ALSTON&BIRD LLP
601 Pennsylvania Avenue, N.W.
North Building, 10th Floor
Washington, DC 20004-2601

202-756-3300
Fax: 202-756-3333

Michael Kunselman Direct Dial: 202-756-3395 Email: Michael.Kunselman@alston.com

November 10, 2005

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 Twenty-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,

Michael Kunselman /RL

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. Sellers of Energy and Ancillary Services Into Markets Operated by the California Independent System Operator and the California Power Exchange, Respondents.	) Docket Nos.	EL00-95-081 EL00-95-074 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)

TWENTY-SECOND STATUS REPORT OF THE CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION ON SETTLEMENT RE-RUN ACTIVITY INCLUDING IMPORTANT INFORMATION REGARDING PROCESSING OF OFFSETS AND SCHEDULE FOR COMPLETION OF FINANCIAL ADJUSTMENT PHASE

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 twenty-second regular monthly status report. ***The ISO urges the Commission and parties to pay particular attention to this report, as it contains updated information concerning the processing of fuel cost***

allowance and emissions offsets, the calculation of interest, and the ISO's current schedule for completing the financial adjustment phase of the refund process.

I. BACKGROUND[1]

In the February 3 Order,[2] the Commission directed the ISO[3] "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 twenty-first such report required by that Commission Order. While the preparatory and FERC refund re-runs are now complete, the ISO will continue to provide monthly 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.

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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 is detailed in the ISO's previous nineteen status reports, most recently filed in the above-captioned dockets on August 10, 2005.

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

II. CURRENT STATUS OF RE-RUN ACTIVITY

The ISO has finished publishing settlement statements reflecting the refund refund. The next step is the financial adjustment phase, in which the ISO will make adjustments to its refund re-run 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 begun some of the adjustment processing activity associated with the fuel cost and emissions offsets.

However, several issues still remain unresolved. Specifically, the ISO is awaiting Commission rulings on the following issues:

- Issues identified by Ernst & Young in its audit reports on certain fuel cost claims (see pp. 4-5);
- Whether the ISO should allocate emissions offsets to total Control Area Gross Load, or to Control Area Gross Load only during "mitigated intervals" (see pp. 7-8);
- The amount and allocating of approved cost-offsets (see pp. 8-9);
- Any disputes filed on December 1, 2005 (see p. 13).

In addition, the ISO is awaiting receipt of audited fuel cost claim from Burbank.

The ISO discusses in the following sections how it proposes to address these issues. The ISO is also including in this report an updated, more detailed schedule for completing the financial adjustment phase.

A. FUEL COST ALLOWANCE DATA

As noted in its last two status reports, on August 30, 2005, consistent with the Commission's notice issued on July 28, 2005,[4] the ISO received fuel cost data from a number of entities claiming fuel cost offsets and copies of the audit reports prepared by Ernst & Young for each of the entities that it audited. The ISO also noted that, with respect to several claimants, Ernst & Young had detailed a number of potential "exceptions" from the Commission's fuel cost methodology, and that Ernst & Young had committed to resolving these exceptions with the applicable claimants over a 30 day period beginning on August 30, 2005. Subsequently, Ernst & Young notified the Commission that because of the adverse weather affecting the southeast United States, they could not commit to producing updated audit reports reflecting their attempts to reach resolution on these issues until October 10, 2005. By October 13, 2005, the ISO had received supplemental reports from Ernst & Young with respect to Sempra, Duke, Mirant, and Puget Sound.[5] In each report, Ernst & Young stated that although it had resolved several issues with these claims, certain issues still remained open. Ernst & Young also informed the ISO that it was still in the process of auditing the fuel cost claim submitted by the City of Burbank.

Shortly after this report is filed, the ISO will be filing with the Commission a motion concerning the issues raised by Ernst & Young in its fuel cost audit reports, asking that the Commission clarify that the ISO will not be required to

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[4] "Notice of Extension of Time," issued in Docket Nos. EL00-95-098, *et al.* (July 28, 2005).

[5] On November 8, 2004, the ISO received a copy of Ernst & Young's Second Supplemental report on Mirant.

complete the fuel cost allocations or the calculation of interest until the Commission resolves the issues raised by Ernst & Young. Specifically, the ISO plans to adopt a two-track approach to allocating the fuel cost allowance offsets, and requests that the Commission clarify that this process is appropriate: First, the ISO will calculate, 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. Next, the ISO will distribute those allocation percentages to the parties for their review, and provide a three-week period for parties to dispute the ISO's calculations. The ISO will then await Commission resolution of the issues raised by Ernst & Young. After the Commission rules on these issues, and claimants make any necessary modifications to their claims based on the Commission's ruling, the ISO will apply the total approved amount of the fuel cost allowances to the parties based on their respective allocation percentages. Finally, the ISO will distribute the final allocation data to parties for a brief, one week, review period. As the ISO explains in greater detail in its motion for clarification, proceeding in this manner will be the most efficient use of time and resources, and will expedite the conclusion of the refund process, as it will avoid the need to re-do significant portions of the financial adjustment phase if the Commission determines that any of the issues identified by Ernst & Young require that one or more entities revise their fuel cost claims.

Another outstanding issue with respect to fuel cost allowances is how the ISO should treat the City of Burbank, whose claim is still being processed. If the ISO receives Burbank's audited claim at least four business days prior to beginning the calculation to apply the total amount of approved fuel cost claims to parties, then the ISO is confident that including Burbank's claim will not cause a delay in the process. However, if the ISO does not receive Burbank's audited claim in this timeframe, then the ISO proposes not to reflect a fuel cost claim for Burbank.

B. EMISSIONS OFFSETS

In the Findings of Fact in the Refund proceeding[6] and again in the Commission's Order of March 26, 2003,[7] 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 reallocate and recalculate their emissions allowances.[8] Also, in the Commission's October 16, 2003 order, the Commission clarified that emissions offsets would be recoverable only for mitigated intervals.

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

7 102 FERC ¶ 61,317 (2003) item BB.

8 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.

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 report, the ISO stated that it had not received emissions claims from Duke, Dynegy, and Williams revised to take account of the Commission's decision that emissions offsets would only be recoverable for mitigated intervals, and that if the ISO did not receive revised claims from these entities in time to maintain its current schedule for processing the financial adjustments, it did not intend to reflect any emissions offset for Duke, Dynegy, or Williams in its compliance filing. The ISO is pleased to report that it has received revised claims from these three entities, and will incorporate these data into the financial adjustment phase.

The only remaining outstanding issue concerning emissions that the ISO is aware of is whether the ISO should allocate emissions offsets to all Control Area Gross Load during the Refund Period, or only during mitigated intervals. In the Addendum to its Eighteenth Status Report on Rerun Activity,[9] the ISO explained that it planned to do the latter, reasoning that this was the most appropriate allocation methodology given the fact that emissions offsets were only available for mitigated intervals.[10] Subsequently, the California Parties filed

[9] Filed in the above-captioned dockets on July 22, 2005.

[10] In its protest of the ISO's addendum, filed in these dockets on August 11, 2005, Reliant argued that the ISO should define as a mitigated interval any interval in which a supplier's price was mitigated, even if the MMCP exceeded the MCP. Because of the operation of the "soft cap"

comments in which they disputed the ISO's proposal, arguing that allocating emissions costs to all Gross Load was most appropriate, given the Commission's orders addressing this issue. The Commission has yet to rule on this issue. Rather than wait for the Commission to rule before processing the emissions offsets, however, the ISO intends to perform its emissions allocation calculations using both methodologies, and present both sets of results to Market Participants to review. Although this will allow the ISO to go forward with its processing of emissions offsets, the ISO will, nevertheless, need a Commission ruling on this issue prior to beginning its interest calculations, which, consistent with its current schedule, the ISO plans to begin in the December, 2005 timeframe.

C. COST-BASED RECOVERY FILINGS

In its previous three status reports, the ISO noted that the Commission's November 15, 2005 date for approving any cost-based recovery filings could potentially result in a delay to the ISO's current refund schedule, but that the ISO could not be certain until the Commission ruled on a methodology for allocating any approved cost-based offsets. Because the Commission has not yet ruled on a methodology for allocating the cost-based offsets, the ISO is not certain how

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in the ISO markets during the Refund Period, suppliers were sometimes paid in excess of the MCP. In cases where the MMCP was lower than the price paid to a certain supplier, but higher than the MCP, the price paid to that supplier was reduced, as part of the refund rerun, to the MMCP. Reliant contended that such situations should be counted as "mitigated intervals." The ISO, in response to Reliant, agreed in theory with Reliant, but indicated that it would need to determine whether it was practical to implement this variation of its methodology. The ISO has subsequently determined that it can determine mitigated intervals based on whether any supplier's price was mitigated, regardless of whether the MCP exceeded the MMCP, and therefore, if the Commission were to agree with the ISO's methodology of allocating emissions costs only to mitigated intervals, would determine mitigated intervals in the manner proposed by Reliant.

long this process will require and, therefore, the ISO's current schedule does not include a time frame for completing this process. The ISO is hopeful that the Commission will approve a methodology that can be easily implemented by the ISO, but any delay in the Commission's ultimate ruling on both the cost-recovery filings themselves, and a methodology for allocating those filings, will necessarily require an extension of the ISO's schedule for completing the financial adjustment phase.

D. INTEREST CALCULATIONS

In its orders issued in this proceeding, the Commission has approved the ISO's proposed methodology for calculating interest as part of the financial adjustment phase. This methodology relies, as its starting point, on the ISO's original invoices associated with the months during the Refund Period. The ISO plans to slightly revise its methodology, however, so as to include interest on all past due amounts associated with market activity during the Refund Period, including that market activity that was invoiced after the Refund Period. This requires the ISO to include past due amounts that were invoiced in the months of July and August of 2001, as well as the remainder of June, 2001. All of the past-due amounts associated with these two months that are subject to interest charges were invoiced as part of a rerun of transactions that originally occurred during the Refund Period. Thus, the interest on past-due amounts relating to these two months is entirely related to transactions that originally took place during the Refund Period, but were invoiced as part of July and August of 2001.

These amounts are owed by the PX, which, because the PX declared bankruptcy earlier that year, the ISO did not receive. The result is that several million dollars in interest, relating to amounts billed on the July and August 2001 invoices, is owed to suppliers that transacted in the Refund Period. Therefore, in order to rectify this situation and to avoid any potential unfairness, and because the interest amounts at issue are associated with historical Refund Period transactions, the ISO believes that the best solution is to simply treat, for purposes of interest calculations, the months of July and August 2001 as part of the Refund Period, and the ISO plans to do so as part of its interest calculations performed at the end of the financial adjustment phase.

E. STATUS OF ADR CLAIMS

Finally, 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 three of these disputes, should they be resolved soon, may be "walled-off" and charged to the Scheduling Coordinators active in the ISO Market at the time of the activity giving rise to the dispute. The prior reports also noted the following claims posted on the ADR page of the ISO website (http://www.caiso.com/clientserv/adr/): "SMUD Dispute Matter", "California Department of Water Resources 7/20/04", "San Diego Gas & Electric Matter 7/6/01." In addition, the ISO also noted that it would inform the Commission and the Market Participants, in a subsequent status report, if and when these disputes are resolved, and the financial impact on Scheduling Coordinators of resolving these disputes.

In its last status report, the ISO reported that the parties have reached settlement on the "San Diego Gas & Electric Matter 7/6/01," and the ISO is currently performing related settlements adjustments. The ISO explained that the total dollar impact for the adjustments relating to this settlement that will be "walled off" and invoiced as part of the preparatory and refund rerun process, for the period April 1998 through June 2001, is approximately $23 million. The ISO also explained that the impacted ISO Charge Types are Uninstructed Energy (CT 405, 407), Neutrality (CT 1010, 1210), Intrazonal Congestion (CT 452), Minimum Load Compensation Costs (CT 595), Summer Reliability Agreements (CT 1120, 1121), Interest (CT 2999), and FERC Fee (CT 550).

The ISO continues to suspend conference calls with Market Participants on the status of re-run activity until after the final receipt of all audited fuel cost information, anticipated on November 1, 2005, or 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.

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

Attachment A to this status report contains the ISO's updated estimate of the time that will be required to complete the financial adjustment phase. The

ISO has not changed its estimate concerning the time required to complete the remainder of the refund process. As noted above, the preparatory re-run was completed July 16, 2004, and the FERC refund re-run statement production phase was completed February 15, 2005.

The new schedule is also more detailed than the previous schedules, in that it explains the time that the ISO estimates will be required to complete each step of the financial adjustment phase. Several items in the new schedule merit particular discussion. First, with respect to the three offsets, the ISO will be able to perform its allocation calculations in parallel, so the time estimates for completing these items are not cumulative. Also, at the conclusion of each of its offset calculations, the ISO plans to provide parties with a three week review period during which time parties will have the opportunity to notify the ISO of any disputes or possible errors. If there are any corrections required as a result of this review period, the ISO will make the necessary adjustments to the appropriate data.

As discussed above, however, the ISO is not certain how long the allocation of cost recovery offsets will take, because the Commission has not yet ruled on the universe of authorized offsets, or a methodology for allocating these offsets. The ISO anticipates that if the Commission approves a methodology that can be easily implemented by the ISO, then this allocation will require approximately the same amount of time as the other two offsets. As with the other two offsets, the ISO plans to provide this data to parties after completing the allocation for a three week review period.

With respect to the calculation of interest, the ISO continues to estimate that this process will require four weeks to complete. This includes the time required by the ISO to perform its own calculations and prepare associated spreadsheets, as well as time for the PX to complete its interest calculation and provide its data to the ISO, which is necessary for the ISO to complete its interest calculations. At some point prior to the end of 2005, the ISO plans to distribute to Market Participants preliminary interest calculation data, which will show all interest calculations except for those relating to the financial adjustment pieces (*i.e.* fuel cost allowance, emissions, and cost-recovery offsets).

Another element of uncertainty in the ISO's current schedule is the December 1 dispute deadline imposed by the Commission in its August 8 Order addressing the cost recovery filings. If the Commission grants one or more disputes filed on this date, it is highly likely that the ISO will be required to re-do all, or a portion of, the financial adjustment phase calculations.

IV. CONCLUSION

The ISO respectfully requests that the Commission accept the ISO's nineteenth status report in compliance with the Commission's February 3 Order, referenced above.

Respectfully submitted,

J. Phillip Jordan
Swidler Berlin LLP
3000 K Street, N.W., Suite 300
Washington, DC 20007
Tel: (202) 424-7500

Michael Kunselman
Alston & Bird LLP
601 Pennsylvania Ave., N.W.
North Building, 10th Floor
Washington, DC 20004
Tel: (202) 756-3300

Charles F. Robinson
Anthony J. Ivancovich
Daniel J. Shonkwiler
The California Independent System Operator Corporation
151 Blue Ravine Road
Folsom, CA 95630
Telephone: (916) 608-7015

Dated: November 10, 2005

ATTACHMENT A

TIMELINE FOR COMPLETION OF FINANCIAL ADJUSTMENT PHASE OF REFUND PROCEEDING
NOVEMBER 2005

A. Allocation of Fuel Cost Allowance Offsets – 6 Weeks

- First Phase – ISO Calculates Allocation Percentages and Distributes to Market Participants for a 3-Week Review Period = **4 Weeks**

- Second Phase – After Resolution of Ernst & Young Issues, ISO Calculates Actual Dollar Offsets for each Market Participant and Distributes to Market Participants for a 1-Week Review Period = **2 Weeks**

- Outstanding Issues:

    1. Ernst & Young has identified issues with respect to several fuel cost claims. All but one (Mirant) involve the propriety of heat rate data for units located outside the ISO Control Area. The ISO does not plan to allocate actual dollar amounts until these issues are resolved by the Commission.

    2. Ernst & Young expects to issue a report concerning the fuel cost claim by Burbank sometime in the relatively near future. It would require an additional 3-4 business days to incorporate to Burbank claim.

B. Allocation of Emissions Offsets – 5 Weeks

- The ISO will calculate the emissions offsets using both methodologies – *i.e.*, total Control Area Gross Load and "mitigated interval" – and then distribute the results of both methodologies to Market Participants for a 3-week review period

- This step can be done in parallel with the fuel cost allowance calculation/review period.

- Outstanding Issues:

    1. The Commission has yet to determine whether or not it is appropriate for the ISO to allocate emissions offsets to all Control Area Gross Load, or only that which occurred during "mitigated intervals."

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 10th day of November, 2005.

Daniel J. Shonkwiler /RL

Daniel J. Shonkwiler