



August 6, 2001

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

Re: San Diego Gas & Electric Company v Sellers of Energy And Ancillary Services Into markets Operated by the California Independent System Operator Corporation and the California Power Exchange, Docket No. EL00-95-012, *et al.* - Cost Justification for Transactions above the Proxy Price

Dear Secretary Boergers:

On April 26, 2001, The Federal Energy Regulatory Commission ("Commission") issued its order in San Diego Gas and Electric Company et al. Order Establishing Mitigation and Monitoring Plan, 95 FERC ¶ 61,115, in which it stated at page 61,131:

At the end of each month in which a generator submits a bid higher than the market clearing price, the generator must file with the Commission and the ISO, within seven days of the end of the month, its complete justification, including a detailed breakdown of all of its component costs, for each transaction exceeding the market clearing price established by the proxy bid. This justification must be based on a showing of actual marginal costs higher than the market-clearing price. The refund obligation will end 60 days from the date of each such filing, unless the Commission, within that period, notifies the seller otherwise.

The California Independent System Operator ("CAISO") wishes to inform the Commission in accordance with the language in the above order that for the period from May 29, 2001 (the date established by the Commission for the April 26 Order to take effect) through May 31, 2001, the CAISO completed transactions where the bid price exceeded the market clearing price as established by the proxy bid. To date, however, the CAISO has received only one filing by sellers containing information attempting to justify that the actual marginal costs of the unit providing the energy exceeded the market clearing price. For 5,319 transactions with a combined value of over \$1.4 million in excess of the market clearing price, the CAISO did not receive any data justifying the above-market clearing price bid. The CAISO seeks the Commission's guidance with respect to this situation. The CAISO is prepared to submit detailed information identifying the specific transactions, if requested by the Commission.

The CAISO notes that this limited period (May 29-31) is covered by the refund methodology adopted in the Commission's July 25, 2001 Order. Accordingly, the CAISO would propose to mitigate these transactions as specified in that decision.

The Commission should, however, clarify the treatment of non-justified bids for the period after June 20, 2001. At a minimum, the Commission should find that the 60-day refund obligation does not begin until sellers provide the required information. More appropriately, however, the CAISO believes that sellers who failed to make the required submission to the CAISO within seven days of the month as required by the Commission should be deemed to have failed to justify their individual bids and should receive the market clearing price.

If you have any questions about the compilation of the data please contact Mr. Eric Hildebrandt, Manager of Market Monitoring, at (916) 608-7123.

Sincerely,

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California Independent System Operator

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