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February 22, 2007

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 Nos. ER03-746-000, et al.
San Diego Gas & Electric Co., et al.
Docket Nos. EL00-95-081, et al.
California Independent System Operator Corporation and
California Power Exchange
Docket Nos. EL00-98-069, et al.**

Dear Secretary Salas:

Enclosed please find one original and fourteen copies of the Thirty-Second Status Report of the California Independent System Operator Corporation on Re-Run Activity filed in the above-captioned dockets.

Also enclosed are two extra copies of this cover letter to be time/date stamped and returned to us by the messenger. Thank you for your assistance. Please contact the undersigned if you have any questions regarding this filing.

Sincerely,

/s/ Michael Kunselman

Michael Kunselman

Counsel for the California Independent
System Operator Corporation

Enclosures

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

California Independent System Operator Corporation	)	Docket No.	ER03-746-000
)		
)		
)		
San Diego Gas & Electric Company, Complainant,)		
)		
v.	)	Docket Nos.	EL00-95-081
	)		EL00-95-074
Sellers of Energy and Ancillary Services Into Markets Operated by the California Independent System Operator and the California Power Exchange, Respondents.	)		EL00-95-086
)		
)		
Investigation of Practices of the California Independent System Operator and the California Power Exchange	)	Docket Nos.	EL00-98-069
	)		EL00-98-062
	)		EL00-98-073

(not consolidated)

**THIRTY-SECOND STATUS REPORT OF THE CALIFORNIA INDEPENDENT
SYSTEM OPERATOR CORPORATION ON
SETTLEMENT RE-RUN ACTIVITY**

Pursuant to the Order Granting Clarification and Granting and Denying Rehearing of the Federal Energy Regulatory Commission (“Commission” or “FERC”), issued on February 3, 2004, in the above-captioned dockets (“February 3 Order”), the California Independent System Operator Corporation (“ISO”) hereby provides its thirty-second status report.

Every section of this report contains new information, except for section I (Background). Any comments on this report that are received by March 1 will be considered for incorporation in next month’s status report, scheduled to be filed on March 12.

I. BACKGROUND¹

In the February 3 Order,² the Commission directed the ISO³ “to submit to the Commission on a monthly basis, beginning on February 10, 2004, a report detailing the status of the preparatory adjustment re-runs and the dates that it expects to complete both the preparatory re-runs and the settlements and billing process for calculating refunds.” February 3 Order at P 21. The first such status report was filed with the Commission on February 9, 2004. This filing is the thirty-second such report required by that Commission Order.⁴ While the preparatory and FERC refund re-runs are now complete, the ISO will continue to provide status reports throughout the resettlement and financial phases of the process because the ISO believes that these reports have been a valuable tool for communicating with the Commission and Market Participants, in addition to meeting the Commission-mandated reporting requirement.

¹ In its October 16, 2003 Order on Rehearing, 105 FERC ¶ 61,066 (2003), the Commission ordered the ISO to file within five months of the date of the order the results of the preparatory re-runs along with the appropriate explanations. The ISO considers that this directive has been overtaken by FERC’s later recognition in the Amendment No. 51 proceeding that the ISO could not possibly comply with the deadline in the October 16 Rehearing order, as well as the deadlines in the previous Amendment 51 orders. The ISO is endeavoring to comply, however, with FERC’s directive that the ISO work as fast as practicable, keep the parties well informed, and file monthly status reports. For this reason, in addition to the Amendment No. 51 docket, the ISO is also filing this report in the dockets associated with the California refund proceeding.

² 106 FERC 61,099 (2004). The context of the February 3 Order in prior versions of the ISO’s status report.

³ Capitalized terms not otherwise defined herein shall have the meanings set forth in the Master Definitions Supplement, Appendix A to the ISO Tariff.

⁴ The ISO did not file a monthly status report for the last several months because there were no material changes in the ISO’s plans from the previous status report, filed in September of 2006. Although the ISO has had various discussions with parties during the intervening period, it is not until recently that those discussions have resulted in tangible outcomes.

II. CURRENT STATUS OF RE-RUN ACTIVITY

The ISO has finished publishing settlement statements reflecting the refund rerun, and is currently in the midst of the financial adjustment phase, in which the ISO is making adjustments to its refund rerun settlement data to account for fuel cost allowance offsets, emissions offsets, cost-based recovery offsets, and interest on amounts unpaid and refunds. As of the date of this report, the ISO has finished processing activities associated with the emissions offsets, is actively working on the fuel cost offset and cost-based recovery, and has distributed several interest calculations as well.

The ISO completed the first portion of the fuel cost adjustment calculations, which is determination of allocation percentages for each Scheduling Coordinator (as discussed in greater detail below), and distributed those calculations to Scheduling Coordinators for their review on December 22, 2005.⁵ The ISO has made several adjustments to the fuel cost allocation percentages subsequent to this first distribution, based on comments received from several parties as well as internal review.⁶ Most recently, the ISO made corrections to the fuel cost percentages in order to ensure that fuel costs are allocated to entities only during those intervals in which they were “mitigated.”

The ISO has also recognized that an issue exists with respect to two fuel cost claimants who transacted in the ISO’s markets during the Refund Period through the PX. This issue, and the ISO’s proposed solution, is described below.

⁵ The calculations were placed on a CD and sent via Federal Express, and were received by Scheduling Coordinators on December 23, 2005.

⁶ The nature of these adjustments was discussed in prior refund status reports.

On February 12, 2007, the ISO distributed for the review of parties the updated fuel cost percentages, along with a detailed explanation of the corrections made in this most recent distribution. Comments on these percentages will be due on February 26.⁷

On May 12, 2006, the Commission issued an order setting forth an allocation methodology for the offsets associated with the cost filings.⁸ The Commission directed the ISO to allocate these offsets to parties in proportion to the net refunds they are owed. In its last several status reports, the ISO has addressed in detail the methodology it plans to use in order to implement the allocation methodology adopted by the Commission in the May 12 Order. Also, the ISO has entered into discussions with several parties, including the California Parties, the Competitive Supplier Group, and the PX, concerning the issue of how to account for refunds in both the ISO and PX markets in performing the cost-based filing allocation. Based on these discussions, the ISO has developed a methodology to account for refunds in both the ISO and PX markets. That methodology is described herein.

On August 23, 2006, the Commission issued an order addressing disputes filed by parties on December 1, 2005 relating to the ISO and PX rerun data.⁹ In that order, the Commission also addressed the issues raised by Ernst & Young in its fuel cost audit reports.

⁷ As discussed in Section II.A below, the ISO has recently discovered an error relating to the fuel cost percentages for February, 2001, which the ISO will correct and reflect in its distribution of fuel cost allocation amounts.

⁸ 115 FERC ¶ 61,171 (2006) (“May 12 Order”).

⁹ 116 FERC ¶ 61,167 (2006) (“August 23 Order”).

On November 2, 2006, the Commission issued an order on the cost-based compliance filings made by Avista, Portland General, Powerex, Sempra and TransAlta.¹⁰ The Commission accepted Avista's filing, accepted Portland General's and Powerex's filings, subject to modification, and rejected the compliance filings made by Sempra and TransAlta. The Commission directed Avista, Portland General and Powerex to submit final cost offset data to the ISO within 15 days of the date of this order.

A. FUEL COST ALLOWANCE DATA

As explained in greater detail in previous status reports, the ISO has pursued a two-track approach with respect to calculating fuel cost allowances. First, the ISO calculated, for each entity that participated in the ISO's markets during the Refund Period (*i.e.*, October 2, 2000 through June 20, 2001), the percentage of the total fuel cost claim amounts to be allocated to these entities for each hour, consistent with the methodology approved by the Commission for doing so. Second, the ISO will use these validated numbers to calculate the final allocation percentages, as well as the final allocation of actual dollar amounts.

As noted above, on December 22, 2005, the ISO distributed the first set of fuel cost allocation percentages to parties, and received comments from several parties. The ISO made several revisions to this data set and distributed the revised allocation percentages for another round of review on June 1, 2006. Since then, the ISO made three further corrections to the fuel cost percentages: (1) using information from the PX, the ISO made corrections to the fuel cost allocation percentages for ten hours during the Refund Period; (2) the ISO made

¹⁰ 117 FERC ¶ 61,151 (2006).

a modification to the fuel cost data in order to remove the assignment of fuel costs to an internal ISO SC ID; and (3) based on comments received from APX, the ISO made revisions necessary to ensure that fuel costs are allocated to entities only during those intervals in which they were “mitigated.” All three revisions are described in the text files on the CD provided to parties on February 12. The first two revisions were described in the previous status report.

The ISO has also recently recognized that there is a potential problem with respect to fuel cost claims made by two parties, Midway Sunset Cogeneration Company (“Midway Sunset”) and Nevada Power Company (“Nevada”). Both of these parties transacted in the ISO markets through the PX.¹¹ This is an issue because some of the Uninstructed Energy sales made by Midway Sunset and Nevada Power through these Scheduling Coordinators were made during intervals in which PX net sales were less than the sales of Midway Sunset and Nevada Power. In these instances, paying the full FCA credit directly to Midway Sunset and Nevada Power in the ISO markets would allocate too much of the corresponding offset to other ISO Scheduling Coordinators, and too little to PX participants. The ISO has discussed this issue with the PX, and the ISO and PX agree in principle to the following solution: in those intervals in which the total fuel costs relating to Uninstructed Energy claimed by Midway Sunset and Nevada Power exceeds the amount of positive Uninstructed Energy provided from the PX portfolio for the applicable Region, the ISO will reduce the

¹¹ Nevada Power also transacted directly with the ISO. Midway Sunset also transacted with the ISO through APX as a Scheduling Coordinator. In accordance with the Commission’s August 23, 2006 “Order Addressing Refund Period Disputes and Providing Guidance,” 116 FERC ¶ 61,167 at P 84 (2006), the ISO will, however, process the entirety of Midway Sunset’s fuel cost claim.

FCA claim allocated to the ISO market pro rata. The portion of the FCA claim not allocated to the ISO markets will be processed through the PX, which will allocate such amounts to its own participants. This methodology will be described in greater detail in a document accompanying the February 12 fuel cost data distribution.

The ISO recently discovered an error in the fuel cost percentages distributed on February 12 relating to the month of February, 2001. The ISO will correct this and any other errors identified by parties within the review period that ends February 26. Then, the ISO will apply the total approved amount of the fuel cost allowances to the parties based on their respective (corrected) allocation percentages. The ISO estimates that this will take three weeks, meaning that new CDs would be distributed during the third week of March.

B. EMISSIONS OFFSETS

The ISO's work on the Emissions offset is completed and uploaded. By way of background, in the Findings of Fact in the Refund proceeding¹² and again in the Commission's Order of March 26, 2003,¹³ the Commission found that 3 entities, Duke, Dynegy, and Williams, had supported their requested emissions allowance. Three other entities – Reliant, the City of Pasadena, and the Los Angeles Department of Water and Power ("LADWP") – were ordered to

¹² Certification of Proposed Findings on California Refund Liability, Issued December 12, 2002, PP 729-760.

¹³ 102 FERC ¶ 61,317 (2003) item BB.

reallocate and recalculate their emissions allowances.¹⁴ Also, in the Commission's October 16, 2003 order, the Commission clarified that emissions offsets would be recoverable only for mitigated intervals.

On September 20, 2005, the Commission issued an order accepting the recalculated emissions claims of Pasadena and LADWP. 112 FERC ¶ 61,323 (2005). The Commission also acknowledged receipt of Reliant's informational filing detailing a pro rata allocation of its emissions costs offset among mitigated and non-mitigated intervals. *Id.* at P 40.

In its most recent status reports, the ISO noted that it had received revised emissions claims for all outstanding entities, and will incorporate these data into the financial adjustment phase.

On April 25, 2006, the ISO distributed data reflecting the allocation percentages for emissions for each party during the refund proceeding. The ISO provided a several week period for party comments on these data, and received none. On September 21, 2006, the ISO circulated the final approved emissions claim amounts that it will use in its calculations, as well as an explanation of the methodology for determining the resulting refund offsets. As explained in the market notice accompanying that distribution, the ISO intends to use these claim amounts, along with the percentages distributed on April 25, 2006, to determine the final refund offsets associated with approved emissions claims.

¹⁴ With respect to Reliant, the Commission, in its March 26 Order, accepted the Presiding Judge's finding that although Reliant would be required to recalculate its emissions on a pro-rata basis, Reliant would be permitted to use the California Generators' existing pro rata allocation exhibit, and would not be required to re-file that information.

C. COST-BASED RECOVERY FILINGS

The ISO has received from various parties all of the cost-based filing data mandated by the Commission in its orders of January 26, 2006 and November 2, 2006. It intends to process the following claims.

<u>Party</u>	<u>Dated</u>
Avista Energy Inc.	11/13/06
Constellation Energy Commodities Group, Inc.	3/13/06*
Coral Power, LLC	3/13/06
Edison Mission Marketing & Trading, Inc. (EMMT)	3/14/06–10/11/06 ⁺
Hafslund Energy Trading, LLC	3/14/06
Portland General Electric Co.	11/17/06–12/19/06 [#]
Powerex Corp.	11/17/06
Puget Sound Energy, Inc.	3/3/06

* On November 10, 2006, Constellation provided to the ISO updates to its Commission approved cost filing to reflect additional costs associated with its posting of collateral to the PX. The ISO has not included these additional costs in the total cost offset for Constellation approved by the Commission in its January 26, 2006 “Order on Cost Filings,” 114 FERC ¶ 61,070 (2006), because the ISO interprets its role to be limited to processing the specific claims approved by the Commission. The Commission did not address the issue of whether it was appropriate for the ISO to allocate additional collateral costs incurred after the various cost filings were approved. The ISO notes that this issue is, however, currently before the Commission as a result of pleadings filed in this docket in late 2006 by Constellation and the California Parties, and if the Commission approves Constellation’s additional costs, the ISO will include them in its calculations.

+ On March 14, 2006, EMMT submitted a reconciliation sheet in compliance with the January 26 order, and an accompanying declaration. On October 11, the ISO received a complete claim that EMMT represents is consistent with the reconciliation sheet that it submitted on March 14.

On December 19, 2006, the ISO received a revised version of Portland General’s November 17 claim, along with an affidavit. Portland General represents that the December 19 version corrects errors that it discovered in the November 17 version.

As also noted above, the Commission issued an order approving an allocation methodology for cost filings on May 12, 2006. Therein, the Commission concluded that offsets from cost filings should be allocated to purchasers based on their net refunds. In its June 2006 status report, the ISO explained the methodology that it intends to adopt in order to implement the Commission's methodology. However, after considering questions posed by several parties, the ISO recognized that certain portions of its methodology discussion in the June 2006 status report should be clarified. Therefore, the ISO made several modifications to its methodology, which it set forth in its status report filed July 10, 2006 in these dockets (pages 10-12).

In its last several status reports, the ISO also noted that there is an important issue about how to account for refunds in both the ISO and PX markets when allocating the cost-based filing offsets. The ISO has had discussions concerning this issue with several parties, including the California Parties, the Competitive Supplier Group, and the PX. Recently, the ISO and PX agreed to a methodology for accounting for net refunds in both the ISO and PX markets: the ISO and PX will use their respective refund calculations to determine the refund position of each entity that transacted in their respective markets during the Refund Period, pursuant to the methodology mandated by the Commission. The ISO and PX will then net between their two markets the refund positions of all parties, and allocate the cost filings based on these net positions. Thus, for example, if a party was owed \$50 in refunds from the PX market and \$100 in refunds from the ISO market, that party would be allocated a portion of the total

cost filing claims based on a net refund position of \$150. It should be noted that for purposes of determining refund positions in the ISO and PX markets, the ISO and PX will only be considering the results of their respective settlement reruns, and will not be including the impacts of offsets, such as fuel cost and emissions. This differs from the process the ISO described in previous status reports. However, after discussing this issue, the ISO and PX came to the conclusion that including these offsets in the determination of net refund positions would involve a great deal of additional time and effort. Moreover, in discussions with other parties concerning cost offset allocation issues, no party has expressed a preference for including these offsets. Therefore, on balance, the ISO and PX have concluded that the best approach is to calculate net refunds using only the results of the base settlement reruns (*i.e.* the historical prices as adjusted by the MMCPs).

The ISO estimates that it will require five business weeks to complete the cost filing calculations and distribute the offset data for parties to review. As with other major data distributions, the ISO plans to provide parties a three week period in which to review these calculations and provide any comments. The ISO will issue a market notice, which will be posted on the listserv, when this data is available. One outstanding issue is whether the ISO will distribute these calculations and solicit and review comments on them jointly or individually. The ISO and PX will discuss this issue and the ISO will report the results of this discussion in the next status report.

D. INTEREST CALCULATIONS

As noted in previous reports, the ISO has made several distributions of interest data to parties. First, on January 12, 2006, the ISO distributed to parties via the listserv a spreadsheet showing the reversal of all interest amounts originally charged to entities that transacted with the ISO during the Refund Period, along with an explanatory memorandum.

The calculation of interest on unpaid invoices during the Refund Period, pursuant to the methodology approved by the Commission was made available on May 1, 2006. The ISO also posted to listserv on that date a memorandum explaining these calculations. In response to comments from the parties, the ISO revised these calculations and, on September 29, 2006, the ISO released new calculations and announced that it was seeking comments no later than October 27. Based on comments received during that review period, the ISO intends to release an updated calculation of interest on unpaid invoices on February 27, with comments due by March 15.

Once all other outstanding financial adjustment activities (*i.e.* fuel cost and cost filing allocations) are completed, the ISO will calculate interest on refunds, which is the last interest calculation that the ISO will do as part of the financial adjustment phase. The ISO estimates that this will take 2 weeks, at which time the ISO will make this data available to parties. ISO will also need to perform adjustments to balances in the ISO market to account for any allocation that the ISO receives as a result of a shortfall in the PX markets between interest earned

in the PX Settlement Trust Account and the Commission's rate.¹⁵ However, the ISO plans to wait to make these adjustments until after it completes the financial adjustment phase and begins accounting for the impacts of the settlements entered into in this proceeding. The ISO proposes to proceed in this manner because even if it calculates these adjustments during the financial adjustment phase, they will almost certainly have to be re-done when it accounts for settlements in this proceeding.

E. STATUS OF ADR CLAIMS

As noted in previous reports, a number of claims that relate to the Refund period are being pursued by various Market Participants in Alternative Dispute Resolution ("ADR") pursuant to Section 13 of the ISO Tariff. In previous monthly reports, the ISO noted that charges resulting from certain disputes may be assessed to the Scheduling Coordinators during the period affected by this case – both the refund rerun and the preparatory rerun. The status of these matters, most of which are ADR matters posted the ISO website (<http://www.caiso.com/clientserv/adr/>), is as follows:

"SMUD Dispute Matter"	Invoiced separately on 8/9/2006. Will not further affect refund data or refund calculation. Will not affect financial clearing except that any unpaid invoices will be included.
"California Department of Water Resources 7/20/04"	Completed and uploaded. Will not further affect refund data, calculations or financial clearing.

¹⁵ In its November 23, 2004 "Order on Rehearing" issued in this proceeding, the Commission accepted the ISO's request to allocate any portion of such shortfall assigned to the ISO pro rata to its participants. 109 FERC ¶ 61,218 at P 39 (2004).

“San Diego Gas & Electric
Matter 7/6/01”

The ISO is waiting to make adjustments required by a contingency, as described above in section II.C. The adjustments will affect data from the refund period and prep rerun period, as well as the refund calculations.

GFN with Sempra

This matter was mentioned initially in the February 2006 status report. It has been completed and uploaded, and will not further affect the refund data or the

“10/5/00 Pacific Gas & Electric
Company Matter”

This matter remains unresolved. It may affect the prep rerun data, but will not affect the refund period data or calculations.

The ISO continues to suspend conference calls with Market Participants on the status of re-run activity until any issues surface that suggest the need for additional calls. The ISO will likely schedule another conference call after it distributes the data from the financial adjustment phase, in order to field questions from Market Participants on that data. The ISO will inform Market Participants when it schedules that call.

F. DECEMBER 1 DISPUTES

On December 1, 2005, pursuant to the Commission’s August 8, 2005 order on cost-based recovery issues,¹⁶ several entities filed with the Commission pleadings raising actual, or potential, disputes with respect to reruns and offsets. In the August 23 Order, the Commission acted on these disputes, rejecting the

¹⁶ 112 FERC ¶ 61,176 (2005) at P 116.

majority of them. With respect to the dispute filed by Puget Sound concerning ISO settlement data, the Commission required the ISO and Puget to attempt to resolve the issues raised by Puget, and to file periodic status reports concerning these efforts. The ISO and Puget filed three status reports, and ultimately, on October 16, 2006, their final positions on the single issue that could not be resolved.

III. ESTIMATED SCHEDULE FOR COMPLETION OF THE REFUND RE-RUN ACTIVITY

Attachment A to this status report contains the ISO's estimate of the time that will be required to complete the financial adjustment phase. As noted above, the preparatory re-run was completed July 16, 2004, the FERC refund re-run statement production phase was completed February 15, 2005, and the ISO is currently processing the financial adjustment phase offsets. The ISO has completed the first step of the two-step fuel cost allowance allocation process, and has distributed the results of these calculations to parties, as noted above. The ISO has processed emissions offsets, and has distributed to parties data on allocation percentages and offsets.

Based on the steps outlined above, the ISO estimates that it will take approximately 10 weeks to complete the financial adjustment phase, including applicable review periods.

The ISO recognizes that this schedule could be extended if errors are discovered during the review periods for the calculations. It may also change as the result of any number of legal challenges to Commission orders, including the

decisions by the Ninth Circuit Court of Appeals in *BPA v. FERC* concerning the refund liability of non-FERC jurisdictional entities, and *CPUC v. FERC* concerning certain “scope/transactions” issues. However, for reasons set forth in previous status reports, the ISO believes that given the status of these various challenges,¹⁷ there is no basis at this time for the ISO to depart from the schedule directed by the Commission for completing the refund process.

IV. CONCLUSION

The ISO respectfully requests that the Commission accept the ISO’s thirty-second refund status report in compliance with the Commission’s February 3 Order, referenced above.

Respectfully submitted,

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Dated: February 22, 2007

¹⁷ The only decisions that have been rendered concerning the various issues in this proceeding are the *BPA v. FERC* and *CPUC v. FERC* decisions, and the Ninth Circuit has yet to issue the mandates for those decisions.

ATTACHMENT A

**CURRENT TIMELINE FOR COMPLETION OF
FINANCIAL ADJUSTMENT PHASE OF REFUND PROCEEDING
FEBRUARY 2007**

DATE (ESTIMATED)	ITEMS
February 26, 2007	Comments due on fuel cost allocation percentages distributed to parties on February 26, 2007
February 27, 2007	ISO distributes to parties revised interest calculations on unpaid receivables
March 15, 2007	ISO distributes to parties fuel cost allocation amounts for each Market Participant Comments due on interest calculations distributed on February 27
March 29, 2007	ISO circulates to parties data on cost filing allocations Comments due on fuel cost allocation amounts
April 18, 2007	Comments due on cost filing allocation data
2 Weeks After All Offsets are Finalized	ISO distributes to parties interest calculations on refunds

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon each person designated on the official service list for the captioned proceeding, in accordance with Rule 2010 of the Commission's Rules of Practice and Procedure (18 C.F.R. § 385.2010).

Dated at Folsom, CA, on this 22nd day of February, 2007.

/s/ Susan Montana
Susan Montana