

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

California Independent System)
Operator Corporation) Docket No. ER03-683-____

**SUPPLEMENTAL REFUND REPORT OF THE CALIFORNIA INDEPENDENT
SYSTEM OPERATOR CORPORATION**

Pursuant to the Commission’s April 18, 2005 order in the captioned proceeding, 111 FERC ¶ 61,074 (“April 18, 2005 Order”), the California Independent System Operator Corporation (“ISO”)¹ submits this supplemental refund report.

I. Background

In the Commission’s May 30, 2003 order in the captioned proceeding, the Commission required the ISO to “use reference prices for dec[remental] bids to be administered by an independent entity” and directed “the independent entity that determines the reference prices for the AMP [Automated Mitigation Procedures] to develop this decremental bid reference price.” *California Independent System Operator Corporation*, 103 FERC ¶ 61,265, at PP 41, 54. On July 18, 2003, the ISO submitted a filing that informed the Commission that it and the independent entity, Potomac Economics (“Potomac”), had agreed on a methodology for calculating decremental reference prices, and in that same filing, the ISO included the methodology in proposed Tariff Section 7.2.6.1.1. Addendum to June 30, 2003 ISO Compliance Filing, Docket

¹ Capitalized terms not otherwise defined herein have the meanings set forth in the Master Definitions Supplement, Appendix A to the ISO Tariff, as filed August 15, 1997, and subsequently revised.

No. ER03-683-003 (filed July 18, 2003). As relevant here, Section 7.2.6.1.1 provides for decremental bid reference levels to be determined based on “the accepted decremental bid, or the lower of the mean or the median of a resource’s accepted decremental bids if such a resource has more than one accepted decremental bid in competitive periods over the previous 90 days” Tariff Section 7.2.6.1.1(a)(1).

Potomac proceeded to specify its interpretation of the ISO Tariff² regarding when “competitive periods” exist for purposes of the ISO’s application of Section 7.2.6.1.1 (and thus the circumstances in which the limit on decremental bid reference levels in Section 7.2.6.1.1(a)(1) applies).³ Potomac explained its interpretation of the ISO Tariff in a January 16, 2004 memorandum to the ISO Market Monitoring Unit: it stated that the standard would “clarify when an offer would be deemed to have been accepted in competitive periods.” ISO Compliance Filing, Docket No. ER03-683-005 (filed May 17, 2004), at Attachment A. The ISO informed Market Participants of Potomac’s interpretation of the “competitive periods” standard in the ISO Tariff and its application of this standard in a market notice issued January 20, 2004. *See id.*

In an order issued April 16, 2004, the Commission accepted proposed Section 7.2.6.1.1 to determine decremental reference bid levels. *California Independent System Operator Corporation*, 107 FERC ¶ 61,042, at PP 44-46 and ordering paragraph (A)

² In the present filing, this is also referred to as Potomac’s standard.

³ As Potomac has explained, the term “competitive periods” is not defined in the ISO Tariff; rather, it is a term of art in economics. Comments of Potomac Economics Ltd. to the Supplemental Protest of Coral Power, L.L.C., Energia Azteca X, S. de R.L. de C.V. and Energia de Baja California, S. de R.L. de C.V., Docket No. ER03-683-003 (filed Feb. 17, 2004) at 6. Normally, competitive periods are defined as those in which offers are accepted in sequence, that is, units are accepted (or curtailed) in order of their relevant cost (across the relevant zone). *Id.* Potomac stated that it developed its standard in order to address concerns about the application in the ISO markets of the normal definition of competitive periods. *Id.*

("April 16, 2004 Order"). The Commission also "direct[ed] the CAISO to incorporate the new test [for determining competitive periods] in section 7.2.6.1.1 of its tariff," and directed the ISO to submit a compliance filing within thirty days. *Id.* at P 62 and ordering paragraph (B). To comply with this mandate, the ISO proposed changes to Section 7.2.6.1.1(a)(1) in a May 17, 2004 compliance filing that reflected Potomac's standard.

On January 6, 2005, the Commission issued an order that recognized that in the April 16, 2004 Order it directed the ISO to file Potomac's standard in a compliance filing. *California Independent System Operator Corporation*, 110 FERC ¶ 61,007 ("January 6, 2005 Order"). However, in the January 6, 2005 Order, the Commission also stated that the Potomac standard would not be effective until (1) the ISO filed tariff changes incorporating the standard in a filing pursuant to Section 205 of the Federal Power Act ("FPA"), to be effective on a prospective basis, and (2) the Section 205 filing was accepted by the Commission. January 6, 2005 Order at P 31. The Commission stated that "[b]ecause the implementation of the Potomac-proposed tariff revision without prior Commission approval has resulted in rates that are not currently on file with the Commission," the ISO was directed to provide refunds for the period starting January 20, 2004 (the date the ISO issued a market notice stating that Potomac was going to start applying the standard) through the effective date of the prospective filing submitted pursuant to Section 205 of the FPA. *Id.* The Commission also directed the ISO to submit an assessment of refund amounts owed to or owing by each Market Participant and a proposal for processing the refunds." *Id.* at P 32.

On February 7, 2005, the ISO submitted a request for rehearing and clarification of the January 6, 2005 Order on, *inter alia*, the Commission directives described immediately above concerning the Potomac standard. On February 17, 2005, the ISO submitted the filing pursuant to Section 205 of the FPA that the Commission directed in the January 6, 2005 Order. On April 18, 2005, the Commission issued an order accepting the Section 205 filing, effective February 18, 2005 (“April 18, 2005 Order”). *California Independent System Operator Corporation*, 111 FERC ¶ 61,073.

In the April 18, 2005 Order, the Commission denied the ISO’s February 7, 2005 request for rehearing and clarification as to the Potomac standard. The Commission stated:

[W]e find that the January 6 Order correctly required the CAISO to provide refunds for charging a reference level rate that was not on file for all periods prior to the effective date of the section 205 filing, as accepted for filing by the Commission. We also remind the CAISO that an assessment of the amount owed to and owing by each market participant and a proposal for the processing of the refunds, including an estimated timeline highlighting the major milestones of such a process as directed in the January 6 Order, are due within 30 days of the date of issuance of this order.

April 18, 2005 Order at P 27 (citations omitted).

On May 18, 2005 the ISO complied with the Commission’s April 18, 2005 Order and filed a refund report detailing the methodology for determining refunds, the estimated total amount of refunds owed, and an estimated timeline for issuing the refunds. The ISO included an itemization of the generating units to which refund amounts are owed and owing as a confidential attachment (“Attachment B to the May 18, 2005 refund report”), and listed the Scheduling Coordinators affected by the refunds

as: Calpine Energy Services, Coral Power, L.L.C., Reliant Energy Services, Pacific Gas and Electric Company, and Southern California Edison Company.

II. Refund Report

A. Timeline for Providing Refunds

In its May 18, 2005 Refund Report, the ISO estimated that it would provide refunds in either the third or fourth quarter of 2005. However, due to extenuating circumstances, the ISO cannot meet the estimated timeline, and will not provide refunds by the end of 2005. The ISO does commit to providing refunds to the affected Scheduling Coordinators no later than the end of second quarter 2006.

The ISO's original timeline underestimated the resources needed to calculate the refunds. Specifically, the refunds owed and owing require the ISO to restore and replicate a former market design environment. On October 1, 2004 the ISO implemented Phase 1B of its market redesign ("MRTU," formerly MD02). As a result, the current market design employs different market tools and rules than those that existed prior to Phase 1B.

Since the relevant period for refunds runs from January 20, 2004 through January 20, 2005⁴, the refunds require that a comprehensive market rerun be performed using a replicated pre-Phase 1B software environment for the majority of the refund period. The current market design is not appropriate to perform the market rerun for the period from January 20, 2004 through September 30, 2004 ("pre-Phase 1B").

⁴ Potomac did not reinstitute the use of the Potomac standard until April 23, 2005. The ISO will conduct a settlement adjustment for the period from February 18, 2005 through Friday April 22, 2005, because the Potomac standard was not used during that period. The settlement adjustment is not part of this refund report.

Due to the complexity and scope of the replication, as well as resource constraints, the ISO requires additional time.

The affected Scheduling Coordinators will not be financially disadvantaged due to the ISO's issuance of the refunds no later than second quarter 2006, because they will receive interest on all amounts owed.

III. Conclusion

Wherefore, for the foregoing reasons, the ISO requests that the Commission accept the ISO's supplemental refund report in this proceeding.

Respectfully submitted,

/s/ Stacie L. Ford

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Dated: December 23, 2005



December 23, 2005

Via Electronic Filing

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. ER03-683-____**

Dear Secretary Salas:

Transmitted herewith for electronic filing in the above-referenced proceeding is the Supplemental Refund Report of the California Independent System Operator Corporation.

Thank you for your attention to this matter.

Yours truly,

/s/ Stacie L. Ford
Stacie L. Ford

Associate Counsel for the California
Independent System Operator Corporation

CERTIFICATE OF SERVICE

I hereby certify that I have this day served a copy of this document upon all parties listed on the official service list compiled by the Secretary in the above-captioned proceedings, in accordance with the requirements of Rule 2010 of the Commission's Rules of Practice and Procedure (18 C.F.R. § 385.2010). Dated this 23rd day of December in the year 2005, at Folsom, in the State of California.

/s/ Stacie L. Ford
Stacie L. Ford