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June 6, 2003

The Honorable Magalie Roman Salas
Secretary
Federal Energy Regulatory Commission
888 First Street, N.E.
Washington, DC 20426

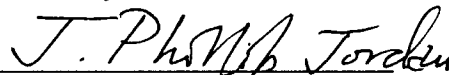
Re: *California Independent System Operator Corporation, et al.*
Docket Nos. ER01-889-012, et al.

Dear Secretary Salas:

Enclosed for filing are one original and fourteen copies of the Status Report and Request for Continued Suspension of Procedural Schedule submitted in the above-captioned proceeding.

Also enclosed are two extra copies of the filing to be time/date stamped and returned to us by the messenger. A courtesy copy of this filing is also being provided to Judge Nancy. Thank you for your assistance. Please contact the undersigned if you have any questions regarding this filing.

Sincerely,



J. Phillip Jordan
Michael Kunselman
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Counsel for the California
Independent System Operator Corporation

Enclosures
cc: Restricted Service List

**UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION**

California Independent System Operator Corporation)	Docket No. ER01-889-012
)	
)	
California Independent System Operator Corporation)	Docket No. ER01-3013-004
)	
)	
San Diego Gas & Electric Company,)	Docket No. EL00-95-059
)	
Complainant,)	
)	
v.)	
)	
Sellers of Energy and Ancillary Services Into Markets Operated by the California Independent System Operator and the California Power Exchange,)	
)	
)	
Respondents)	

**STATUS REPORT AND REQUEST FOR CONTINUED SUSPENSION OF
PROCEDURAL SCHEDULE**

To: The Honorable Joseph R. Nancy
Presiding Administrative Law Judge

Pursuant to the Presiding Judge's May 28, 2003 "Order Requiring Status Report," the California Independent System Operator Corporation ("ISO"), on behalf of the active participants in the above-captioned proceeding,¹ respectfully submits this report and, for the reasons set forth below, requests continued

¹ The active participants in this proceeding consist of: the ISO, the California Department of Water Resources ("CDWR"), Pacific Gas & Electric ("PG&E"), Southern California Edison

suspension of the procedural schedule established in this proceeding on December 10, 2002, and originally suspended on February 25, 2003.

I. BACKGROUND

On November 7, 2001, the Commission issued an order in this docket that required the ISO to invoice the CDWR for all transactions entered into on behalf of the net short positions of PG&E and SCE (collectively, the "IOUs") during the period January 17, 2001 through July 31, 2001, within 15 days of the date of that order. 97 FERC ¶ 61,151 (2001). The ISO submitted its compliance filing on November 21, 2001. On March 27, 2002, the Commission issued an order requiring that the the ISO "re-invoice those gross amounts owed by DWR for all [CA]ISO transactions DWR entered into on behalf of the non-creditworthy UDCs. . . and provide a transparent means by which this Commission and other parties can determine whether the invoiced amounts were properly calculated." 98 FERC ¶ 61,335 (2002). In response, the ISO submitted its compliance filing along with the gross invoices of PG&E and SCE, the net invoices of CDWR, and a worksheet and summary of these invoices.

On November 25, 2002, the Commission issued an order in which it determined that the ISO's compliance filing was deficient in explaining whether or not it had properly calculated the amounts invoiced to CDWR on behalf of the net short position of the IOUs. 101 FERC ¶ 61,241 (2002) ("November 25 Order"). The Commission based this decision on a finding that the ISO had failed to

("SCE"), and affiliates of Dynegy, Duke, Reliant, Mirant, and Williams. FERC Staff has also indicated that they do not oppose this request.

provide “adequate supporting documentation that would allow for transparency” in determining whether the ISO had properly calculated the amounts invoiced to CDWR. Therefore, finding that there were material issues of fact as to whether the ISO had properly calculated amounts invoiced to CDWR, the Commission set for hearing the following issues:

an accounting and explanation to determine how the CAISO calculated that DWR owed \$3.6 billion (as the creditworthy party for the IOUs) to the CAISO markets for the period January 17, 2001 through July 31, 2001; an accounting and explanation to determine how the CAISO calculated that DWR was owed \$2.7 billion during this time period; how much interest, if any, is included in these amounts due; a determination on whether DWR has fully paid all of the CAISO invoiced amounts; and any other issues that might affect the calculation of the amount that the CAISO should have invoiced DWR.

November 25 Order at p. 26.

On December 9, 2002 a pre-hearing conference was convened before the Presiding Judge, at which time the Parties developed a proposed procedural schedule and discussed steps to take towards the goal of reaching a negotiated settlement of the issues set for hearing in this proceeding. The Presiding Judge adopted the parties' proposed procedural schedule on December 10, 2002.

Throughout the early months of 2003, the parties to this proceeding engaged in a series of technical conferences and workshops in an attempt to better understand and resolve the issues that are the subject of this proceeding. During this period, the ISO also made available various data that was requested by the participants. On February 18, 2003, with testimony due on February 20 and negotiations still ongoing, the ISO filed an unopposed motion to temporarily

suspend the procedural schedule to allow the parties to focus on reaching a complete settlement and preparing an offer of settlement to file with the Commission. The Chief Administrative Law Judge granted the ISO's request and, on February 25, 2003, suspended the procedural schedule until "otherwise ordered."

II. STATUS REPORT AND REQUEST FOR CONTINUED SUSPENSION OF PROCEEDING

Since the suspension of the procedural schedule on February 25, 2003, the parties have continued negotiations with respect to the issues set for hearing by the Commission in its November 25 Order. Specifically, in late March, the ISO circulated a draft offer of settlement, and in response, several parties have provided comments and raised various concerns. Just this week, the active participants participated in several conference calls to discuss the draft settlement and how best to proceed at this juncture.

The active participants continue to feel that a settlement is the preferred means of resolving the issues set for hearing by the Commission in this proceeding, and that such a settlement is feasible. However, the active participants have concluded that their negotiations would be greatly facilitated, and the likelihood of reaching a full settlement substantially increased, by awaiting the conclusion of the compliance process in the California refund

proceeding,² before attempting to conclude and file a settlement in this proceeding.

This is the case because the amounts that the ISO has calculated that CDWR owed and was owed for the period January 17, 2001 through July 30, 2001, which are the subject of this proceeding, will necessarily change as a result of the settlement recalculations that the ISO must perform in order to implement the Commission's orders in the refund proceeding. Those amounts will change, first and foremost, because the ISO must mitigate all transactions that exceed the proxy price calculated under the Commission's refund methodology. The mitigation of those transactions will result in a change in amounts owed and owing for all participants in the ISO markets during the refund period of October 2, 2000 through June 20, 2001. Additionally, prior to the rerun of its settlement system in order to implement the Commission's mitigation methodology, the ISO plans to perform a "preparatory" rerun to resolve a number of outstanding issues with respect to transactions that took place before and during the refund period, which will also result in a change in amounts owed to and owed by ISO market participants. Therefore, because the amounts that the ISO has calculated that CDWR owes and is owed for the January 17, 2001 through July 31, 2001 period will certainly change, parties are understandably hesitant at this juncture to sign off on a settlement stating that the ISO has correctly calculated those amounts. However, once the compliance phase of the refund proceeding has been completed, then the ISO will be able to provide parties with the final amounts that CDWR owes and is owed for the period January 17, 2001 through July 31, 2001.

² Docket Nos. EL00-95-045 and EL00-98-042.

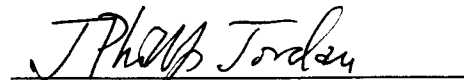
The parties are hopeful that a number of concerns that have been raised during negotiations in this proceeding, such as whether CDWR-related transactions were properly accounted for in the ISO's database, the appropriate amount of interest due on CDWR-related transactions, and the inclusion of certain charges in those billed to CERS, can be addressed and possibly resolved either in the refund proceeding itself or through negotiations conducted parallel with the refund proceeding, prior to the completion of the compliance phase of the refund proceeding. Resolution of some or all of these concerns in this manner would result in a narrower set of items – or, in the best of cases, no items at all – that would still need to be addressed in this proceeding after the ISO presents, in the compliance filing of the refund proceeding, its final calculation of the amounts owed by and owed to CDWR for the January 17, 2001 through July 31, 2001 period. Thus, allowing negotiations to continue through the compliance phase of the refund proceeding would significantly expedite the process of concluding and filing an offer of settlement in the present proceeding, thereby conserving limited Commission resources.

For these reasons, the ISO, on behalf of the active participants, respectfully requests that the procedural schedule in the present proceeding remain suspended until such time as the Commission issues a final order approving the ISO's compliance filing in the California refund proceeding,³ at which point the participants hope they will be able to file a complete settlement of

³ The ISO currently estimates that the compliance phase of the refund proceeding will be completed during the first or second quarter of 2004.

the issues set for hearing by the Commission in its November 25 Order.⁴ The ISO, on behalf of the active participants, also proposes that the participants provide the Presiding Judge with a status report 30 days from the date of the Commission's final order approving the ISO's compliance filing in the refund proceeding, in order to apprise the Presiding Judge as to whether all issues in this proceeding have been resolved.

Respectfully submitted,



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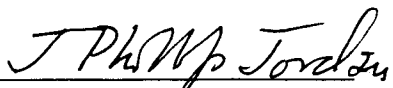
Dated: June 6, 2003

⁴ This request for suspension will not affect the timing of the ISO's compliance filing with respect to the Commission's requirement that the ISO reallocate its pro-rata disbursements for the month of January, 2001 in order to disburse funds received from CDWR only to those entities that supplied power for the period January 17-31, 2001.

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon each person designated on the on the official service list compiled by the Secretary in this proceeding.

Dated at Washington, DC, this 6th day of June, 2003.


J. Phillip Jordan