



July 3, 2002

The Honorable Magalie R. Salas
Secretary
Federal Energy Regulatory Commission
888 First Street, N.E.
Washington, D.C. 20426

**Re: California Independent System Operator Corporation,
Docket No. ER02-651-001**

Dear Secretary Salas:

The California Independent System Operator Corporation ("ISO")¹ respectfully submits six copies of this filing in compliance with the Commission's June 3, 2002 "Order On Rehearing" 99 FERC ¶ 61,253 ("June 3, 2002 Order"), issued in the above-referenced docket.

I. BACKGROUND

On February 26, 2002, the Commission rejected without prejudice the ISO proposed Amendment No. 41 to the ISO Tariff.² Amendment No. 41 would have revised ISO Tariff Section 6.5.2 to provide that default interest paid on over due accounts would go first to pay unpaid creditor balances and then to offset the Grid Management Charge ("GMC"). Reliant Energy Power Generation, Inc. and Reliant Energy Services, Inc. (collectively, "Reliant") requested rehearing of the Order on Amendment No. 41, arguing that the Commission should establish a just and reasonable methodology for the distribution of interest payments to third-party suppliers. Reliant proposed that interest payments should be distributed to third-party suppliers *pro rata*, in relation to amounts past due pursuant to section 6.10 of the ISO Tariff Settlement and Billing Protocol. Reliant stated that the ISO and the California Department of Water Resources/California Energy Resources Scheduler ("CERS") have an obligation to pay interest on money that is owed to suppliers as well as an obligation to pay the underlying principal.

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

² 98 FERC ¶ 61,187 (2002) ("Order on Amendment No. 41").

The June 3, 2002 Order granted the Reliant request for rehearing of the Order on Amendment No. 41 and adopted the Reliant proposal for distribution of default interest. The Commission directed the ISO to provide for the distribution of interest collected on past due payments to third-party suppliers on a *pro rata* basis in relation to amounts past due. The Commission specifically noted that “in accordance with usual financial practices, amounts received in payment of default interest obligations should be applied first toward outstanding interest obligations, before being applied to outstanding principal obligations.”³ The Commission adopted November 1, 2001 as the effective date for the default interest provisions in the June 3, 2002 Order. Lastly, the Commission directed the ISO to submit a crediting mechanism to adjust prior distribution of default interest payments that are not consistent with the allocation method adopted in the June 3, 2002 Order.

Currently, the ISO charges Scheduling Coordinators (“SCs”) interest on past due payments owed to the ISO Market. Interest is tracked under ISO Charge Type (“CT”) 3999 and included on the last Preliminary Statement for the relevant Trade Month (*i.e.*, the Preliminary Statement issued on the last Trade Day of the Trade Month) and on the Final Market Invoice for the relevant Trade Month. Interest is calculated as provided for in the ISO Tariff defined term “ISO Default Interest Rate.”⁴ The ISO Tariff presently does not provide for payment of interest to creditors with over due accounts.

Detailed below are the ISO’s proposed processes for the collection and distribution of default interest as required by the June 3, 2002 Order. The proposed processes comport with the ISO’s existing settlement and billing procedures to the greatest extent possible. Moreover, given that the ISO is cash-neutral, as required under the ISO Tariff, the ISO will disburse default interest to SCs with over due Market accounts only to the extent that the ISO collects such default interest. Lastly, the schedule and steps for dispute resolution procedures set forth in the ISO tariff shall apply to all three of the proposed processes.

³ June 3, 2002 Order, 99 FERC at 62,104.

⁴ The ISO Tariff Master Definitions, Appendix A, defines “ISO Default Interest Rate” as “The rate which is equal to 2% above the average rate of interest which the ISO Bank charges to the ISO in respect of its borrowings.”

II. PROPOSED TARIFF CHANGES

In compliance with the June 3, 2002 Order, the ISO now proposes the following processes to address the collection and distribution of default interest for three (3) time periods:

- (1) The period beginning on the effective date of the Commission's order on the instant filing;
- (2) February 8, 2002 and continuing to the effective date of the Commission's order on the instant filing: the period in which the ISO has been and is receiving default interest payments and holding such funds in the ISO Market Reserve Account pending the Commission's order on the instant filing; and
- (3) November 1, 2001 through February 7, 2002: the period in which the ISO received default interest payments from CERS and distributed such funds as payments on over due Market payments owed to SCs for the period of November 2000 through October 2001.

Each of these processes is detailed below.

A. Prospective Collection and Distribution of Default Interest

Prospectively, the ISO will institute a new default interest process. Specifically, the ISO will create separate CTs for: (1) default interest that is charged to SCs and (2) default interest collected that is to be paid to SCs. The default interest will be calculated as provided for in the ISO Tariff and will be set at the lowest rate that occurs within the Trade Month. Distinct CTs for interest will be created for each Trade Month in which there are unpaid debtor accounts.

Interest will be calculated for each unpaid and over due balance on GMC and Market Invoices for each SC for each Trade Month in which such a default occurred. Interest collected will be deposited in a separate interest-bearing account held in trust for the benefit of creditors for the Trade Month in which the default occurred and to whom interest will be distributed.⁵

All such default Interest collected that is to be paid to SCs will be reflected in a new "Interest Invoice" for the Trade Month. The Interest Invoice brings to four (4) the number of invoices the ISO provides to Market Participants (*i.e.*, Interest, Market, FERC Annual Fees and GMC). The form of the Interest Invoice will be similar to the current Market and GMC Invoices and as is set forth in the ISO Tariff Settlement and Billing Protocol ("SABP") Appendix I.

⁵ See ISO Tariff Settlement and Billing Protocol Section 2.2.3.

Interest to be charged to SCs will be detailed on the first Preliminary Statement of the Trade Month (*i.e.*, the Preliminary Statement issued for the first Trade Day of the Trade Month). Distribution of interest to be paid to SCs will be made upon the earliest occurrence of: (1) the Trade Month Interest Account is greater than \$5,000; (2) all overdue and unpaid accounts for the Trade Month have been paid in full; or (3) no distributions from the relevant account have been made for the past six (6) months. These criteria for distribution assure that the ISO makes timely distributions of interest funds while reasonably seeking to incur wire transfer costs only when the amounts to be distributed exceed the costs of wiring such funds.

The amount of interest distributed to each SC will be based upon the outstanding unpaid balances as of the relevant payment date for the Final Invoice for the unpaid account as set forth in the ISO Payments Calendar. The ISO will distribute any such interest collected *pro rata* to creditors based upon the underlying amount of over due principal.

Both the Preliminary Statement and Interest Invoice will be issued in accordance with the ISO Payments Calendar. All default interest payments on the Preliminary Statement or Interest Invoice received after the relevant due date as set forth in the ISO Payments Calendar will be deemed as paid on the subsequent payment date set forth in the ISO Payments Calendar. The ISO proposes this requirement due to the continuing significant level of late payments by SCs.

In accordance with the ISO Tariff Settlement and Billing Protocol Section 6.3.1.3 and June 3, 2002 Order, the ISO will apply all cash collections from an SC to that SC's current and past unpaid GMC account; and then to FERC Annual Charges before applying any such collected cash to unpaid default interest invoices.

B. Default Interest Held In the ISO Market Reserve Account

All default interest collected by the ISO but not yet distributed is held in the ISO Market Reserve Account. The ISO has put collected default interest into the Market Reserve Account beginning on February 8, 2002 and continuing to date. Following the Commission's adoption of the instant filing, all such interest will be distributed to SCs in the first Trade Month immediately following the Trade Month in which the ISO adjusts accounts for prior distributions of default interest as payments on past due Market accounts (*see* Part II.C. below). The ISO will determine the amount of default interest to be distributed to each SC in the same manner as is set forth above in Part II.A. which details the prospective distribution of default interest.

C. Adjusted Distribution of Default Interest Previously Distributed

The ISO will calculate the amount of default interest it collected and distributed during the period of November 1, 2001 through February 7, 2002.⁶ The ISO distributed such default interest to SCs as payment on unpaid Market Invoices, for the period of November 2000 through October 2001. In compliance with the June 3, 2002 Order, the ISO will make adjustments for this initial distribution and re-distribute the default interest as default interest payments to SCs with unpaid Market Invoices for the period of Trade Month January 2001 through Trade Month August 2001.⁷

The ISO will determine the amount of default interest to be distributed to SCs in the same manner as is set forth in Section II.A, above, for prospective distribution of default interest. The amount of default interest that will be re-distributed will be detailed on the Preliminary Statement for the first Trade Day of the first Trade Month that is ninety (90) days after the effective date of the Commission's order on the instant filing. Issuance of the Preliminary Statement, invoices and due dates for payments thereon, will comport with the ISO Payments Calendar.

The re-statement (*i.e.*, adjustment for default interest previously distributed) shall be made in accordance with ISO Tariff Section 11.20.2, which provides for re-statement of amounts paid on Market Invoices. The net payment position (*i.e.*, amounts owed to or owed by an SC) will be based upon the Preliminary Statement and the Section 11.20.2 re-statement. The ISO concurrently will issue the Preliminary Statement, Section 11.20.2 re-statement and details of the net payment position.

ISO Tariff Sections, set forth in Attachments hereto, have been revised to reflect the above detailed changes.

⁶ While the June 3, 2002 Order adopts an effective date of November 1, 2001, in fact the ISO did not collect any default interest until CERS initiated such payments in January 2002. CERS completed all past due payments, including payments of default interest, on February 7, 2002.

⁷ As detailed in the several ISO compliance filings and reports in Docket Nos. ER01-3013 and ER01-889, CERS is responsible for payments for third-party transactions conducted on the behalf of the investor-owned utilities beginning on January 17, 2001 and continuing to date. The ISO, in compliance with the ISO Tariff and consistent with CERS' role as a SC, accordingly credited as paid all past due accounts of the investor-owned utilities, beginning on January 17, 2001. Distribution of funds received, pursuant to the ISO Tariff, are made on a Trade Month basis, and so the ISO will distribute default interest collected, just as was done with the distribution of Market payments, to creditors with unpaid accounts beginning with Trade Month January 2001. Trade Month August 2001 is the last month for which the ISO received default interest payments from CERS.

III. EFFECTIVE DATE

The ISO proposes to implement the proposed processes beginning ninety (90) days after Commission approval of the instant filing. Should the Commission modify or otherwise change the proposed process herein, the ISO requests the effective date be extended to 120 days from Commission approval.

IV. SUPPORTING DOCUMENTS

The following documents, in addition to this transmittal letter, support this filing:

- | | |
|--------------|--|
| Attachment A | Revised Tariff sheets incorporating the changes described above. |
| Attachment B | "Black-lined" Tariff provisions showing the additions to and deletions from existing Tariff provisions. |
| Attachment C | A form notice of filing suitable for publication in the Federal Register, and a computer diskette containing the notice in WordPerfect format. |

Two additional copies of this filing are enclosed to be date-stamped and returned to our messenger. If there are any questions concerning this filing, please contact the undersigned.

Respectfully submitted,

Margaret A. Rostker ^{BRM}

Charles F. Robinson
Margaret A. Rostker
Counsel for the California Independent
System Operator Corporation
151 Blue Ravine Road
Folsom, CA 95630
(916) 608-7147

ATTACHMENT A

- (4) Imbalance Energy charges;
- (5) Usage Charges;
- (6) High Voltage Access Charges and Transition Charges;
- (7) Wheeling Access Charges;
- (8) Voltage Support and Black Start charges;
- (9) Reliability Must-Run Charges; and
- (10) Default Interest Charges.

11.2 Calculations of Settlements.

The ISO shall calculate, account for and settle the following charges in accordance with this ISO Tariff.

11.2.1 Grid Management Charge.

The Grid Management Charge will be levied in accordance with Section 8 of this ISO Tariff.

11.2.2 Grid Operations Charge.

The Grid Operations Charge will be levied in accordance with Section 7.3.2 of this ISO Tariff.

11.2.3 Ancillary Services

The ISO shall calculate, account for and settle charges and payments for Ancillary Services as set out in Sections 2.5.27.1 to 4, and 2.5.28.1 to 4 of this ISO Tariff.

11.2.4 Imbalance Energy.

The ISO shall calculate, account for and settle Imbalance Energy in the Real Time Market for each Settlement Period for the relevant Zone or Scheduling Point within the ISO Controlled Grid.

11.2.14 The ISO shall calculate, charge and disburse all collected Default Interest in accordance with the ISO Tariff Settlement and Billing Protocol Sections 2, 5, and 6.

11.3 Billing and Payment Process.

11.3.1 The billing and payment process shall be based on the issuance of Preliminary and Final Settlement Statements for each Settlement Period in each Trading Day.

11.3.2 Payment for the charges referred to in Section 11.1.6 of the ISO Tariff (except for the charges payable under long term contracts) for each Trading Day in each calendar month shall be made five (5) Business Days after issuance of the Preliminary Settlement Statement for the last day of the relevant calendar month. Payment for adjustments will be made five (5) Business Days after issuance of the Final Settlement Statement for the last day of the relevant month. Payments for FERC Annual Charges will be made in accordance with Section 7.5 of this ISO Tariff.

11.3.3 [Not used]

11.3.4 [Not used]

11.4 General Principles for Production of Settlement Statements.

11.4.1 Basis of Settlement. The basis of each Settlement Statement shall be the debiting or crediting of an account in the name of the relevant Scheduling

A separate invoice for the Grid Management Charge, stating the rate, billing determinant volume and total charge for each of its three components, will be issued by the ISO.

A separate invoice for Interest, issued on the preliminary invoice date, stating the total charges for each Trade Month in which interest is charged, will be issued by the ISO.

SABP 6 PAYMENT PROCEDURES

SABP 6.1 Time of Payment

SABP 6.1.1 Payment Date

Subject to SABP 6.1.2, payment will be made by the ISO and by each Scheduling Coordinator, Black Start Generator and Participating TO on the Payment Date as set forth in Section 11.3.2.

SABP 6.1.2 Prepayments

- (a) A Scheduling Coordinator may choose to pay at an earlier date than the Payment Date specified in the ISO Payments Calendar by way of prepayment provided it notifies the ISO by electronic means before submitting its prepayment.
- (b) Prepayment notifications must specify the dollar amount prepaid.
- (c) Prepayments must be made by Scheduling Coordinators via Fed-Wire into their ISO prepayment account designated by the ISO. The relevant Scheduling Coordinator shall grant the ISO a security interest on all funds in its ISO prepayment account.
- (d) On any Payment Date the ISO shall be entitled to cause funds from the relevant Scheduling Coordinator's ISO prepayment account to be transferred to the ISO Clearing Account in such amounts as may be necessary to discharge in full that Scheduling Coordinator's payment obligation arising in relation to that Payment Date.
- (e) Any funds held in the relevant Scheduling Coordinator's ISO prepayment account shall be treated as part of that Scheduling Coordinator's Security.
- (f) Interest (or other income) accruing on the relevant Scheduling Coordinator's ISO prepayment account shall inure to the benefit of that Scheduling Coordinator and shall be added to the balance of its ISO prepayment account on a monthly basis.
- (g) Funds held in an ISO prepayment account by a Scheduling Coordinator may be recouped, offset or applied by the ISO to any outstanding financial obligations of that Scheduling Coordinator to the ISO or to other Scheduling Coordinators under this Protocol.

SABP 6.3 Payment Process

SABP 6.3.1 Use of the ISO Clearing Account

- (a) Subject to SABP 6.1.2 each ISO Debtor shall remit to the ISO Clearing Account the amount shown on the invoice as payable by that ISO Debtor for value not later than 10:00 am on the Payment Date.
- (b) On the Payment Date the ISO shall be entitled to cause the transfer of such amounts held in a Scheduling Coordinator's ISO prepayment account to the ISO Clearing Account as provided in SABP 6.1.2(c).

SABP 6.3.1.2 Distribution to ISO Creditors

The ISO shall calculate the amounts available for distribution to ISO Creditors on the Payment Date and shall give irrevocable instructions to the ISO Bank to remit from the ISO Clearing Account to the relevant Settlement Account maintained by each ISO Creditor for same day value the amounts determined by the ISO to be available for payment to each ISO Creditor. If required, the ISO shall instruct the ISO Bank to transfer amounts from the ISO Reserve Account to enable the ISO Clearing Account to clear by the close of banking business on the Payment Date.

SABP 6.3.1.3 Grid Management Charge

The ISO is authorized to instruct the ISO Bank to debit the ISO Clearing Account and transfer to the relevant ISO account sufficient funds to pay in full the Grid Management Charge falling due on any Payment Day with priority over any other payments to be made on that or on subsequent days out of the ISO Clearing Account.

SABP 6.4 Use of the ISO Reserve Account

If there are insufficient funds in the ISO Clearing Account to pay ISO Creditors and clear the account on any Payment Date, due to payment default by one or more ISO Debtors, the ISO shall transfer funds from the ISO Reserve Account to the ISO Clearing Account to clear it by close of banking business on that Payment Date pursuant to SABP 6.7.2.

SABP 6.5 Use of the ISO Surplus Account

SABP 6.5.1 Establishment

The ISO shall establish and maintain a bank account in accordance with this Protocol denominated the "ISO Surplus Account".

SABP 6.5.2 Other Funds Used in the ISO Surplus Account.

- (a) Any amounts paid to the ISO in respect of penalties referred to in SABP 3.1.1 shall be credited to the Surplus Account.

SABP 6.10.4 Order of Payments

The ISO shall apply payments received in respect of amounts owing to ISO Creditors to repay the relevant debts in the order of the creation of such debts.

SABP 6.10.5 Default Interest

Unless the ISO is able to enforce the Security (if any) provided by the defaulting ISO Debtor, such ISO Debtor shall pay interest on Default Amount at the ISO Default Interest Rate for the period from the relevant Payment Date to the date in which the payment is received by the ISO together with any related transaction costs incurred by the ISO pursuant to SABP 6.7.2.

The ISO shall apply all such interest payments on the Default Amount on a pro rata basis to ISO Creditors in relation to amounts past due in the order of the creation of such debts. Any payments of Default Interest received after the appropriate payment date as set forth in the ISO Payments Calendar will be deemed to be received on the next payment date as set forth in the ISO Payments Calendar.

SABP 6.10.6 Interest Accruing while Enforcing the Security

If the ISO has debited the Reserve Account as provided in SABP 6.7.1, 6.7.2 or 6.8 and it subsequently succeeds in enforcing the Security provided by the defaulting Scheduling Coordinator, the ISO shall be entitled to withdraw from such Security in addition to the Default Amount, all costs incurred and interest accrued to the ISO as a result of debiting the Reserve Account from the date of such debit to the date of enforcement of the said Security.

SABP 7 PAYMENT ERRORS

SABP 7.1 Overpayments

SABP 7.1.1 Notification

If an ISO Creditor receives an overpayment on any Payment Date, it shall notify the ISO of such overpayment in accordance with the provisions of Section 11.18.1 of the ISO Tariff.

SABP 7.1.2 Overpayment held on Trust

Until an ISO Creditor refunds the overpayment to the ISO, the ISO Creditor shall be deemed to hold the amount of such overpayment on trust for any ISO Creditor which may have been underpaid in consequence of such overpayment, pro rata to the amount of the underpayment.

SABP 7.1.3 Interest on Overpayment

- (a) If an overpayment is repaid by an ISO Creditor in accordance with Section 11.18.1 of the ISO Tariff, the ISO shall be entitled to interest on the amount of the overpayment at the prime rate of the bank where the Settlement Account of the overpaid ISO Creditor is located

from the date the overpayment was received to the time that the repayment is credited to the relevant ISO Account.

- (b) If the overpayment (or any part of it) is not repaid by an ISO Creditor in accordance with Section 11.18.1 of the ISO Tariff, the ISO shall be entitled to interest on the amount of the overpayment at the ISO Default Interest Rate from the expiry of the two day period referred to in that Section until the

ATTACHMENT B

11.1.6 The ISO shall settle the following charges in accordance with Section 11.2 of this ISO Tariff:

- (1) Grid Management Charge;
- (2) Grid Operations Charge;
- (3) Ancillary Services charges;
- (4) Imbalance Energy charges;
- (5) Usage Charges;
- (6) High Voltage Access Charges and Transition Charges;
- (7) Wheeling Access Charges;
- (8) Voltage Support and Black Start charges; and
- (9) Reliability Must-Run Charges; and
- (10) **Default Interest Charges.**

* * *

11.2.13 Emissions and Start-Up Fuel Cost Charges

The ISO shall calculate, account for and settle charges and payments for Emissions Costs and Start-Up Fuel Costs in accordance with Sections 2.5.23.3.6 and 2.5.23.3.7 of this ISO Tariff.

11.2.14 The ISO shall calculate, charge and disburse all collected Default Interest in accordance with the ISO Tariff Settlement and Billing Protocol Sections 2, 5 and 6.

* * *

SABP 5 Invoices

The ISO shall provide on the day specified in the ISO Payments Calendar an invoice in the format set out in SABP Appendix I showing:

- (a) amounts which according to each of the Preliminary and Final Settlement Statements of that Billing Period are to be paid from or to each Scheduling Coordinator, Black Start Generator or Participating TO;
- (b) the Payment Date, being the date on which such amounts are to be paid or received and the time for such payment; and
- (c) details (including the account number, bank name and Fed-Wire transfer instructions) of the ISO Clearing Account to which any amounts owed by the

Scheduling Coordinator, Black Start Generator or Participating TO are to be paid.

A separate invoice for the Grid Management Charge, stating the rate, billing determinant volume and total charge for each of its three components, will be issued by the ISO.

A separate invoice for interest, issued on the preliminary invoice date, stating the total charges for each Trade Month in which interest is charged, will be issued by the ISO.

* * *

SABP 6.5.2 Other Funds Used in the ISO Surplus Account.

- (a) Any amounts paid to the ISO in respect of ~~acts or defaults giving rise to default interest referred to in SABP 6.10.5~~ or penalties referred to in SABP 3.1.1 shall be credited to the Surplus Account.
- (b) The funds referred to in SABP 6.5.2(a) pertaining to Penalties as provided in SABP 3.1.1 shall first be applied towards any expenses, loss or costs incurred by the ISO. Any excess will be credited to the Surplus Account pursuant to SABP 6.5.2(a).

* * *

SABP 6.10.5 Default Interest

Unless the ISO is able to enforce the Security (if any) provided by the defaulting ISO Debtor, such ISO Debtor shall pay interest on Default Amount at the ISO Default Interest Rate for the period from the relevant Payment Date to the date in which the payment is received by the ISO together with any related transaction costs incurred by the ISO pursuant to SABP 6.7.2.

The ISO shall apply all such interest payments on the Default Amount on a pro rata basis to ISO Creditors in relation to amounts past due in the order of the creation of such debts. Any payments of Default Interest received after the appropriate payment date as set forth in the ISO Payments Calendar will be deemed to be received on the next payment date as set forth in the ISO Payments Calendar.

ATTACHMENT C

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the Compliance Filing upon each person designated on the official service list compiled by the Secretary in the above-captioned dockets.

Dated at Folsom, California, on this 3rd day of July, 2002.

Margaret A. Rostker ^{BRM}

Margaret A. Rostker
Counsel for The California Independent
System Operator Corporation