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July 3, 2003

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  
Compliance Filing  
Docket No. ER03-746-\_\_\_**

Dear Secretary Salas:

The California Independent System Operator Corporation ("ISO")<sup>1</sup> respectfully submits six copies of this filing in compliance with the Commission's June 13, 2003 order in the captioned docket concerning Amendment No. 51 to the ISO Tariff, 103 FERC ¶ 61,331 ("Amendment No. 51 Order").<sup>2</sup> Two additional copies of this filing are enclosed to be date-stamped and returned to our messenger.

In the Amendment No. 51 Order, the Commission conditionally accepted and suspended Amendment No. 51, subject to refund, to become effective the earlier of November 14, 2003 or a date specified in a further Commission order in the proceeding. Amendment No. 51 Order at ordering paragraph (1). The

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

<sup>2</sup> The ISO is also submitting today a "Request for Extension of Time," seeking an extension until July 9, 2003 to file additional information concerning the justification for one of the preparatory re-run issues discussed in the present filing, namely, Issue No. 13, called "Rescission of Unavailable Ancillary Service," which is discussed in Attachment A to the present filing. The ISO is requesting the extension due to the unavailability of certain ISO personnel needed to finalize the additional information, which will be contained in the "Appendix I" that is referenced in Attachment A.

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Commission also directed the ISO to provide certain additional information as discussed in the body of the order. *Id.* at ordering paragraph (3). The present filing complies with the Commission's directive to provide the additional information.

As explained below, the ISO believes it is in the best interests of Market Participants that it have the authority requested in Amendment No. 51 to "wall off" invoices for the preparatory re-runs and for future re-runs meeting certain criteria. The ISO also provides explanations concerning each of the preparatory re-runs as required by the Amendment No. 51 Order, as well as explanations of the changes proposed in Amendment No. 51 to Sections 11.6.3.2 and 11.6.3.3 of the ISO Tariff. Moreover, the ISO provides details concerning the "wall-off" process and details concerning the proposed extension of the time for filing disputes with regard to the preparatory re-runs.

#### Need for the ISO to Have the Authority Requested in Amendment No. 51

In the Amendment No. 51 Order, the Commission required that the ISO explain why it requested "wall off" authority that would apply "more broadly" than just to the preparatory adjustments and re-runs and the re-run in the California refund proceeding (Docket Nos. EL00-95, *et al.*) ("Refund Proceeding"), as well as how the ISO anticipates using this authority. Amendment No. 51 Order at P 14.

As the ISO explained in its answer to filings concerning Amendment No. 51 ("Amendment No. 51 Answer"), it has "conducted a number of significant re-runs (each encompassing multiple issues) of the Settlement and billing system since its inception." Amendment No. 51 Answer at 7-8. Unlike those earlier re-runs, the preparatory re-runs, if not walled off from current invoicing, could visit on some current Market Participants the financial consequences of events that occurred during periods when they were not active in the ISO Market. *Id.* The ISO believes this should be avoided; hence, the wall-off proposal, which will contain the consequences of the re-runs within the universe of entities that were Market Participants during the time period covered by the re-runs. The same provisions will similarly benefit the market in the future under circumstances of bankruptcies, adjustments of large dollar sums, and/or long time-frames.

It is reasonable to anticipate that the ISO may in the future be required to conduct additional adjustments and re-runs, the nature of which are as yet unknown. Such future adjustments and re-runs might, for example, stem from a

need to account for the bankruptcy of some significant Market Participant, or from the resolution of Good Faith Negotiations entailing a particularly large dollar impact, or from some other cause that affects an especially long period of market activity. The ISO believes the wall-off authority contained in Amendment No. 51 will be useful in the case of such future re-runs for the same basic reason the ISO intends to use it in the case of the preparatory re-runs: to isolate the consequences of such major re-runs to those Market Participants involved in the market during the period covered by the adjustments and re-runs.

Specifically, the ISO proposes to wall off future adjustments and re-runs that:

1. Involve trade days over 12 months old,
2. Involve participant bankruptcies or major defaults that would prevent total cash clearing,  
or
3. Involve amounts above \$15 million.

As noted in Amendment No. 51, the ISO would invoke the wall-off provisions only after providing the market with 30 days notice. Also, the ISO notes that it has the authority under the Tariff currently to conduct these re-runs and adjustments, subject to Board authorization, and apply them to current month invoicing. Amendment No. 51 only seeks to wall off or separate the invoicing.

#### Details Concerning the Preparatory Re-runs

The Commission also directed the ISO to “explain and justify each proposed adjustment for the 18 major revisions and address the concerns and provide details as described below [in the rest of the Amendment No. 51 Order].”<sup>3</sup> Amendment No. 51 Order at P 15. In response to the Commission directive about the “major revisions,” the ISO provides, in Attachment A, a table providing details concerning each of the “major revisions,” which are currently 17 in number.<sup>4</sup> For each of these revisions, the table provides information concerning

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<sup>3</sup> The present filing satisfies each Commission directive to “address the concerns and provide details.”

<sup>4</sup> At the time the ISO submitted Amendment No. 51, it contemplated that it would need to conduct a preparatory re-run to reflect a manual adjustment concerning Bonneville Power Administration (“BPA”). The ISO has since determined that this manual adjustment concerns charges during a single hour. Because the impact will be *de minimis*, the ISO does not now consider it necessary to include the manual adjustment among its preparatory re-runs. Therefore, the number of preparatory re-runs the ISO currently expects to conduct is 17 rather

the relevant issue, the date range, the estimated impact in megawatts or in dollars (where available), the Charge Types potentially affected, the allocation methodology to be employed, and the reason for the revision.

The ISO also notes the following with regard to Attachment A:<sup>5</sup>

- Attachment A only concerns the preparatory re-runs that must be conducted prior to the Refund Proceeding re-run. The preparatory re-runs will only affect the refund period (i.e., October 2, 2000 through June 20, 2001) and/or the preceding time period (i.e., prior to October 2, 2000).
- Some of the 17 preparatory re-runs will be automated, full Settlement system recalculations, and others will be manual uploads into the Settlement system (either for the refund period or for the time period prior to the refund period). The ISO is able to separate the impacts of the manual uploads from those of the automated recalculations, and to isolate the impacts of each of the manual uploads. However, the Settlement system does not provide any method of separating or isolating the impacts of one automated recalculation from the impacts of a different automated recalculation.

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than 18. It is possible that additional re-runs (as yet unforeseen) will need to be included with the preparatory re-runs. The ISO will inform the Commission and parties to this proceeding about any additional re-run and the justification for it. The wall-off methodology in Amendment No. 51 will apply to all of the preparatory re-runs, including any additional ones.

<sup>5</sup> Certain subjects are *not* reflected in Attachment A; that is, the ISO will *not* be conducting re-runs based on certain events. Attachment A does not include a re-run for over-reported Meter Data, for the reasons explained in the Amendment No. 51 Answer. See Amendment No. 51 Answer at 11-12. One instance has also been identified in which Dynegy under-reported generation. The ISO considers under-reporting of generation to be simply the obverse of over-reporting of Meter Data (i.e., over-reporting of Load). Therefore, for the same reasons that no re-runs should be conducted with regard to over-reported Meter Data, as explained in the ISO Answer, the ISO believes that no re-runs should be conducted with regard to under-reported generation.

Attachment A also does not include the settlement between the State of California and Williams, because the ISO does not believe this settlement should result in a re-run. The settlement is described in the "Motion for Partial Dismissal, Request for Expedited Consideration and Request to Shorten Time Period for Answer of Williams Energy Marketing & Trading Company," Docket Nos. EL00-95-045 and EL00-98-042 (filed Nov. 25, 2002). Based on the ISO's understanding of that filing, implementation of the settlement would involve manual calculations and adjustments of the combined invoicing of the preparatory re-runs and the Refund Proceeding re-run.

- As explained in Attachment A, financial consequences of transactions associated with energy exchanges (Issue No. 7) were originally allowed to flow through market neutrality accounts, i.e., what has been called the neutrality adjustment charge type (Charge Type 1010). Although this was the ISO's practice historically, the neutrality adjustment charge type should only include amounts that were charged pursuant to Section 11.2.9 of the ISO Tariff – which energy exchange transactions were not. On June 10, 2003, in Docket Nos. EL00-111, EL01-84, and ER01-607, the ISO provided a report to the Commission (and truncated versions of the report to Scheduling Coordinators) explaining, *inter alia*, that only costs credited or debited pursuant to Section 11.2.9 will be included in Charge Type 1010, and that costs recoverable other than under Section 11.2.9 will not be included in Charge Type 1010, starting with the Settlement Statements to be sent to Scheduling Coordinators on Trading Day August 1, 2003.
- As noted in footnote 2, above, Appendix I to Attachment A, containing a detailed explanation of and justification for the re-run associated with Issue No. 13, will be filed by July 9, 2003.

Change to Section 11.6.3.2 of the ISO Tariff

The Commission directed the ISO to provide an explanation for the proposed change to Section 11.6.3.2 of the Tariff “and a detailed explanation of the criteria the Governing Board would use to assess payment of the costs of a Settlement Statement re-run and with all of the allocation factors.” Amendment No. 51 Order at P 16.

The purpose of the change to Section 11.6.3.2 is to address equitably the consequences of a Scheduling Coordinator's request for a re-run. (No Scheduling Coordinator has requested a re-run, and the ISO does not intend to seek Scheduling Coordinator funding for the preparatory adjustments and re-runs or the Refund Proceeding re-run.) If a Scheduling Coordinator requests a re-run, the ISO Governing Board would determine whether the results of the re-run would benefit primarily the Scheduling Coordinator requesting the re-run, or whether the results of the re-run would be to the benefit primarily of the market as a whole. In the former situation, the costs of the re-run would be allocated to the Scheduling Coordinator that requested it, and in the latter situation, the costs of the re-run would be allocated to the entire market (absorbed in the Grid

Management Charge ("GMC")). If the results of the re-run would benefit both the Scheduling Coordinator that requested it and the market, in approximately equal measure, half of the costs of the re-run would be allocated to the requesting Scheduling Coordinator and the other half would be allocated to the entire market (absorbed in the GMC). The ISO believes it is most equitable to allocate re-run costs in this manner whenever a Scheduling Coordinator has requested the re-run, rather than to always allocate them just to the Scheduling Coordinator that requested the re-run, as Section 11.6.3.2 had provided prior to the filing of Amendment No. 51.

#### Change to Section 11.6.3.3 of the ISO Tariff

The Commission stated that the impact of the ISO's proposed deletion of the last sentence from Section 11.6.3.3 of the Tariff is not apparent from the ISO's filing, and directed the ISO to "provide a detailed explanation of how it intends to allocate any amounts it cannot recover from one customer to other customers and whether, or to what extent, this proposal differs from its current tariff provision or practice." Amendment No. 51 Order at P 17. The referenced sentence in Section 11.6.3.3 read, "The net balance of all adjustments shall go into a balancing account, on a debit or credit, to the Grid Management Charge." The ISO addresses the Commission's directive and discusses the sentence in Section 11.6.3.3 below.

#### Discussion Concerning "the Net Balance of All Adjustments"

First, the ISO provides an explanation concerning the phrase "[t]he net balance of all adjustments." A settlements re-run will be balanced among Scheduling Coordinators except for rounding (residual pennies). The Tariff provides for such rounding to be charged to neutrality based on load and exports. See ISO Tariff, § 11.2.9. Except for any rounding amounts, there is no remaining "net balance of all adjustments" after Scheduling Coordinators are charged or credited for the changes arising from the re-run. Additionally, with the wall-off provisions of Amendment No. 51, only those Scheduling Coordinators who had charges or credits in the market period covered by a re-run will have charges or credits arising from that re-run. Scheduling Coordinators that participate in current markets but did not participate during the re-run period will not receive charges or credits resulting from the walled-off re-run. As described below, if there are payment defaults, the shortfalls resulting from such defaults will be prorated to all creditors in the re-run. Thus, with respect to settlement charges or

credits, a re-run does not create a resulting settlement imbalance that would be charged to the GMC. For this reason, the ISO proposed eliminating the last sentence of 11.6.3.3 as unnecessary.

Discussion Concerning How the ISO Intends to Allocate Amounts It Cannot Recover from One Customer to Other Customers

In the event that bills are not totally collected in a period, typically a monthly billing, the ISO must prorate the shortfall to creditors for that billing period. The same is intended for the re-runs that are walled off as proposed under Amendment No. 51. If there are payment defaults for the walled-off re-runs, the shortfalls resulting from such defaults will be prorated to the creditors in those re-runs. Those shortfalls will not affect the clearing of the current market. Sections 11.16.1 and 11.20.1 of the ISO Tariff apply to defaults and authorize the ISO to prorate the cash shortfall from any payment default to the creditors in that invoicing cycle and also authorize the ISO to take all necessary legal action to enforce collection from the defaulting Scheduling Coordinator. Thus, the deletion of the last sentence of 11.6.3.3 has no impact on how the ISO would collect funds from or disburse funds to Scheduling Coordinators as a result of a market re-run.

Details Concerning the Wall-Off Process

The Commission also directed the ISO to “provide specific details regarding the separation process that it plans to implement.” Amendment No. 51 Order at P 18. The purpose of the process contained in Amendment No. 51 is to separate the invoicing and clearing of re-runs from normal monthly closings. The ISO Tariff generally refers to closings (the settlement of invoices) associated with a given Payment Date. See ISO Tariff, § 11.11. Thus, shortfalls arising from defaulted payments from debtors for invoices due on a given Payment Date are prorated amongst the creditors’ invoices that are payable on that same Payment Date. See ISO Tariff, § 11.16.1. There have been bankruptcies in the ISO’s Market covering periods prior to December 2002. A bankrupt Scheduling Coordinator typically does not pay the invoices submitted to it. Thus, the unpaid creditors whose invoices were due on the same Payment Date that the bankrupt Scheduling Coordinator defaulted become creditors in that Scheduling Coordinator’s bankruptcy. Each of the 17 preparatory re-runs to be conducted by the ISO involves at least one Scheduling Coordinator that declared bankruptcy on a date during the re-run period. The ISO believes charges to the Scheduling

Coordinator that are affected by the bankruptcy date should not be commingled with settlements covering current trade months. Further, the large sums of money involved in the preparatory and refund re-runs would likely disrupt the current month and subsequent months' market clearing. Thus, the ISO proposes to ensure that Payment Dates for invoices resulting from preparatory re-runs and adjustments do not coincide with current market Payment Dates; this will avoid commingling of the settlements of those invoices with the settlements of current trade months. Section 11.16.1 of the ISO Tariff (allocations of payment shortfalls pro rata among creditors) will only apply to payments and collections of invoices due on a specific Payment Date.

#### Time Period for the Filing of Disputes

Lastly, the Commission stated that it would defer action on the ISO's request for waiver of the Tariff provision concerning the time period for the filing of disputes, and directed the ISO "to provide a detailed explanation of how Market Participants can dispute the re-run assessments, including when the dispute period begins." Amendment No. 51 Order at P 19.

Primarily, Market Participants will be allowed to dispute re-run assessments according to the existing provisions of the ISO Tariff. See ISO Tariff, § 11.4.2. Under Section 11.6.1.2 of the ISO Tariff, Scheduling Coordinators have 8 business days from the ISO's issuance of preliminary settlement statements, to dispute those statements. Due to the large amount of information that will be provided by the ISO as a result of the preparatory re-runs, and the accelerated timeline in which the information is being presented, the ISO proposed to extend the dispute deadline (for walled-off reruns only) to 15 business days after the settlement statements for the last trade date of a given month are issued by the ISO. For example, when the ISO presents settlement statements for the month of November 2000, Market Participants may submit disputes relating to the November data up to 15 business days after November 30, 2000 rerun statements are published.

The ISO maintains that the 15-day dispute window should be triggered when the ISO publishes statements to Scheduling Coordinators, instead of being triggered when the Scheduling Coordinators' clients receive their statements.<sup>6</sup> The ISO does not have any control over how Scheduling Coordinators settle with their clients, and believes that allowing the 15-day dispute window to be triggered

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<sup>6</sup> See ISO Answer at 9 n.23.



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by the Scheduling Coordinators' clients receipt of their statements would unnecessarily delay the entire re-run process.

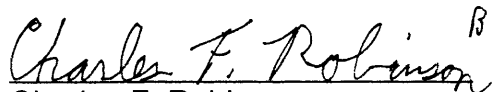
Materials Included in the Present Filing

In addition to this transmittal letter, the present filing includes the following attachments:

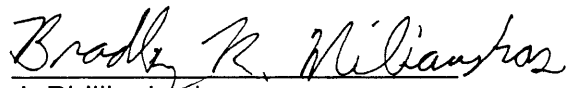
- |              |  |
|--------------|--|
| Attachment A | Table providing details concerning the preparatory re-runs   |
| Attachment B | A form notice of filing, suitable for publication in the Federal Register, along with a computer diskette containing the notice in WordPerfect format. |

If there are questions concerning this filing, please contact the undersigned.

Respectfully submitted,

 <sup>BRM</sup>

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**ATTACHMENT A**

**ATTACHMENT A**

**DESCRIPTION OF PREPARATORY RE-RUN ISSUES**

<b>No.</b>	<b>Issue</b>	<b>Date Range</b>	<b>Estimated Impact (MW)</b>	<b>Estimated Impact (\$)</b>	<b>Potential CT's Affected</b>	<b>Allocation Method</b>	<b>Reason</b>
1.	PG&E under-reported Meter data	1A 10/2/00 – 6/1/01 1B 4/1/98 to 10/1/00	Total for 1A and 1B – 530,700 MWh	NA	406, 407, 1010	Load and Export	Original meter data was mis-reported, resulting in extra charges to market participants. This will correct those charges.
2.	PG&E under-reported Meter data	2A 10/2/00 – 6/20/01 2B 4/1/98 to 10/1/00	Total for 2A and 2B – 30,800 MWh	NA	406, 407, 1010	Load and Export	Original meter data was mis-reported, resulting in extra charges to market participants. This will correct those charges.
3.	Meter Data Mapping Error	3A 10/2/00 – 6/20/01 3B 4/1/98 to 10/1/00	Total for 3A and 3B – 195,300 MWh	NA	406, 407, 1010	Load and Export	Original meter data was mis-reported, resulting in extra charges to market participants. This will correct those charges.
4.	CDWR distribution loss factor allocation error	4A 10/2/00 – 2/6/01 4B 4/1/98 to 10/1/00	Total for 4A and 4B – 173,500 MWh	NA	406, 407, 1010	Load and Export	Original meter data was mis-reported, resulting in extra charges to market participants. This will correct those charges.
5.	ISO Master file correction	11/6/00 – 1/28/01	Approx 100 MW per Day	NA	401,406, 407, 1010	Load and Export	Adjustment required because Master file did not update properly with correct end dates.
6.	ISO Master file correction	3/1/01 – 6/20/01	5,800 MWh	NA	401,406, 407, 1010	Load and Export	Load data was not associated to a SC after PX left the market.
7.	Energy Exchange	11/14/00 – 6/20/01	NA	\$100 – 200 million	487, 1010, 1487	Net Negative Deviation	Initially the Energy Exchange Program (EEP) settled these exchange volumes when the power was returned to the neighboring control area. This change will properly allocate those charges to the period and to the entities that caused the need for the power. This will shift approximately \$100 - \$200 million in charges.
8.	Bilateral Contract with Dynegy (GFN)	12/5/00 – 12/15/00	NA	NA	401, 407, 481, 487, 1010	Load and Export and Net Negative Deviation	OOM volumes being adjusted for consistency with the contract.
9.	Williams (GFN)	12/1/00 – 6/20/01	NA	\$20 - \$22 million	401, 481, 487, 1010	Load and Export and Net Negative Deviation	Williams disputed trade days where they believed they were not paid appropriately, for mislogging of dispatched energy and miscalculation of energy settlements.
10.	PX (GFN)	1998 – Oct 99	NA	\$2.5 million	1003	Load and Export	The resolution is being included as a manual adjustment during the preparatory re-run because of its impact on PX transactions.

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No.	Issue	Date Range	Estimated Impact (MW)	Estimated Impact (\$)	Potential CT's Affected	Allocation Method	Reason
11.	Intra-zonal Congestion	10/2/00 – 6/20/01	NA	NA	401, 451, 452, 1010	Load and Export and TO %	ISO is implementing an automated tool to correct manual adjustments for intra-zonal congestion.
12.	Reallocation of CT 1030 allocations	1999 – 6/20/01	NA	\$500,000	1030	Load and Export	Adjustments will be made to the incremental data received between Prelim and Final.
13.	Rescission of Unavailable A/S	1998 – 9/9/00	NA	\$47 million	141, 142, 144, 1030	Load and Export	Proposed adjustment to recover approximately \$47 million of A/S capacity payments for services that were not available, and to redistribute those amounts.
14.	Regulation Non Compliance	7/00 – 6/7/01	NA	\$500,000	131, 145, 146, 1030	Load and Export	ISO discovered an error in the manual Settlements processing of non-compliance charges for approximately ten days, thus resulting in overcharging or undercharging the SCs.
15.	A/S Obligation	1/1/01 – 6/20/01	NA	NA	NA	Load and Export	System fix of manual adjustments.
16.	Williams	4/25/00 – 5/11/00	NA	\$8 million	1010	Load and Export	Adjustment needed to collect and disburse the settlement issued by FERC on 4/30/01 concerning AES Southland, Inc. and Williams Energy Marketing & Trading Company.
17.	Mislogging	11/1/00 - 6/20/01	NA	NA	401, 481, 487, 1010	Load and Export and Net Negative Deviation	OOS non-congestion imbalance energy supplement, spin, non-spin, replacement reserve are eligible to set the MCP based on the FERC finding fact.

Note: NA = Not available

Details for the above-mentioned issues:

**PG&E under-reported Load meter data (Issue Nos. 1 and 2):** At the request of ISO, PG&E performed an internal review to identify cases of under-reported Load for the existing contracts under the Transmission Wholesale Customer portfolio. In October 2001, it was determined that PG&E under-reported the Load of a certain Market Participant by approximately 539,700 MWh from the start of the Market, April 1, 1998, through June 1, 2001.

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In response to the issue described above, PG&E completed a review in January 2002, identifying a similar situation that resulted in PG&E under-reporting another Market Participant's Load by approximately 30,800 MWh from April 1, 1998 through November 1, 2001. In each case, PG&E corrected the logical meter calculations by adding in the internal Qualifying Facility (QF) generation scheduled and reported by the Utility Portfolio Group. Under-reported Load affects the settlement of the ISO Market by causing cost shifting due to Unaccounted for Energy (UFE) charges as well as a reduction in the Load-based charges incurred by PG&E. The ISO understands that this miscalculation was corrected at that time, on a going forward basis.

The preparatory re-run will include corrected data in each day's system recalculation of the period 10/2/00 to 6/20/01. The impact of the under-reported data for the period 4/1/98 to 10/1/00 will be estimated and corrected using a manual adjustment that will be applied during the preparatory re-run.

**Meter data mapping error (Issue No. 3):** In March 2003, it was determined that a programming error at PG&E cross-referenced a particular meter's Channel 1 data (load) with Channel 4 data (Generation), thus impacting the Settlement Quality Meter Data (SQMD) for the O'Neil Generator/Pump facility. This occurred from trade date July 9, 1999 through February 15, 2002. During this period, PG&E reported approximately 11,000MWh of load when the actual load was approximately 206,300 MWh. Concurrently, PG&E reported approximately 206,300 MWh of generation when the actual amount generated was approximately 11,000 MWh. The estimated impact of the meter data mapping error is approximately 195,300 MWh (i.e., 206,300 MWh minus 11,000 MWh). The over-reporting of generation implies that PG&E received payment for the over-generation and the under reporting of load implies that PG&E was under-billed for energy consumed. The preparatory re-run will include corrected data in each day's system recalculation of the period 10/2/00 to 6/20/01. The impact of the under-reported data for the period 7/9/99 to 10/1/00 will be estimated and corrected using a manual adjustment that will be applied during the preparatory re-run.

**CDWR distribution loss factor allocation error (Issue No. 4):** In conjunction with the Annual SC SQMD self-audit in 2001, CDWR identified a systemic error in the meter data management system, relative to the application of Distribution Loss Factors to CDWR's raw Lateral pump meter reads. Typically, as part of the Validating Estimating and Editing (VEE) process, each SC modifies its actual meter data to correct that data for distribution system losses from the ISO grid to the physical load site, prior to submission to the ISO as SQMD. In attempting to apply these DLFs, CDWR inadvertently programmed its meter data management system to multiply the end use data by a DLF that essentially resulted in multiplying by zero. A 3% loss factor should convert to a 1.03 multiplier. However, the CDWR system was programmed to multiply by an erroneous factor of 0.03, essentially a zero multiplier.

As a result, CDWR under-reported its lateral pump meter data automatically at zero, rather than at the actual usage plus an adder for distribution losses. This error was not readily apparent as the CDWR main Aqueduct pump loads are significantly larger. The CDWR Aqueduct pumps were correctly reported as they are automatically and directly read by the ISO Meter system. CDWR has corrected the DLF factor programming error in its meter data management system, prospectively and is in the process of re-submitting its under-reported lateral pump data retrospectively, in preparation for ISO Settlement system re-runs, to correct the settlement with the Market. This error primarily manifested as UFE charges to the balance of the system.

## ATTACHMENT A

The total under-reported was approximately 167,400 MWh for 1999 and 2000. For 2001, the total MWh underreported was approximately 6,100, for a total of approximately 173,500 MWh. The time frame affected was July 16, 1999 to February 6, 2001.

The preparatory re-run will include corrected data in each day's system recalculation of the period 10/2/00 to 6/20/01. The impact of the under-reported data for the period 7/16/99 to 10/1/00 will be estimated and corrected using a manual adjustment that will be applied during the preparatory re-run.

**ISO Master file correction (Issue No. 5):** The resource NUEVO\_7\_UNIT 1 has been scheduled by APX since 5/15/00. Typically, however, the unit has not in fact scheduled; rather, it has deviated without being instructed to do so and has collected UIEpayouts. This unit generated approximately 100 MW per day. From 11/6/00 through 1/28/01, the meter data collected by the ISO were not included in the Settlements calculations. The preparatory re-run will cover this time period. Up until 11/5/00 and starting again on 1/29/01 the meter data were included in the Settlements calculations.

For NUEVO\_7\_UNIT1, the data were sent to the ISO on time, but due to an incorrect entry in the Master File the data did not load into the ISO system. The data in the Master File were corrected and the changes were transmitted to the system, allowing the data to be loaded.

**ISO Master file correction (Issue No. 6):** When the PX shut down the HNTGBH\_6\_V600LD resource, its load contract was not assigned to another SC. As a result, the load contributed to UFE during this time, was approximately 5,800 MWh. On 5/1/2002, the contract was assigned to WESC for the affected trade dates, which are the dates are from 3/1/01 to 4/30/02 (and to 6/20/01 in the refund period).

**Energy Exchange (Issue No. 7):** During the energy crisis at the end of 2000 and the beginning of 2001, there was a general shortage of energy. To maintain the reliability of the ISO Grid during system emergencies, the ISO arranged energy exchanges to acquire needed energy, in accordance with the ISO Tariff. This arrangement was called the Energy Exchange Program (EEP). Under the EEP, the ISO receives energy in one time period, and later returns the energy in another time period. The amount of energy being returned is the amount of energy obtained, multiplied by an EEP Ratio. Since incoming and outgoing EEP quantities differ, are dispatched in different time periods, and usually have different market-clearing prices associated with them, there will be a cost mismatch. Also, EEP Schedules, as a reliability component of the ISO grid, are exempt from the Grid Management Charge ("GMC"), Wheeling, UFE, Neutrality, and Ancillary Service ("A/S") charges.

The ISO allocates the costs of energy exchanges to SCs participating in the ISO Markets during the "receiving" EEP Schedules. Whenever an energy exchange account is closed or reaches a zero balance, the incurred costs are calculated and allocated to the SCs based on their total negative uninstructed imbalance energy over those intervals in which the "receiving" EEP Schedules took place. In the California refund proceeding in Docket Nos. EL00-95, *et al.*, the Presiding Judge's December 12, 2003 Proposed Findings of Fact approved this methodology for allocating the costs of energy exchanges, and the Commission summarily adopted the Presiding Judge's conclusion in its March 26, 2003 order.

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Typically, incoming energy creates a positive cash flow for the ISO while the outbound energy creates a negative cash flow. These transactions were originally allowed to flow through market neutrality accounts. This approach benefits the loads by undercharging them for the true cost of the EEP transaction in the incoming timeframe, and penalizes the fully procured market participants during the return period. In light of the allocation method described above and the large volume of energy obtained under EEP, the true cost needs to be shifted to EEP Users.

When the energy was originally obtained, the load was charged, but since there was no payment made at that time for the generation, the extra money collected was distributed through neutrality. Later when the energy was returned, the cost incurred to procure the energy in the market was assigned to participants in the return period. It instead should have been charged to the participants that were not fully sourced in the original time period. During the preparatory re-run, the steps will include:

1. Removing the positive cash flow from market participants in the “receiving” period and placing it in the ISO EEP Holding Account (BA\_ID 2970).
2. Removing the negative cash flow from market participants in the “returning” period and placing it in the ISO EEP Holding Account (BA\_ID 2970).  
Note: Steps one and two have actually occurred for the months November 2000, December 2000 and June 2001.
3. Allocating, under Charge Type (“CT”) 487, the net costs of the exchange to the users with negative imbalance energy during the receiving period (CT 1487).

Note: Step three has not yet been done for any period.

**Bilateral Contract with Dynegy (GFN) (Issue No. 8):** For an eleven-day period, December 5-15, 2000, the ISO entered into a bilateral contract with Dynegy for out of market (OOM) energy, in accordance with Section 2.3.2.2 of the tariff. During the contract period, some of the volumes were incorrectly associated with uninstructed energy or ancillary services. The re-run will correctly allocate all volumes to OOM. The GFN centers around gas price justification. Because of the range of outcomes it is difficult to predict whether the resolution will involve additional payments to Dynegy or refunds of amounts already paid under the contract.

**Williams (GFN) (Issue No. 9):** This GFN relates to previously denied Williams disputes for transactions in December 2000 and January through June, 2001. For reasons of mislogging of dispatched energy and errors in the Settlements formula, Williams was not properly compensated for energy provided. The issues are, principally, allocation of energy transactions between instructed and uninstructed and the different settlement prices for instructed energy (higher Out of Sequence (OOS) prices as opposed to lower OOM prices. Williams’ claims under these issues amount to approximately \$20-22 million.

**PX (GFN) (Issue No. 10):** The PX, on behalf of its participant, SDG&E, filed four Good Faith Negotiations in 1999 covering various issues during 1998 and 1999. The ISO has reached a Good Faith Negotiation Settlement with the PX and SDG&E for all GFNs, which will include an adjustment to SDG&E of approximately \$2.5 million for Regulation Energy Payment Adjustment (REPA) payments. The adjustment will be applied to the SC (i.e., to the PX) for credit to SDG&E. This item will be applied manually during the preparatory re-run since it involves PX transactions.

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**Intra-Zonal Congestion (Issue No. 11):** The ISO must reallocate Intra-Zonal Congestion charges in order to charge parties correctly. Intra-Zonal Congestion charges had been incorrectly allocated as described below; these charges are in CT 401, 1010, 451, and 452

After reviewing the data for the Reliability call types for OOS and OOM, the following were identified:

- 1.) All of the INC Bid charges for the Reliability call types per resource were paid in CT 401 until 12/12/00.
- 2.) All of the DEC Bid charges for the Reliability call types per resource were paid in CT 401 until 10/29/02.

The above methodology for CT 401 is incorrect, considering the excess cost charge types for Reliability (CT 451 & CT 452) were effective as of 9/1/00. The ISO is implementing an automated tool to correct these adjustments. Even though CT 451 and CT 452 will be internally automated for the re-runs, these two charge types will continue to be classified as manual charge types in the Charge Matrix and Settlement File Specification. The correct allocation methods the ISO will use with regard to CT 451 and CT 452 are as follows:

### CT 451 (Real-time Intra-Zonal Congestion Inc/Dec Settlement)

A manual charge type utilized to pay the portion of the OOS or OOM bid that is in excess of MCP.

Manual CT 452 is utilized to allocate the manual CT 451 amount related to the following dispatches:

- Out-of-Sequence (OOS) Intra-Zonal (Tariff Section 7.3.2 - Grid Operations Charge for Intra-Zonal Congestion)
- Out-of-Market (OOM) Intra-Zonal (Tariff Section 11.2.4.2.1 - Allocation of Costs Resulting From ISO Dispatch Orders)

OOS Intra-Zonal dispatched in excess of MCP is allocated to the zonal load based on load and real-time export.

OOM Intra-Zonal dispatched in excess of MCP is allocated to the PTO.

**Reallocation of CT 1030 Allocations (Issue No. 12):** CT 1030 is the allocation of the Non-Compliance charges to the market based upon load and export quantities. On March 11, 2002, ISO discovered an issue where the allocation of CT 1030 was done based only on Preliminary statements quantities. Any adjustments for the incremental changes to an SC's load and export quantities occurring between the Preliminary and Final statements were not incorporated. Beginning trade date January 1, 2002, incremental adjustments were made based Final data.

The preparatory re-run will include allocations based on the incremental load and export data, between the Preliminary and Final statements, from August 1999 until Jun 20, 2001.



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**Rescission of Unavailable A/S (Issue No. 13):** The ISO will rescind A/S capacity payments to suppliers that used that A/S capacity to generate uninstructed Energy instead of keeping the capacity unloaded as reserves. The ISO believes it is obligated to seek these corrections because suppliers are entitled to payment only for services provided. These services were not provided, and therefore no payment should have been made.

The rescission of unavailable A/S will use CT 131 which was used for manual compliance adjustments for Ancillary Services prior to ten-minute Settlements. The revenue will be reallocated to the market through CT 1030 to metered load and exports. A notice detailing the method and providing data files and a template for calculation of these charges will be sent to Scheduling Coordinators prior to the preparatory re-run. A further detailed explanation of this adjustment will be provided in Appendix I.

**Regulation Non-Compliance (Issue No. 14):** Errors made in the manual Settlements processing of Regulation Non-Compliance charges should be corrected. Several errors discovered include: (a) incorrect trade date processed for Preliminary and Final Statements, (b) missing unit-hours or line items, (c) difference between the price published on OASIS and Settlement price, and (d) Regulation Up and Regulation Down services reversed. The affected dates are 7/21/00, 7/23/00, 7/24/00, 7/29/00, 12/12/00, 12/24/00, 2/2/01, and 3/20/01. (The dates of 6/7/01, 7/2/01, and 1/9/02, which fall outside the refund period and outside the time period for these preparatory re-runs, are also affected.)

**A/S Obligation (Issue No. 15):** An incorrect version of A/S software was used during the previous re-run affecting A/S and GMC, and for this reason these charges were misallocated. The preparatory re-run will use the correct version of the software to settle A/S and GMC.

**Williams (Issue No. 16):** A charge of approximately \$8 million to Williams resulted from the FERC order issued on 4/30/01 concerning AES Southland, Inc and Williams Energy Marketing & Trading Company. As ordered, the ISO has already reflected this in outstanding balances as a reduction in the amounts outstanding owed to Williams. This adjustment will allocate the \$8 million to the other Scheduling Coordinators based on their load and export.

**Mislogging (Issue No. 17):** Based on the FERC order issued in the California refund proceeding on March 26, 2003, OOS Non-Congestion Imbalance Energy Supplemental and OOS Non-Congestion Spin, Non-spin, and Replacement Ancillary Services are eligible to set the historical market clearing price. Some OOS transactions were mislogged as OOM. In response to this order, the ISO will have to go back, identify, and correct the call types in order to accurately set the MCP.

The ISO notes that on April 25, 2003, it submitted a request for rehearing concerning the March 26, 2003 FERC order. In this request for rehearing, the ISO argued in relevant part that FERC erred in requiring the ISO to determine whether mislogged OOS transactions were non-congestion transactions eligible to

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set the historical refund period MCP (and the MMCP). The ISO will be unable to begin the preparatory re-run concerning Issue No. 17 until after FERC rules on the ISO's request for rehearing.

**ATTACHMENT B**

