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METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

9-9

March 25, 1997

To: Board of Directors (Water Planning and Resources Committee--Information)
(Electric Industry Restructuring Ad Hoc Committee--Information)

From: *for* General Manager Edward J. McGee III

Submitted by: Debra C. Man Debra C. Man
Chief of Planning and Resources

Subject: Status Report on California's Restructuring of the Electric Utility Industry and the Phase II Filing

RECOMMENDATION(S)

Information only.

EXECUTIVE SUMMARY

As previously discussed, California's restructuring of the electric utility industry is proceeding at a very rapid pace. The forum will be moving shortly from California to the Federal Energy Regulatory Commission once the Phase II filing (Filing) is made on March 31, 1997. The Filing details the implementation of the independent system operator (ISO) and the power exchange (PX). Another recent development is the establishment of the Oversight Board as required in AB 1890 to oversee the ISO and PX, determine the composition and terms of service of governing boards for the ISO and PX, and serve as an appeal board for majority decisions.

DETAILED REPORT

Recent developments in California's restructuring of the electric utility industry include the appointment and meeting of the Oversight Board, and the anticipated Phase II filing (Filing) to the Federal Energy Regulatory Commission (FERC) on March 31, 1997 of the documents implementing the independent system operator (ISO) and power exchange (PX). The Oversight Board, as required in AB 1890, consists of three voting members appointed by the Governor, one non-voting member from the Senate and one non-voting member from the

Assembly. In February, Governor Wilson appointed Roy A. Anderson, chairman emeritus of the Lockheed Corporation; Lewis Coleman, senior managing director at Montgomery Securities; and Archer Pugh, an attorney with Pugh & Voris and previously the Executive Director of the Transmission Association of Northern California. The Senate appointee is Senator Steve Peace, Chair, Senate Energy, Utilities and Communications Committee. The Assembly appointee is Assemblywoman Diane Martinez, Chair, Assembly Utilities and Commerce Committee. The last two appointments were made in early March.

The first tasks of the Oversight Board are to: elect a Chair of the Oversight Board; address the composition of and appointments to the ISO and PX Governing Boards; and approve the articles of incorporation. At its first meeting on March 14, 1997 the Oversight Board elected Mr. Anderson as the Chair and discussed the Filing. It was determined that the ISO/PX Trustee, S. David Freeman, should continue with his preparation of the Filing and make such filing on behalf of the Oversight Board, in conformance with FERC's order directing that the Filing be made on or before March 31. In that the Governing Board members will not be appointed until March 27th at the earliest, there is insufficient time for the Governing Boards to approve the Filing prior to its submittal to FERC. However, the Governing Boards will have the opportunity to file comments with FERC on or about May 15 indicating their respective acceptance of or modification to the PX and the ISO Phase II filings after stakeholders have submitted comments, which we anticipate will be submitted by the end of April.

The Filing to be submitted by the Trustee now includes approximately 24 documents which consist of more than 1200 pages. In addition each investor-owned utility will provide tariffs, contracts and supporting rate information to augment the Filing. The documents in the Filing will consist of:

One each for the ISO and PX:

- Articles of Incorporation, Bylaws and Alternate Dispute Resolution
- Compliance Letter
- Operating Agreement and Tariff
- Summaries of the Tariff and certain agreements
- Miscellaneous documents explaining or demonstrating rates or formulas

In addition, there is a Master Definition Supplement, other miscellaneous documents, and the ISO requires the following additional documents:

- Transmission Control Agreement
- List of Existing Contracts
- Response to FERC's Phase I Instructions and Questions

- Compliance with FERC's Eleven ISO Principles
- Market Power Monitoring Plan and Reports
- Maintenance Standards
- Examples of Calculations

The primary purposes of the documents is to describe the responsibilities and obligations of the ISO, PX, Participating Transmission Owners (TO) and market participants. The documents also establish: rules for operating in the new paradigm; rate and non-rate terms for transmission service for both the Participating TO and the ISO; rate and non-rate terms and conditions for participation in the PX; and existing contracts listing and integration of existing contracts into the new market structure. The Filing indicates that the ISO will develop its detailed protocols and operating procedures within the near future.

Metropolitan staff is continuing to analyze the documents to determine the impact to Metropolitan. As before, Metropolitan is primarily concerned with the protection of existing contracts and avoidance of cost shifting. To that end, Metropolitan is providing focused comments on the following:

1. Providing for participation by the Governmental Entities^{1/} on both the ISO and PX Governing Boards. The Governmental Entities have requested that Mr. Viju Patel of DWR and Mr. Robert W. Schempp of Metropolitan be their representatives on the ISO and PX, respectively. (See attachment)
2. Assuring that transmission losses are appropriately charged.
3. Assuring that the entities creating overgeneration^{2/} conditions are responsible for mitigating the costs.
4. Protecting against the inadvertent abrogation of existing contract rights by ISO or PX protocols, including those protocols for congested transmission paths.
5. Assuring no reduction in generation for Metropolitan's small hydroelectric recovery units under the new paradigm.
6. Minimizing up-lift charges (ISO and PX administrative and other costs charged to ISO and PX users on a volumetric basis) and assigning cost responsibilities to the parties responsible for them.
7. Providing that ancillary service (reserves, imbalances, voltage support, etc.) are appropriately priced and charged to the correct market participants.

^{1/} The Governmental Entities are Metropolitan, the California Department of Water Resources (DWR), the City and County of San Francisco (Hetch Hetchy), and the Western Area Power Administration.

^{2/} Overgeneration results when generation in an hour is greater than available load. In this condition, generation is shut down based on established ISO protocols.

8. Assuring that the transmission access charge does not inadvertently cause cost shifting and specifically provide for consideration of time-of-use pricing.

Staff has and will continue to participate in commenting on the documents prior to their filing at FERC. Once the Filing is made with FERC, we anticipate FERC will provide between 15 and 30 days for submission of formal stakeholder comments, which we are anticipating to be voluminous. Staff will continue to periodically update your Board on the restructuring process.

**State of California
OVERSIGHT BOARD**

In the Matter of:)	Docket No. 97-OSB-1
)	
Electric Industry Restructuring)	
Oversight Board)	
_____)	

Comments of the Governmental Entities

The Governmental Market Participant Entities (Governmental Entities) are pleased to provide comments on the composition of the Independent System Operator (ISO) and the Power Exchange (PX) Governing Boards as directed by your Board in its notice dated ...
March 4, 1997 (Notice).

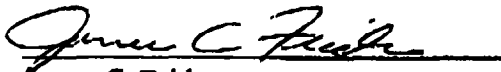
The Governmental Entities consist of the City and County of San Francisco (San Francisco), the California Department of Water Resources (CDWR), the Western Area Power Administration (Western), and The Metropolitan Water District of Southern California (Metropolitan). Directly or indirectly, each entity provides vital services to California residents, and will be significantly affected by the manner in which California's electric utility industry is restructured. Each agency has been involved in the restructuring process, including: filing comments at the California Public Utilities Commission and the Federal Energy Regulatory Commission; participation in the working groups; and participation in the ISO/PX Trust Advisory Committees and ISO/PX Steering Committees.

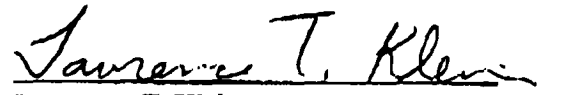
In a letter to Mr. George Dunn of the Governor's Office dated February 5, 1997, the Governmental Entities explained the need for establishing a separate class of representatives for Governmental Entities on the ISO Governing Board. A copy of this letter is attached for your convenience. We are pleased to report that the other stakeholders and the ISO/PX Trustee have since agreed to our proposal for one representative on the Governing Board, which increases to two representatives when any Governmental Entity transfers operational control of its transmission facilities to the ISO. By agreement of the Governmental Entities, Western will serve as one of the two representatives when it transfers operational control of its transmission facilities to the ISO, in light of that significant contribution. We understand that the above-described proposal for one to two ISO Governing Board seats for Governmental Entities will be included in the Trustee's proposal for Governing Board composition submitted to your Board pursuant to the Notice, and we encourage your approval of that proposal.


In accordance with this requested representation, we propose that Mr. Viju Patel of CDWR be appointed by the Oversight Board to serve as the initial Governmental Entity representative on the ISO Governing Board. Mr. Patel has ably served as the Governmental Entity representative on the ISO Trust Advisory Committee and the ISO/PX Steering Committee. His continuing service will provide beneficial continuity to the ISO Governing Board's consideration of the numerous restructuring issues yet to be resolved:

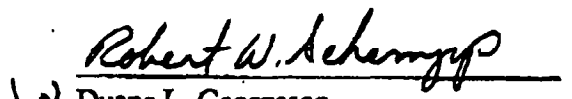
In addition to and further consistent with the requested representation, the Governmental Entities are eligible for representation on the PX Governing Board in the Public Buyers and Sellers class. CDWR, San Francisco and Metropolitan together require more than 10,000 gigawatthours (GWH) annually to pump water for domestic, municipal, industrial, and agricultural use in northern and southern California. This combined consumption represents more than 10% of the State of California's total energy requirement. Western sells approximately 8,000 GWH to preference power customers and for water project pumping purposes. We believe such significant consumption and sales of energy warrant direct representation on the Power Exchange, and suggest that Mr. Robert W. Schempp of Metropolitan be appointed as one of the two Public Buyers and Sellers representatives. Mr. Schempp has represented the Governmental Entities on the PX Trust Advisory Committee and the ISO/PX Steering Committee. His continuing participation would likewise help facilitate expeditious resolution of pending restructuring issues.

Thank you for the opportunity to provide our comments on the governance-related items of the Oversight Board agenda. We look forward to attending the initial meeting of the Oversight Board and offering our comments on issues it will be addressing as it embarks on its important mission of implementing the initial framework for California's electric utility industry restructuring.


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Regional Manager
Western Area Power Administration


Lawrence T. Klein *NM*
General Manager
Hetch Hetchy Water and Power


Stephen L. Kashiwada
Deputy Director
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Duane L. Georgeson
Executive Asst. to the General Manager
The Metropolitan Water District of
Southern California

cc: S. David Freeman, ISO/PX Trustee

February 5, 1997

Mr. George Dunn
Governor's Office
State of California
First Floor, State Capitol
Sacramento, California 95814

Dear Mr. Dunn:

Electric Utility Industry Restructuring
Governance of the Independent System Operator

On September 23, 1996, Assembly Bill 1890 was signed into law. This legislation defines the path for a smooth transition to a restructured electric utility industry in California that ensures the benefits of competition, reduced energy prices, and customer choice are extended to all of California's electric consumers. We have been actively involved in the restructuring process seeking to implement the vision of a revitalized electric utility industry that continues to provide highly reliable service.

AB 1890 recognizes the critical nature of reliable electric service, and the need for independently provided, open transmission access by calling for the creation of a State-appointed Oversight Board that would then establish an "Independent System Operator" (ISO) with governing members selected by the Board. The ISO will efficiently achieve open transmission access in a non discriminatory manner and will assure that economic transactions are scheduled while ensuring reliability.

The Oversight Board will, very shortly, specify composition of the class structure, allocate voting seats, and appoint members to the ISO Governing Board. We believe, and propose, that the ISO Governing Board must include a separate category for governmental entities (Governmental Entities) that manage power systems which support major water development systems, wholesale end uses, and the sale of power through the Federal power marketing administration. These vital systems provide millions of Californians with essential services using electrical transmission facilities, power generation resources, and contractual arrangements that will be directly affected by the ISO.

Entities in these unique circumstances include the City and County of San Francisco, the California Department of Water Resources (CDWR), the Western Area Power Administration, and The Metropolitan Water District of Southern California. This class comprises roughly 10 percent of the energy use in the State, primarily for pumping water and necessarily should be adequately represented to reflect their diverse and unique needs. Voting representation for these Governmental Entities can also facilitate transfer to the ISO of coordinated system arrangements that were useful to the current operators of California transmission systems.

February 5, 1997

The WEPEX process has recognized the value of creating a distinct voice for Governmental Entities by making seats for them on the Filing Review Group and the Trust Advisory Committee, two key committees within the ISO development process. This category should necessarily be preserved for full representation on the ISO.

A proposal has been forwarded by various stakeholders to the ISO and Power Exchange Steering Committees to provide one initial seat to the Governmental Entities, with one additional seat provided if any Governmental Entity determines that it is able to transfer operating control of its transmission to the ISO. This proposal is consistent with the objective of diverse representation on the ISO Governing Board, and the eleven classes of membership contemplated in AB 1890, and is further consistent with CMUA's letter to you of January 24, 1997. In addition, this proposal is supported by other entities including CDWR.

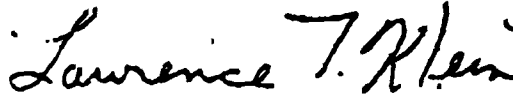
We applaud the Governor's leadership in propelling the electric utility industry restructuring forward through AB 1890. This support will assure that the unique entities which provide essential public services and which comprise the Governmental Entities' class are provided adequate opportunity for representation on the ISO Governing Board.

We intend to continue to work through the ISO/PX process, the proceedings before the California Public Utilities Commission, and the proceedings of the Federal Energy Regulatory Commission to implement AB 1890. Properly implemented, that infrastructure will continue to maintain reliability and provide the benefits of lower power costs for all Californians, including those reliant upon water services provided by the Governmental Entities.

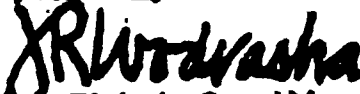
Very truly yours,



**James C. Felder, Regional Manager
Western Area Power Administration**



**Lawrence T. Klein, Manager for Hatch
Ketchikan Water and Power
City and County of San Francisco**



**John A. Woodruff, General Manager
The Metropolitan Water District
of Southern California**

February 5, 1997

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