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November 2, 2001

The Honorable David P. Boergers  
Secretary  
Federal Energy Regulatory Commission  
888 First Street, NE  
Washington, DC 20426

Re: **California Independent System Operator Corporation,  
Docket No. ER02-250-000**

FILED  
OFFICE OF THE SECRETARY  
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FEDERAL ENERGY  
REGULATORY COMMISSION

Dear Secretary Boergers:

Pursuant to Section 205 of the Federal Power Act ("FPA"), 16 U.S.C. § 824d, and Section 35 of the Commission's Regulations, 18 C.F.R. § 35, the California Independent System Operator Corporation ("ISO") submits for Federal Energy Regulatory Commission ("FERC" or "the Commission") approval an original and six copies of its 2002 Grid Management Charge ("GMC").<sup>1</sup> The purpose of the GMC is to allow the ISO to recover its administrative and operating costs, including the costs incurred in establishing the ISO before operations began, in a manner that attributes those costs to the entities that cause them to be incurred. The ISO requests an effective date of January 1, 2002.

## I. BACKGROUND

The ISO filed its original unbundled GMC in late 2000, effective January 1, 2001.<sup>2</sup> The 2001 GMC was accepted for filing subject to refund, and currently is the subject of a proceeding before Administrative Law Judge Bobbie J. McCartney in

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<sup>1</sup> Capitalized terms not otherwise defined herein are used in the sense given in the Master Definitions Supplement, Appendix A to the ISO Tariff.

<sup>2</sup> A detailed procedural history of the GMC was included in the November 1, 2000 Transmittal Letter for the 2001 GMC in Docket No. ER01-313.

Docket No. ER01-313.<sup>3</sup> The 2001 GMC filing unbundled the GMC, formerly a single charge assessed on Market Participants, into three cost categories.<sup>4</sup> For 2002, the unbundled structure is retained, although the cost categories are somewhat modified.

## II. COMMUNICATIONS

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

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## III. CONTENTS OF FILING

The instant filing includes this Transmittal Letter, proposed revisions to the ISO Tariff, testimony and exhibits explaining and justifying the 2002 unbundled GMC components and methodology, and Period I and Period II cost data in the form of the Cost Statements required under 18 CFR §35.13(h). For purposes of this filing, the ISO has used actual 2000 figures for its Period I data and budgeted 2002 figures for its Period II data.

The Direct Testimony of Philip R. Leiber, included with this filing as Exhibit 1, is designed to explain the ISO's budget process, provide justification for the 2002 GMC costs, and explain the changes between the 2001 and 2002 GMC.

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<sup>3</sup> The hearing in Docket No. ER01-313 is scheduled to begin on November 13, 2001.

<sup>4</sup> As described in the 2001 GMC Filing, the three cost categories were A) Control Area Services, B) Inter-Zonal Scheduling, and C) Market Operations. As described herein, and in greater detail elsewhere in this filing, the second and third categories are being renamed for 2002, and the third category is being revamped, as well.

The following documents are included in this filing:

- (1) Transmittal Letter
- (2) Attachment A Proposed ISO Tariff Changes (both clean and redlined versions)
- (3) Exhibit 1 Direct Testimony of Philip R. Leiber
- (4) Exhibit 2 18 C.F.R. § 35.13 Cost Statements (Period I)
- (5) Exhibit 3 18 C.F.R. § 35.13 Cost Statements (Period II)
- (6) Exhibit 4 "Analytical Support for the California ISO Grid Management Charge for 2001" (including Cost Allocation Matrix)
- (7) Exhibit 5 Proposed ISO Tariff Changes (clean)
- (8) Exhibit 6 Proposed ISO Tariff Changes (redlined)
- (9) Exhibit 7 September 27, 2001 Budget Presentation
- (10) Exhibit 8 "Proposed FY2002 Grid Management Charge" dated October 17, 2001
- (11) Exhibit 9 October 25, 2001 Budget Presentation
- (12) Exhibit 10 July 2, 2001 Memorandum from ISO President and Chief Executive Officer Terry M. Winter to ISO Personnel
- (13) Exhibit 11 Direct Testimony of Spence Gerber
- (14) Attachment B A Notice of Filing, suitable for publication in the Federal Register, together with a computer disk with a copy of the Notice in Word Perfect
- (15) Attachment C A Certificate of Service

#### **IV. CHANGES IN 2002 GMC**

As described in detail in Mr. Leiber's testimony (Exhibit 1), two of the GMC service categories are being altered for 2002. First, the "Inter-Zonal Scheduling Charge" is being changed to the "Congestion Management Charge." This is merely a name change, and will not impact the kinds of costs to be recovered by the charge, or the entities on which the charge will be assessed.

The second change is more substantive. The "Market Operations Charge" is being renamed the "Ancillary Services and Real-Time Energy Operations Charge." Moreover, this charge is going to be assessed on Market Participants in 2002 in addition to those on whom it was assessed in 2001. In 2001, the Market Operations Charge was assessed based on purchases and sales of Ancillary Services, Supplemental Energy, and Imbalance Energy (both instructed and uninstructed). For 2002, the Charge will be assessed based on purchases and sales of Ancillary Services, Supplemental Energy, and Imbalance Energy (both instructed and

uninstructed) plus 50 percent of effective self-provision of Ancillary Services. This change was made because, due the substantial decrease in Ancillary Service ("A/S") volumes procured through ISO markets experienced in 2001, the billing determinant volume for the Market Operations Charge decreased significantly. Accordingly, barring any change to the rate structure, the required rate for the Market Operations Charge for 2002 was forecast to increase substantially. Since the ISO performs services on behalf of those that self-provide A/S as well as those that procure A/S through the ISO markets, the ISO determined that it was appropriate to allocate some portion of its costs to Market Participants that self-provide their A/S requirements. This change is described in both the Direct Testimony of Philip R. Leiber, Exhibit 1, and the Direct Testimony of Spence Gerber, Exhibit 11.

## V. RATES

Exhibit 9 to this filing, the October 25, 2001 budget document "Approval of Proposed FY2002 Budget and Grid Management Charge", provides detailed information regarding the 2002 GMC. As demonstrated Exhibit 9, although the revenue requirement has gone up for 2002, the total budgeted spending actually has decreased. This apparent discrepancy is based in part on the ISO's inability to secure credit due to the continuing energy/financial crisis in California. Therefore, in spite of the success the ISO has had in reducing its costs, the rates for the GMC service categories will rise for 2002. The changes in the rates, and in the revenue requirement underlying the rates, are described in Mr. Leiber's testimony (Exh. No. ISO-1). For the ISO as a whole, the revenue requirement increased from \$225 million to \$244.5 million. A comparison of the ISO's GMC rates for 2001 and 2002 is provided below.

<u>Service Category</u>	<u>2001</u>	<u>2002</u>	<u>% Change</u>
Control Area Services	\$0.406	\$0.575	42%
Congestion Management <sup>5</sup>	\$0.223	\$0.368	65%
Ancillary Services and Real-Time Energy Operations <sup>6</sup>	\$0.951	\$0.957	1%

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<sup>5</sup> Formerly Inter-Zonal Scheduling.

<sup>6</sup> Formerly Market Operations.

## **VI. DESCRIPTION OF TARIFF REVISIONS**

As described in Mr. Leiber's testimony, several proposed revisions to the ISO Tariff accompany this filing. These changes are the following:

- Tariff Sections 8.3; and Appendix F, Schedule 1, Parts B and D include changes to reflect the fact that the ISO may be required to make annual GMC 205 Filings, rather than providing for rate changes through informational filings.
- Tariff Sections 8.3(2); 8.3.2; Appendix A (Master Definitions Supplement); Appendix F, Schedule 1, Parts A and C; and Settlement and Billing Protocol ("SABP") Appendix A (Grid Management Charge Computation) have been revised to replace "Inter-Zonal Scheduling" with "Congestion Management."
- Tariff Sections 8.3(3); 8.3.3; Appendix A (Master Definitions Supplement); Appendix F, Schedule 1, Parts A and C; and SABP Appendix A (Grid Management Charge Computation) have been changed to replace "Market Operations" with "Ancillary Services and Real-Time Energy Operations," with regard to both the name and in assessment of this charge.
- Tariff Sections 8.3.1; 8.3.3; 8.4; 8.4.1; Appendix A (Master Definitions Supplement); SABP 3.1; SABP 3.2.1; SABP 5; and SABP 6.5.3 have been changed to introduce "Other Appropriate Party" as a defined term. In addition to the definition itself, these changes incorporate the term in Tariff Sections where it is helpful to describe what entities will be assessed the GMC.
- Appendix F, Schedule 1, Part C has been changed to provide for greater flexibility in the calculation of the revenue requirement.

The pertinent portions of the ISO Tariff are included with this filing both as Attachment A and as Exh. Nos. ISO-5 (clean version) and ISO-6 (redlined version).

## **VII. REQUEST FOR SURCHARGE AUTHORITY**

The ISO requests the Commission to grant it surcharge authority, in the event that refunds of GMC payments made are deemed appropriate. As a non-profit entity, the ISO must remain revenue-neutral, and hence has no source from which to make such refunds, apart from funds that could be secured through a surcharge on Scheduling Coordinators and Other Appropriate Parties. If the Commission were to award refunds to Market Participants as a result of this proceeding, but fail to allow the ISO to institute a surcharge from which to make such refunds, the ISO would suffer irreparable harm.

### **VIII. EFFECTIVE DATE**

The ISO requests an effective date of January 1, 2002, to allow the 2002 GMC to go into effect at the time planned for the 2001 GMC to expire. This effective date would meet the requirement under FPA § 205(d) that rates be effective within 60 days of filing.

### **IX. EXPENSES**

No expense or cost associated with this filing has been alleged or judged in any judicial or administrative proceeding to be illegal, duplicative, unnecessary, or demonstratively the product of discriminatory employment practices.

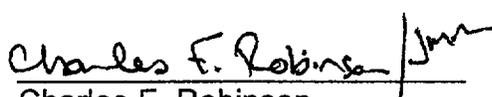
### **X. SERVICE**

Copies of this filing have been served on each ISO Scheduling Coordinator and the California Public Utilities Commission. Two additional copies of this filing are enclosed to be date-stamped and returned to our messenger. In addition, two courtesy copies also are enclosed to be provided to Judge Bobbie J. McCartney, who is the Presiding Judge in the 2001 GMC proceeding.

**X. CONCLUSION**

Wherefore, the California Independent System Operator Corporation requests that the Commission accept this Grid Management Charge rate filing, to be effective on January 1, 2002.

Sincerely,



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Dated: November 2, 2001