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October 10, 2006

The Honorable Magalie R. Salas
Secretary
Federal Energy Regulatory Commission
888 First Street, NE
Washington, DC 20426

Re: *California Independent System Operator Corporation*,
Docket No. ER01-313-_____

Pacific Gas and Electric Company,
Docket No. ER01-424-_____

San Diego Gas & Electric Company v.
California Independent System Operator Corporation,
Docket No. EL03-131-_____

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FEDERAL ENERGY
REGULATORY COMMISSION

Dear Secretary Salas:

In accordance with Opinion No. 463-B, the Commission's Order Denying Rehearing and Affirming in Part and Reversing in Part Initial Decision dated November 7, 2005, in the above-captioned docket,¹ the California Independent System Operator Corporation ("ISO") submits this compliance filing to the Commission. These consolidated dockets concern the Grid Management Charges ("GMC") collected by the ISO during the period January 1, 2001, through December 31, 2003 (the "Adjustment Period"). As discussed below, in Opinion No. 463-B, the Commission directed the ISO to submit a correct list of generators that were incorporated into the base cases used by the ISO for transmission planning and operations between 2001 and 2003. Despite its good faith efforts, the ISO has not as yet been able to confirm the accuracy of its list, and in this filing informs the Commission of the progress it has made in assembling an accurate list. The ISO is committed to concluding this process at the earliest possible

¹ *Calif. Indep. Sys. Operator Corp.*, 113 FERC ¶ 61,135 (2005) ("Second Rehearing Order").

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juncture, and will file the corrected list as soon as it can confirm the necessary information.

In Opinion No. 463, the Commission generally approved the ISO's unbundled GMC.² In doing so, however, the Commission directed that the control area service ("CAS") charge be allocated on the basis of control area gross load ("CAGL") with an exemption for load served by certain behind-the-meter generation. In its Order on Rehearing, the Commission redefined the exemption so that load served by unmodeled behind-the-meter generation would be exempt from the CAS charge.³

Exempting loads associated with unmodeled generator loads has two effects on the CAS charge during the period from 2001 through 2003.⁴ First, Scheduling Coordinators whose CAS obligation was based in part on unmodeled generator loads are due refunds for a portion of the CAS charges they paid. Second, the elimination of the unmodeled generator loads from the denominator used to calculate the CAS rate increases that rate, and thereby increases the CAS charge payable by Scheduling Coordinators with respect to all other control area gross load.

To implement the First Rehearing Order, the ISO identified all of the generators that were modeled and incorporated into the base cases that the ISO used for transmission planning and operations. Based on that and other information, the ISO calculated the amount of "behind-the-meter" standby load assessed CAS monthly for the years 2001-2003. With the IOUs' assistance, the ISO then calculated the portion of the total behind-the-meter standby generator load that was associated with generators not modeled and incorporated into the base cases that the ISO used for transmission planning and operations, and calculated the revised CAS charge for the 2001-2003 time period. The ISO then submitted the revised rates to the Commission in a November 15, 2004, compliance filing.⁵

The next day, the Commission deferred action on the requests for rehearing of the First Rehearing Order pending the compilation of a more detailed record regarding this issue and established a limited hearing to compile such a record,⁶ in response to which the ISO withdrew its compliance filing. A hearing was held, and the Initial Decision

² *Calif. Indep. Sys. Operator Corp.*, 103 FERC ¶ 61,114 (2003).

³ *Calif. Indep. Sys. Operator Corp.*, 106 FERC ¶ 61,032 (2004) ("First Rehearing Order").

⁴ The CAS is the only one of the three unbundled GMC charges in effect during this period that was paid on the basis of Scheduling Coordinators' CAGL. Accordingly, compliance with the Commission's directive affects only the CAS charges collected during the Adjustment Period.

⁵ Compliance Filing filed by California Independent System Operator Corp., Docket Nos. ER01-313, ER01-424 & EL03-131 (November 15, 2004).

⁶ *Calif. Indep. Sys. Operator Corp.*, 109 FERC ¶ 61,162 (2004).

affirmed the exemption of behind-the-meter-load from CAGL,⁷ as did the Commission's Second Rehearing Order. That order, however, concluded that the list of generators that the ISO used to calculate the exemption of behind-the-meter generation might be inaccurate, and directed "the ISO, in cooperation with the Participating Transmission Owners, to correct the deficiencies of [the list of generators] and make a compliance filing reflecting the total universe of modeled generation for the locked-in period."⁸ The Commission directed that the compliance filing be made within thirty days of the issuance of a final order in this proceeding,⁹ which occurred on September 7, 2006.¹⁰

Last month, the ISO prepared a revised list of the generators that were incorporated into the base case scenarios used for transmission planning and operations between 2001 and 2003 and submitted it to the IOUs for review to ensure its accuracy. While the ISO has received confirmation from Pacific Gas and Electric that its portion of the list is accurate, Southern California Edison and San Diego Gas & Electric have not yet confirmed the accuracy of the portions of the list submitted to them. Until the ISO receives confirmation from those utilities, it cannot file a complete and corrected list at the Commission.

The ISO will file the corrected list as soon as the IOUs either confirm that the ISO's list is correct or make corrections to the list. To permit effective Commission oversight of this process, the ISO will submit a further update to the Commission regarding this process on October 31, 2006, if the IOUs have not responded by that date.

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⁷ *Calif. Indep. Sys. Operator Corp.*, 111 FERC ¶ 63,008 (2005).

⁸ Second Rehearing Order at P 81.

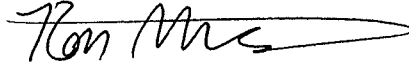
⁹ *Id.* at Ordering Paragraph (C).

¹⁰ *Calif. Indep. Sys. Operator Corp.*, 116 FERC ¶ 61, 224 (2006).

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One original and five copies of this compliance filing are enclosed for the Commission's use. Two additional copies have been included to be date/time stamped and returned to our messenger. Thank you for your assistance with this matter.

Sincerely,

A handwritten signature in black ink, appearing to read "Ron Minsk", written over a horizontal line.

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Counsel to the California Independent
System Operator Corporation

Certificate of Service

I hereby certify that I have this day served a copy of this document upon all parties listed on the official service lists compiled by the Secretary in the above-captioned proceedings, in accordance with the requirements of Rule 2010 of the Commission's Rules of Practice and Procedure (18 C.F.R. § 385.2010).

Dated this 10th day of October in the year 2006 at Folsom in the State of California.

A handwritten signature in cursive script that reads "Judith Sanders" followed by a stylized monogram "JES".

Judith Sanders
(916) 608-7143