



June 24, 2002

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

Re: San Diego Gas & Electric Company v. Sellers of Energy and Ancillary Service Into Markets Operated by the California Independent System Operator and the California Power Exchange, Docket No. EL00-95-058

Investigation of Practices of the California Independent System Operator and the California Power Exchange, Docket No. EL00-98-050

Public Meeting in San Diego, California, Docket No. EL00-107-009

Reliant Energy Power Generation, Inc., Dynegy Power Marketing, Inc., and Southern Energy California, L.L.C. v. California Independent System Operator Corporation, Docket No. EL00-97-003

California Electricity Oversight Board v. All Sellers of Energy and Ancillary Services Into the Energy and Ancillary Services Markets Operated by the California Independent System Operator and the California Power Exchange, Docket No. EL00-104-008

California Municipal Utilities Association v. All Jurisdictional Sellers of Energy and Ancillary Services Into Markets Operated by the California Independent System Operator and the California Power Exchange, Docket No. EL01-1-009

CALifornians for Renewable Energy, Inc. (CARE) v. Independent Energy Producers, Inc., and All Sellers of Energy and Ancillary Services Into Markets Operated by the California Independent System Operator and the California Power Exchange; All Scheduling Coordinators Acting on Behalf of the Above Sellers; California

Independent System Operator Corporation; and California Power Exchange Corporation, Docket No. EL01-2-003

Investigation of Wholesale Rates of Public Utility Sellers of Energy and Ancillary Services in the Western Systems Coordinating Council, Docket No. EL01-68-011

Dear Secretary Salas:

The California Independent System Operator Corporation (“ISO”)¹ respectfully submits six copies of this compliance report (“Compliance Report”) as required by the Commission’s May 15, 2002 “Order Accepting in Part and Rejecting in Part Compliance Filing,” 99 FERC ¶ 61,158 (“May 15, 2002 Compliance Order”), issued in the above-referenced dockets.

BACKGROUND

In the May 15, 2002 Compliance Order, the Commission directed the ISO to work with generators to ascertain both the appropriate level of the specific generators entitled to compensation for Minimum Load Costs for a retroactive period that begins on May 29, 2001 and continues through the ISO’s implementation of the Commission’s May 15, 2002 Compliance Order, as is detailed in the ISO’s June 24, 2002 Compliance Filing, filed concurrently with this Compliance Report.

As the Commission issued its series of market power mitigation orders in 2001 and 2002, the Must-Offer Obligation was expanded to cover all hours and clarified as to which generating units are subject to the obligation. Moreover, the Commission increasingly clarified its intent for the Must-Offer Obligation but not until the May 15, 2002 Compliance Order did the Commission issue its most definitive order to date addressing the ISO’s proposal for compensation of Minimum Load Costs both retrospectively and prospectively.

Accordingly, until recently there has not been a set of clear rules governing the Must-Offer Obligation that was understood by both the ISO and Market Participants. As a result, since May 29, 2001, some generating units under the Must-Offer Obligation participated in forward Energy and Ancillary Services Market, at times at the request of the ISO, while other units simply produced Minimum Load as uninstructed deviation Energy. To offer equitable settlement to all relevant generating units, the retrospective period, of necessity, must be settled differently than the prospective period. Moreover, to assure fair recovery of Minimum Load Costs in the retrospective period, the ISO will consider a range of unique and extenuating circumstances and exceptions in reaching case-by-case determinations on compensation.

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

RETROSPECTIVE COMPENSATION FOR MINIMUM LOAD COSTS

As described below and in attachments to this Compliance Report, the ISO has developed a process for determining the amounts that must be paid to specific generators for the retroactive period. In developing this process, the ISO initially prepared a draft proposed process and posted three documents detailing the proposed process on the ISO web site. On June 20, 2002 the ISO held a stakeholder conference call to discuss the proposal and subsequently amended the draft proposal to reflect stakeholder suggestions.

The ISO process builds upon ISO records and information submitted by generators documenting hours when generating units were run at Minimum Load in compliance with the Must-Offer Obligation. The ISO will work with generators to resolve any inconsistencies between information prior to issuing the settlement statements and invoices. Following issuance of the ISO Preliminary Statement and Preliminary Invoice, generator may use the ISO Tariff Dispute Resolution Process should there be any remaining disagreements between the ISO and the generator as to compensation for Minimum Load Costs.

Set forth in Attachment A hereto is a description of the retrospective Minimum Load Cost Compensation process, including settlement examples. Attachment B contains the Information Request Sheet by which generators can supply their information to the ISO to help ensure fair compensation for all Minimum Load Costs in the retrospective period. The ISO will use these data to supplement, clarify and validate ISO records. The generators must submit their information for the retrospective period by August 5, 2002. Set forth in Attachment C is a flow chart of the ISO settlement process for the retrospective period.

EFFECTIVE DATE

Consistent with the ISO requested effective date as filed in the ISO June 24, 2002 Compliance Filing submitted concurrently with this Compliance Report, the ISO proposes the retrospective period be May 29, 2001 through June 30, 2002. All compensation for Minimum Load Costs in this period will be calculated as is detailed herein. Beginning on July 1, 2002, all such compensation will be calculated consistent the provisions set forth in the ISO June 24, 2002 Compliance Filing responding to the May 15, 2002 Compliance Order.

SUPPORTING DOCUMENTS

The following documents, in addition to this Compliance Report, support this filing:

| | |
|--------------|---|
| Attachment A | Retrospective Minimum Load Costs Compensation |
| Attachment B | Information Request Sheet |
| Attachment C | Process Flow Chart |

Two additional copies of this Compliance Report 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,

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System Operator Corporation
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ATTACHMENT A

Retrospective Minimum Load Cost Compensation (MLCC)

For Generating Units Running At Minimum Load In Compliance with the Must Offer Obligation

Purpose: This document details the ISO's methodology for calculation and settlement of minimum load cost compensation ("MLCC") as required by the December 19, 2001 and May 15, 2002 orders by the Federal Energy Regulatory Commission ("FERC") directing the ISO to retroactively compensate a generator running in compliance with the Must Offer Obligation ("MOO").

The Retrospective Settlement Process will be used to determine eligibility and compensation amounts for the period beginning May 29, 2001 through the start date of the prospective implementation, proposed to be July 1, 2002.

Reasons for exception to rules in Retrospective Implementation: *Retrospective implementation of MLCC requires modification of prospective rules for the following reasons:*

- ?? As the FERC issued its series of market power mitigation orders in 2001 and 2002, the MOO increasingly was expanded to cover all hours and clarified as to which generating units were subject to the rule. Moreover, while FERC increasingly clarified its intent for the MOO, it was not until May 15, 2002, that FERC issued its most definitive order to date addressing the ISO's compliance filing proposing how to compensate generating units for Minimum Load Costs both retrospectively and prospectively. Accordingly, until now there have not been an abundance of clear and unambiguous rules governing MLCC that were understood by both the ISO and Market Participants. As a direct result, at times since May 29, 2001, some generators participated in forward Energy and Ancillary Services Markets at the request of the ISO while others, without forward Energy schedules, simply generated Minimum Load as uninstructed deviation. Therefore, to offer fair and equitable settlement to all eligible generators, the ISO will consider a range of unique circumstances, extenuating circumstances and exceptions in reaching case-by-case determinations on retrospective MLCC payments. Among the factors the ISO will consider will be both generators' and the ISO's records on forward Energy schedules, Ancillary Services bids and uninstructed deviations.
- ?? The MOO requires all generators with available capacity to offer such capacity to the ISO such that the capacity is available for Dispatch in real time. The FERC adopted the ISO's waiver process by which the ISO could permit generating units, depending upon system conditions, to go off-line and not run at Minimum Load in compliance with MOO. That is, a generator running at Minimum Load in compliance with the MOO will be eligible for MLCC so long as the other eligibility criteria as determined by FERC are met.

The following methodology will be used for retrospective MLCC:

- ?? Forward Energy schedules and Ancillary Services awards from the ISO will be identified through ISO and Market Participants communication records. In addition, Market Participants will be requested to provide additional information to the ISO. Forward Energy schedules and Ancillary Services will not disqualify units, per se, for MLCC.
- ?? *Self-Commitment Periods* will be based on Day -Ahead Final Energy Schedules and Day-Ahead Ancillary Services awards without any extension or bridging for Minimum Up Time or Minimum Down Time.

?? The *Waiver Denial Period* for retrospective implementation will be defined as those hours outside the *Self-Commitment Periods* and outside the periods when the unit was explicitly granted waiver of the MOO. Records of waivers will be reviewed and checked against any information provided by Market Participants in an effort to be as accurate as possible.

?? Concurrently with this document, the ISO is posting a “Retrospective Settlement of Minimum Load Cost Compensation (MLCC) - Information Request Sheet” (See Attachment) to be completed and returned, in a pre-established schedule, to the ISO via e-mail to MinimumLoadCost@caiso.com. The ISO will use the information submitted on this form, along with its own records, to determine eligibility for, and calculation of MLCC.

Assumptions:

?? An RMR unit is ineligible to receive MLCC in any hour that the unit is running on an ISO pre-dispatched or real time RMR instruction.

?? The Minimum Load Cost (MLC) for a given hour is calculated as follows:

$$MLC = P_{ML} * P_{min} \tag{1}$$

NOTE: If delivered P_{min} (based on meter quantity) < P_{min} (instructed P_{min}), use delivered P_{min}
The price used for calculating the minimum load cost (P_{ML}) is as follows:

$$P_{ML} = 0.001 * AHR_{min} * GPI + \$6 \tag{2}$$

Where, AHR_{min} denotes the Average Heat Rate at minimum load (P_{min}) in Btu/kWh; GPI denotes the Gas Price Index in \$/mmBtu; the \$6/MWh represents Operation and Maintenance Costs.

$$\text{A 10\% Credit Risk Adder will also be applied to the } P_{ML}. \tag{3}$$

?? **Underlying Settlement Principles:**

1. MLCC will be made, as a side payment, for each hour a generating unit was running, was not explicitly granted a waiver of the MOO and was complying with the MOO making the unit available for ISO Dispatch in real time.
2. Uninstructed Energy (UE) due to Minimum Load during a Waiver Denial Period (ML_{wdp}) will be calculated when all of the following are true:
 - a. The Unit is running.
 - b. The Unit does not schedule all the ML_{wdp} in the Hour Ahead Market.

Energy Settlement Logic

Uninstructed Energy (UE) calculated same as today.

Instructed Energy (IE) calculated same as today.

Settlement Examples:

The following tables illustrate various scenarios in the retrospective MLCC calculation and settlement of ML_{wdp}.

Note: Scenarios described as hourly periods for simplicity. Energy settlement would actually be on a 10-minute interval basis.

| Scenario 1 | MLC Payment in CT695 $MLC = P_{ML} * P_{min}$ | Energy calculation | |
|---|--|-------------------------------------|--------------------------------|
| | | CT 407 Uninstructed Deviation | CT 401 Instructed Energy |
| 1) No Hour Ahead Schedule. No RT Instructions. | | | |
| If ML_{wdp} = 30 MWh | | | |
| a) Metered Qty (MQ) = ML _{wdp} MQ = 30 MWh | YES where, $MLC = P_{ML} * 30 \text{ MWh}$ | +30 MWh | NONE |
| b) MQ < ML _{wdp} MQ = 20 MWh | YES where, $MLC = P_{ML} * 20 \text{ MWh}$ | +20 MWh | NONE |
| 2) Hour Ahead Schedule exists (at the request of the ISO). No RT Instructions. HA Schedule > ML_{wdp} | | | |
| If ML_{wdp} = 30 MWh and HA Schedule = 50MWh and | | | |
| a) Metered Qty (MQ) = ML _{wdp} MQ = 30 MWh | YES where, $MLC = P_{ML} * 30 \text{ MWh}$ | -20 MWh | NONE |
| b) ML _{wdp} < MQ < HA _{fin} MQ = 45 MWh | YES where, $MLC = P_{ML} * 30 \text{ MWh}$ | -5 MWh | NONE |
| c) MQ = HA _{fin} MQ = 50 MWh | YES where, $MLC = P_{ML} * 30 \text{ MWh}$ | NONE | NONE |

| Scenario 2 | MLC Payment in CT695 | Energy calculation | |
|---|--|-------------------------------|--------------------------|
| | | CT 407 Uninstructed Deviation | CT 401 Instructed Energy |
| 3) Hour Ahead Schedule exists (at the request of the ISO). No RT Instructions. HA Schedule < ML_{wdp} | | | |
| If ML_{wdp} = 30 MWh and HA Schedule = 20MWh and | | | |
| a) Metered Qty (MQ) = HA _{fin} MQ = 20 MWh | YES where, MLC = $P_{ML} * 20 \text{ MWh}$ | NONE | NONE |
| b) HA _{fin} < MQ < ML _{wdp} MQ = 25 MWh | YES where, MLC = $P_{ML} * 25 \text{ MWh}$ | +5 MWh | NONE |
| c) MQ = ML _{wdp} MQ = 30 MWh | YES where, MLC = $P_{ML} * 30 \text{ MWh}$ | +10 MWh | NONE |
| 4) No Hour Ahead Schedule. RT Instructions exists (at the request of the ISO). | | | |
| If ML_{wdp} = 30 MWh, RT BEEP_{inst} (RT_{inst}) = 10 MWh and | | | |
| a) Metered Qty = ML _{wdp} + RT _{inst} MQ = 40 MWh | YES where, MLC = $P_{ML} * 30 \text{ MWh}$ | +30 MWh | 10 MWh |
| b) MQ > ML _{wdp} + RT _{inst} MQ = 50 MWh | YES where, MLC = $P_{ML} * 30 \text{ MWh}$ | +40 MWh | 10 MWh |
| c) MQ < ML _{wdp} < ML _{wdp} + RT _{inst} MQ = 25 MWh | YES where, MLC = $P_{ML} * 25 \text{ MWh}$ | +15 MWh | 10 MWh |

| Scenario 3 | MLC Payment in CT695 | Energy calculation | |
|---|---|-------------------------------|--------------------------|
| | | CT 407 Uninstructed Deviation | CT 401 Instructed Energy |
| 5) Hour Ahead Schedule exists. RT Inst exists (at the request of the ISO). HA Schedule > ML_{wdp} | | | |
| If ML_{wdp} = 30 MWh, RTBEEP_{inst} (RT_{inst}) = 10 MWh, HA_{fin} = 50 MWh and: | | | |
| a) Metered Qty (MQ) = HA _{fin} MQ = 50 MWh | YES where, MLC = P _{ML} * 30 MWh | NONE | NONE |
| b) MQ < HA _{fin} MQ = 45 MWh | YES where, MLC = P _{ML} * 30 MWh | -5 MWh | NONE |
| c) HA _{fin} < MQ < HA _{fin} + RT _{inst} MQ = 55 MWh | YES where, MLC = P _{ML} * 30 MWh | NONE | 5 MWh |
| d) MQ > HA _{fin} + RT _{inst} MQ = 70 MWh | YES where, MLC = P _{ML} * 30 MWh | +10 MWh | 10 MWh |
| 6) Hour Ahead Schedule exists. RT Inst exists (at the request of the ISO). HA Schedule < ML_{wdp} | | | |
| If ML_{wdp} = 30 MWh, RTBEEP_{inst} (RT_{inst}) = 10 MWh, HA_{fin} = 20 MWh and: | | | |
| a) Metered Qty (MQ) = HA _{fin} MQ = 20 MWh | YES where, MLC = P _{ML} * 20 MWh | NONE | NONE |
| b) MQ < HA _{fin} < HA _{fin} + RT _{inst} MQ = 10 MWh | YES where, MLC = P _{ML} * 10 MWh | -10 MWh | NONE |

| | | | |
|---|--|----------------|---------------|
| c) $MQ = ML_{wdp} = HA_{fin} + RT_{inst}$ MQ = 30 MWh | YES where, $MLC = P_{ML} * 30 \text{ MWh}$ | NONE | 10 MWh |
| d) $MQ > HA_{fin} + RT_{inst}$ MQ = 55 MWh | YES where, $MLC = P_{ML} * 30 \text{ MWh}$ | +25 MWh | 10 MWh |

Effect On Settlement Calculation:

The following changes to existing Settlements calculations are affected by implementation of the retrospective MLCC:

1. **Instructed Energy**

No effect, Instructed Energy will be calculated the same as today.

2. **Uninstructed Energy**

No effect, Uninstructed Energy will be calculated the same as today. Minimum Load Energy actually delivered, during eligible hours, will be treated as uninstructed energy (UE) in certain cases, as detailed above.

3. **Charge Type Changes**

The following new Charge Types 695 and 595 will be implemented:

CT-695

Monthly payment of the Minimum Load Cost calculated for each Unit for all the Waiver Denial Periods ending within a Trade Month. The payment will appear as a monthly lump sum in the Scheduling Coordinator’s settlement statement for the last day of the trade month.

Daily detail of Minimum Load Cost by unit will be available to SC’s in spreadsheet format upon request.

CT-595

Monthly charge to each Scheduling Coordinator. The charge will appear as a monthly lump sum in the Scheduling Coordinator’s settlement statement for the last day of the trade month. Energy delivered under Existing Transmission Contracts (ETC’s) is not exempted from these charges.

Minimum Load Costs for each unit’s Waiver Denial Period shall be evenly divided over all eligible hours of such Waiver Denial Period. For each such hour, the total Minimum Load Costs shall be allocated to each Scheduling Coordinator in proportion to the sum of that Scheduling Coordinator’s Load and Demand within California outside the ISO Control Area that is served by exports to the sum of the ISO Control Area Gross Load and the projected Demand within California outside the ISO Control Area that is served by exports from the ISO Control Area of all Scheduling Coordinators.

ATTACHMENT B



Retrospective Settlement of Minimum Load Cost Compensation (MLCC) - Information Request Sheet.

Any Scheduling Coordinator seeking Minimum Load Cost Compensation (MLCC) from the CAISO, for a generating unit running in compliance with the Must Offer Obligation (MOO) from Trade Date May 29, 2001 to Trade Date July 1, 2002, must submit this **Information Request Sheet**. The information submitted must be of hourly granularity for each month in the format provided. For consideration, all data on MLCC must be submitted through this Information Request Sheet and must be received by August 5, 2002 unless otherwise requested by the CAISO. Please e-mail the completed **Information Request Sheet** to **MinimumLoadCost@caiso.com** and cc a copy to your CAISO Account Manager.

Contact Name:
Contact Number:

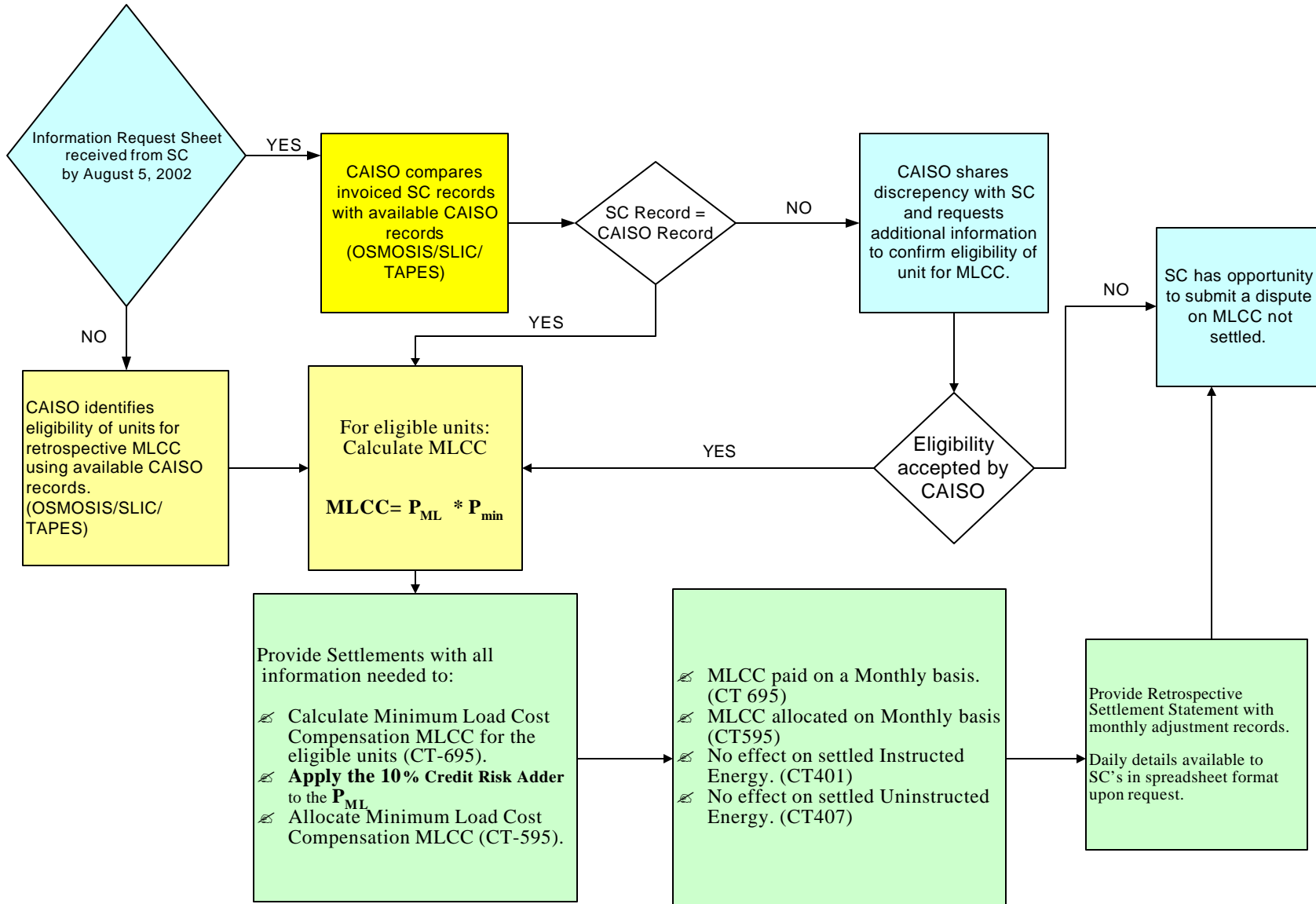
SC ID: Trade Month of: May 2001 to June 2002 For consideration, must be received by CAISO no later than: August 5, 2002

Minimum Load Energy Eligibility Information:

| Generating Unit (Please use CAISO recognized Unit ID) | Trade Date | Was a waiver requested? | Date/Time of ISO waiver denial | Start Time Unit Initiated Minimum Load Operation | End Time Unit Ended Minimum Load Operation | HA Schedule submitted for MinRun MWs? | A/S Schedule Submitted for MinRun MWs? | Supp Schedule Submitted for MinRun MWs? |
|---|------------|-------------------------|--------------------------------|---|---|--|---|--|
| UNIT_ID | (mm/dd/yy) | (Y/N) | (mm-dd-yy) (hh:mm) | (hh:mm) | (hh:mm) | (Y/N) | (Y/N) | (Y/N) |

Main data table grid for Minimum Load Energy Eligibility Information with multiple empty rows.

ATTACHMENT C



CERTIFICATE OF SERVICE

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

Dated at Folsom, California, on this 24th day of June, 2002.

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