERC Filing

The ISO would file the Access Charge methodology as a formula rate by December 31, 1999. The filing will consist of an ISO Tariff revision addressing the proposal, the timeline, the definition of the TAC Areas, the trigger mechanisms, the formula for cost allocation, and the billing and payment methodology.

⁸ E.g., assuming that the ISO consists of Systems A and B, if System A has an annual TRR of \$200 and System B has an annual TRR of \$100, and \$6 is collected in total in one month by the ISO, Systems A and B will receive \$4 and \$2, respectively, from the ISO.

Separate Federal Power Act Section 205 filings would be made by FERC jurisdictional PTOs. Non-FERC jurisdictional PTOs would file their Transmission Revenue Requirements with the FERC as "NJ" (or in the case of certain Federal entities "EF") filings. These Non-Jurisdictional filings will be subject to the standard of review established by FERC for that type of submission. Such 205, NJ, or EF filings would supply the supporting documentation for each respective PTOs Transmission Revenue Requirement. Each PTO is responsible for defending and modifying its filings. Additionally, the PTO would be free to file revisions to its Transmission Revenue Requirements as needed. The final Access Charge as implemented would be updated based on the FERC Order(s).