

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

California Independent System)	Docket Nos. ER01-313-000
Operator Corporation)	ER01-313-001
)	
Pacific Gas and Electric Company)	Docket Nos. ER01-424-000
)	ER01-424-001

REBUTTAL TESTIMONY OF
MICHAEL K. EPSTEIN
ON BEHALF OF THE
CALIFORNIA INDEPENDENT SYSTEM
OPERATOR CORPORATION

1 **Q. PLEASE STATE YOUR NAME.**

2 A. Michael K. Epstein.

3

4 **Q. ARE YOU THE SAME MICHAEL K. EPSTEIN THAT PROVIDED**
5 **TESTIMONY EARLIER IN THIS PROCEEDING?**

6 A. Yes, I am.

7

8 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

9 A. The purpose of my Rebuttal Testimony is to respond to testimony submitted
10 by Stephen D. Pointer of Commission Staff and Shirley R. Eshbach of Pacific
11 Gas and Electric Company ("PG&E") regarding the assessment of the
12 California Independent System Operator Corporation's ("ISO's") Grid
13 Management Charge ("GMC") on "other appropriate parties".

14

15 In addition, I will respond to Testimony submitted by David Dockham on
16 behalf of the Northern California Power Agency ("NCPA"). Mr. Dockham
17 expresses concern that the Load of Existing Contract customers not be
18 double-charged for the GMC, and in particular the Control Area Services
19 Charge. Exh. No. NCP-1 at 19-20. I will explain that such double-charging
20 will not occur.

21

22 **Q. ARE YOU SPONSORING ANY EXHIBITS IN CONNECTION WITH YOUR**
23 **REBUTTAL TESTIMONY?**

1 A. Yes, I am sponsoring Exh. No. ISO-28, which is the ISO's Amended
2 Response to staff Data Request 27(A).

3

4 **I. OTHER APPROPRIATE PARTIES**

5

6 **Q. TO WHICH SPECIFIC POINTS IN THE TESTIMONY OF MS. ESHBACH
7 AND MR. POINTER WILL YOU BE RESPONDING?**

8 A. In her Direct Testimony, Ms. Eshbach stated that the ISO should either
9 remove the term "other appropriate parties" from the ISO Tariff, meaning that
10 the GMC would not be assessed on such parties, or define the term and
11 identify the agreement that any category of "other appropriate party" has
12 signed with the ISO agreeing to pay the GMC. Exh. No. PGE-1 at 2-3. In her
13 Cross-Answering Testimony, Ms. Eshbach elaborated on her position by
14 stating that the ISO should not be allowed to charge the GMC to Scheduling
15 Coordinators ("SCs") on behalf of entities for whose Load they do not serve
16 as SCs. Exh. No. PGE-31 at 1. She criticized the ISO's explanation of what
17 entities would be considered "other appropriate parties" as lacking specificity.
18 *Id.* at 2. In addition, Ms. Eshbach stated that the ISO should define the term
19 "other appropriate party" in its Rebuttal Testimony. *Id.* at 3.

20

21 Mr. Pointer has two concerns about the term "other appropriate parties."
22 First, he believes the term needs to be better explained in the ISO Tariff in
23 order (in his view) to avoid the potential for double-charging of the GMC and

1 to set out the terms and method of billing the GMC to such parties. Exh. No.
2 S-6 at 36-37, 39. Second, he believes ISO Tariff Section 8.3.3, describing the
3 assessment of one of the three categories of the GMC, the Market Operations
4 Charge, does not authorize the ISO to levy that specific charge on “other
5 appropriate parties,” and recommends that the ISO make a compliance filing
6 to make such authority clear in that section. *Id.* at 40-41.

7

8 These are the contentions by Ms. Eshbach and Mr. Pointer to which I will be
9 responding.

10

11 **Q. MR. POINTER STATES HIS ASSUMPTION THAT “OTHER**
12 **APPROPRIATE PARTIES’ ARE THOSE MUNICIPAL AGENCIES,**
13 **GOVERNMENT AGENCIES, AND QUALIFIED FACILITIES THAT ARE**
14 **NOT SCHEDULING COORDINATORS, AND HAVE LOAD (PERHAPS A**
15 **PORTION OF THEIR ENTIRE LOAD) THAT IS NOT SCHEDULED BY**
16 **ANOTHER PARTY ACTING AS THEIR SCHEDULING COORDINATOR.”**
17 **EXH. NO. S-6 AT 37. IS THAT A CORRECT DESCRIPTION?**

18 A. Mr. Pointer’s description needs clarification. The term “other appropriate
19 parties” does not apply to qualifying facilities (“QFs”). This is made clear in
20 the ISO’s Amended Response to Staff Data Request 27(A) (included with this
21 Rebuttal Testimony as Exh. No. ISO-28), and in the Rebuttal Testimony of
22 Deborah A. Le Vine, Exh. No. ISO-34. As long as QFs and the Loads that
23 they serve “behind-the-meter” do not provide to the ISO Settlement Quality

1 Meter Data (“SQMD”) for gross Load, the billing will follow the process
2 described in James Price’s testimony. Exh. No. ISO-12 at 9-12. That is, the
3 proxy amount (a portion of the Control Area Services component of the GMC
4 based on an estimate of the QF’s “behind-the-meter” Load) will be billed to
5 the SC for the Utility Distribution Company (“UDC”) that provides standby
6 service to the Load served by the QF. When the gross Load served by a QF
7 is metered, and an SC reports SQMD for the metered Demand for such Load
8 to the ISO, the SC will be billed the Control Area Services Charge for that
9 metered Load (*i.e.*, no estimation will be necessary).

10

11 Neither the QF nor the SC for the UDC described above would be an “other
12 appropriate party” as used by the ISO.

13

14 As well, Mr. Pointer’s description failed to include as potential “other
15 appropriate parties” municipal utilities and government agencies (both
16 referred to as “GEs”) that are, in fact, SCs, although not with regard to their
17 own “behind-the-meter” Load. Nor does Mr. Pointer include in his description
18 GEs that have interconnection or transmission agreements (Existing
19 Contracts) with either UDCs or SCs, and these UDCs or SCs schedule and
20 report SQMD for the transactions pursuant to those Existing Contracts.

21

1 **Q. HOW DOES THE ISO DETERMINE WHOM TO BILL AS AN “OTHER**
2 **APPROPRIATE PARTY” IN THE CASE OF A GIVEN GE’S “BEHIND-THE-**
3 **METER” LOAD?**

4 A. The ISO’s first choice is to bill the GE itself. In order to do this, the ISO needs
5 the GE to provide it with the necessary Load data. In essence, this means
6 the GE must agree to be billed. In cases where the GE does not agree to be
7 billed, the ISO bills the entity that has Scheduling Coordinator responsibility
8 for the relevant “behind-the-meter” Load on behalf of the GE.

9

10 **Q. WHAT SORTS OF ENTITIES DOES THE ISO CONSIDER “OTHER**
11 **APPROPRIATE PARTIES” SUITABLE TO BE ASSESSED THE CONTROL**
12 **AREA SERVICES CHARGE?**

13 A. The ISO considers entities suitable for assessment of the Control Area
14 Services Charge as "other appropriate parties" to be those GEs serving
15 “behind-the-meter” Load for whom all or a portion of their volumes of
16 Demand are not scheduled, metered, and settled with the ISO by an SC.

17

18 Set forth below is a list of GEs that do not act as SCs for all or a portion of
19 their “behind-the-meter” Load and a listing of the entity with Scheduling
20 Coordinator responsibility for their Existing Contracts pursuant to the
21 Responsible Participating Transmission Owner (“RPTO”) Agreement or other
22 agreement.

23

1 Although this may not be an exclusive list, based on the ISO's knowledge, all
2 of these entities have internal Generation that serves Load in the ISO Control
3 Area for which "gross" SQMD is not provided to the ISO. Such entities would
4 be "other appropriate parties" to the extent that they are willing to report to the
5 ISO the "behind-the-meter" Load data (after deducting SQMD for Load
6 reported by the SC for their Existing Contracts and any SC for their market
7 transactions) and to pay the Control Area Services Charge directly to the ISO.
8 If they are unwilling to do so, the SC scheduling the Existing Contract will be
9 assessed the Control Area Services Charge based on an estimate of that
10 "behind-the-meter" Load developed from available data (such as WSCC
11 reports and SQMD reported for transactions under Existing Contracts). This
12 estimation is not the same as that described in the Direct Testimony of James
13 Price (Exh. No. ISO-12) with regard to "behind-the-meter" Load served by
14 QFs.

1

GE	Entity with Scheduling Coordinator Responsibility
Modesto Irrigation District	PG&E
Turlock Irrigation District ("TID")	PG&E
Sacramento Municipal Utility District ("SMUD")	PG&E
Redding Municipal Utility District	Western Area Power Administration
Silicon Valley Power	PG&E
City of Roseville	PG&E
City of Vernon	Southern California Edison Company ("SCE")

2

3 Other GEs could be added to this list if they have, install, or acquire
4 Generation to serve "behind-the-meter" Load.

5

6 **Q. WHAT SORTS OF ENTITIES DOES THE ISO CONSIDER "OTHER**
7 **APPROPRIATE PARTIES" SUITABLE TO BE ASSESSED THE MARKET**
8 **OPERATIONS CHARGE?**

9 A. The ISO considers Market Participants (including those located in other
10 Control Areas and Generators with units located in GE service areas) that buy
11 or sell Ancillary Services, Supplemental Energy, or Imbalance Energy in the
12 ISO's markets other than through an SC to be suitable for assessment of the
13 Market Operations Charge as "other appropriate parties". This would include
14 entities making out-of-market ("OOM") purchases and sales.

15

1 Some of the “other appropriate parties” that have conducted such
2 transactions described above with the ISO that have been assessed the
3 Market Operations Charge are: El Paso Power Services, Louisville Gas &
4 Electric, Avista Corporation, Arizona Electric Power Cooperative, City of
5 Burbank, Connectiv Energy, El Paso Electric Company, Eugene Water
6 District, Nevada Power Company, Public Service Company of New Mexico,
7 Public Utility District No. 3 of Grant County, and Transalta Energy.

8

9 This list cannot be made exclusive, as all the possible sellers and buyers of
10 Ancillary Services and/or Energy in the WSCC region cannot be known.

11

12 **Q. WHY DID THE ISO DEVELOP THE CONCEPT OF “OTHER**
13 **APPROPRIATE PARTIES” FOR GMC ASSESSMENT?**

14 A. The ISO developed the concept of “other appropriate parties” because a
15 number of entities that are provided services or participate in the ISO's
16 markets (including OOM transactions) other than directly through SCs either
17 (1) are GEs with Load in the ISO Control Area for which the ISO provides
18 Control Area Services, or (2) participate in the ISO's markets (including OOM
19 transactions) as either buyers or sellers of Energy and Ancillary Services and
20 thus are suitable to be charged the Market Operations Charge.

21

22

23

1 Control Area Services Charge

2 With respect to the assessment of the Control Area Services Charge to GEs
3 with “behind-the-meter” Load, the ISO’s use of the term is intended to *benefit*
4 those GEs, as it allows them to avoid some of the obligations that would
5 come with their executing the Scheduling Coordinator Agreement (“SCA”) and
6 serving as an SC for their own “behind-the-meter” Load or having to hire an
7 SC. For example, if they executed an SCA and served as the SC for their
8 own “behind-the-meter” Load, they would be required to maintain a 24-hour
9 facility in constant communication with the ISO, as well as meet certain
10 financial standards. If they were required to hire an SC to schedule on their
11 behalf, this also would entail additional expense.

12

13 Market Operations Charge

14 With regard to the Market Operations Charge, some entities that are not or do
15 not have SCs and have not signed a Participating Generator Agreement with
16 the ISO have been called upon during System Emergencies to sell into the
17 ISO’s markets, and in some instances the ISO has supplied Energy and
18 Ancillary Services to entities during emergencies in accordance with the
19 WSCC Emergency Assistance Plan. The ISO’s billing a share of the Market
20 Operations Charge to those entities as “other appropriate parties” avoids the
21 need to require all entities in the WSCC to become SCs and avoids the
22 additional costs to the entity and the ISO that would arise if they were
23 required to become SCs.

1 **Q. MS. ESHBACH ARGUES THAT IN ORDER TO ASSESS GMC ON “OTHER**
2 **APPROPRIATE PARTIES”, THE ISO SHOULD HAVE AN AGREEMENT**
3 **WITH SUCH ENTITIES SPELLING OUT THE TERMS UNDER WHICH**
4 **SUCH ASSESSMENT WOULD TAKE PLACE. EXH. NO. PGE-1 AT 2-3.**
5 **DO YOU AGREE WITH THIS POSITION?**

6 A. No. It certainly would be the ISO’s preference to have written agreements
7 with all potential “other appropriate parties”. This is not possible in practice,
8 however. With regard to the Control Area Services Charge, many of the GEs
9 are unwilling to acknowledge that such assessment should be made, and
10 hence would be unwilling to enter into such agreements.

11
12 With regard to the Market Operations Charge, the identities of all potential
13 “other appropriate parties” are not known in advance, and therefore entering
14 into agreements with them is not possible.

15
16 **Q. WHY DOES THE ISO BELIEVE IT IS NECESSARY TO ASSESS THE**
17 **CONTROL AREA SERVICES CHARGE ON UNWILLING ENTITIES?**

18 A. As is described in great detail in other ISO testimony in this proceeding (see,
19 e.g., the Direct Testimony of Trent A. Carlson, Exh. No. ISO-10 at 18-29; and
20 the Rebuttal Testimony of Deane Lyon, Exh. No. ISO-29), the ISO believes
21 that all Load in the ISO Control Area benefits from the Control Area Services
22 provided by the ISO. That being the case, all Load, including that not
23 scheduled, metered, and settled with the ISO by SCs, should pay an

1 appropriate share of the costs incurred by the ISO in performing these
2 services.

3

4 I note that Staff Witness Mr. Pointer agrees with this position. Exh. No. S-6 at
5 37-38.

6

7 **Q. MS. ESHBACH STATES THAT “THE ISO SHOULD NOT BE PERMITTED**
8 **TO CHARGE SCS, SUCH AS PG&E, FOR ENTITIES’ LOAD FOR WHICH**
9 **PG&E IS NOT THE SC.” EXH. NO. PG&E-31 AT 1. DO YOU HAVE ANY**
10 **COMMENT ON THIS STATEMENT?**

11 A. The ISO regards the entity responsible for Existing Contract “behind-the-
12 meter” Load under the RPTO Agreement to be that Load’s SC.

13

14 As demonstrated in the table above, PG&E is the RPTO entity with regard to
15 several GEs with “behind-the-meter” Load. PG&E has Existing Contracts with
16 those entities that require PG&E to provide Control Area Services, which
17 currently are supplied by the ISO. The Commission has directed the ISO to
18 honor these Existing Contracts. This being the case, PG&E has Scheduling
19 Coordinator responsibility for the Load in question. To the extent that the GE
20 will not accept being billed for the GMC, the ISO will bill PG&E the GMC for
21 this Load.

22

1 **Q. MR. POINTER ARGUES THAT THE ISO TARIFF, AS PROPOSED IN THIS**
2 **PROCEEDING, DOES NOT ALLOW THE ISO TO ASSESS THE MARKET**
3 **OPERATIONS CHARGE ON “OTHER APPROPRIATE PARTIES”. EXH.**
4 **NO. S-6 AT 41. DO YOU AGREE WITH THIS ASSESSMENT?**

5 A. No. Section 8.3 of the ISO Tariff, “Allocation of the Grid Management Charge
6 Among Scheduling Coordinators and Other Appropriate Parties”, included
7 with the November 1 Filing as Attachment A, states, in part: “The three
8 charges shall be levied separately monthly in arrears on all Scheduling
9 Coordinators and other appropriate parties based on the billing determinants
10 specified below for each charge.” Thus, I believe that the proposed ISO Tariff
11 language permits assessment of the Market Operations Charge on “other
12 appropriate parties”.

13

14 **Q. MR. POINTER SUGGESTS THAT THE ISO MAKE A COMPLIANCE FILING**
15 **TO PROVIDE TARIFF AUTHORITY FOR THE MARKET OPERATIONS**
16 **CHARGE TO BE ASSESSED ON “OTHER APPROPRIATE PARTIES”.**
17 **EXH. NO. S-6 AT 40. WOULD YOU OBJECT TO DOING SO?**

18 A. While, as I noted above, we believe Section 8.3 of the ISO Tariff is sufficient
19 authority to charge any of the three categories of the GMC on “other
20 appropriate parties,” the ISO is willing to modify the Tariff language
21 concerning the Market Operations Charge specifically, as recommended by
22 Mr. Pointer to make this authority even more explicit with respect to this
23 charge.

1 **Q. MR. POINTER ALSO ARGUES THAT A COMPLIANCE FILING WOULD BE**
2 **NECESSARY TO CLARIFY THE BILLING METHODOLOGY FOR OTHER**
3 **APPROPRIATE PARTIES, BOTH WITH REGARD TO CONTROL AREA**
4 **SERVICES AND MARKET OPERATIONS. EXH. NO. S-6 AT 39-40. DO**
5 **YOU AGREE?**

6 A. No. I believe the proposed ISO Tariff language and the discussion above
7 establishes how the ISO will bill “other appropriate parties” the GMC, for both
8 the Control Area Services Charge and the Market Operations Charge. If the
9 Commission decides otherwise, of course, the ISO will make such a
10 compliance filing.

11

1 **Q. HOW DOES AN SC ACCOUNT FOR THE VARIOUS LOADS IT**
2 **SCHEDULES ON THE ISO GRID?**

3 A. An SC, such as PG&E as the RPTO with regard to the pertinent NCPA
4 customers, is required to submit Settlement Quality Meter Data to the ISO for
5 the total Load for which it is responsible. The SC processes the meter data
6 for its Existing Contracts to account properly for the transactions on the ISO
7 Controlled Grid. This process includes reading various meters, aggregating
8 these meters to the proper scheduling area, and reporting the SQMD to the
9 ISO. The SQMD that the SC reports to the ISO is what the ISO uses for the
10 Settlement calculation.

11

12 **Q. DOES THE ISO SUPPORT CONTINUED USE OF THIS SYSTEM?**

13 A. The ISO would prefer that the entity responsible for providing retail electric
14 service to “behind-the-meter” Load provide SQMD directly to the ISO for
15 purposes of calculation of the GMC, rather than leaning on the SC to
16 undertake this task for it. For example, if NCPA’s customers, which have all
17 the data to enable them to back out the reported Existing Contract Load that
18 is reported to the ISO by PG&E as their RPTO and by any other SC that they
19 may use, were to report any residual of their own Load (e.g., any “behind-the-
20 meter” Load not reported by the RPTO or other SC), no errors in reporting
21 could take place.

22

1 Under the current system, the ISO depends upon the SC for the Existing
2 Contract Load to take into account the Load for each contract holder, and
3 assign the costs of the Control Area Services Charge to each contract holder
4 correctly. Naturally, the ISO has no role in determining how this may be
5 done.

6

7 **Q. WHAT METHOD HAS THE ISO PROPOSED FOR REPORTING OF THE**
8 **RESIDUAL “BEHIND-THE-METER” LOAD?**

9 A. In a series of communications over the course of 2000, the ISO proposed to
10 NCPA, its customers, and other entities with both Existing Contracts and
11 internal (*i.e.*, non-grid supplied) Generation, that each month they complete a
12 simple form on which the entity would subtract from its entire Load for the
13 month that portion of its Load for which SQMD is reported to the ISO by an
14 SC. The “net” Load reported by an SC would be the basis for billing of the
15 applicable GMC directly by the ISO Settlements system. Thus, the entity
16 served by the Existing Contract would only be billed GMC directly as an
17 “other appropriate party” on its “behind-the-meter” Load (*i.e.*, the residual
18 Load); GMC calculated based on external power flows to the entity served by
19 the Existing Contract would be billed to the SC scheduling those flows.

20

21 Thus, separately, the entity served by the ETC (*e.g.*, the NCPA customer)
22 would submit meter data to the ISO for its Load “behind-the-meter” for
23 purposes of calculation of the applicable GMC to be billed to it directly as an

1 “other appropriate party.” This value would not have shown up on the "net"
2 meter reads. Therefore, the Loads would not be doubled-counted. Under
3 such a system, NCPA and its customers should be able to verify the absence
4 of double-counting in that it is their meters that provide the meter data for
5 PG&E, and either directly or by extension for NCPA.

6

7 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

8 **A. Yes.**

9