UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

California Independent System Corporation	)	Docket No. ER01-313-003
Pacific Gas and Electric Company	)	Docket No. ER01-424-003
San Diego Gas & Electric Company v. California Independent System Operator Corporation	)	Docket No. EL03-131-000

REPLY COMMENTS OF
THE CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION

I. INTRODUCTION AND SUMMARY

On November 1, 2000, the California Independent System Operator Corporation ("ISO") filed at the Commission a revised Grid Management Charge ("GMC") for 2001 (the "2001 Rate Case"). The GMC is the rate through which the ISO recovers its administrative and operating costs, including the costs incurred in establishing the ISO prior to the commencement of operations. The 2001 Rate Case unbundled the GMC to allocate costs fairly among the ISO system users and minimize cost subsidization among market participants. The 2001 Rate Case proceeded to hearing resulting in an Initial Decision that was followed by several requests for rehearing and the issuance by the Commission of its *Order on Rehearing and Clarification and Dismissing Complaint*, 106 FERC ¶ 61,032 (2004)("Opinion No. 463-A" or "Order on Rehearing"). The ISO submitted to the Commission a refund report in compliance with Opinion No. 463-A on

November 15, 2004, but filed a notice of withdrawal of the report on November 22, 2004 after the Commission issued a rehearing order on November 16, 2004 initiating a hearing to examine the proper methodology of calculating behind-the-meter load. On December 6, 2004, Southern California Edison ("SCE") commented on the ISO's notice of withdrawal its refund report. SCE did not oppose the withdrawal of the refund report, but asked the Commission nevertheless to rule on an issue it had raised in its protest of the ISO's initial compliance filing, which was submitted on February 23, 2004. There, SCE claimed that it was entitled under Opinion Nos. 463 and 463-A to additional refunds associated with the application of one component of the GMC to Mohave Participants' exports, or that, at a minimum, Opinion 463-A was ambiguous on that issue. These reply comments respond to SCE's December 6, 2004 comments.

II. SOUTHERN CALIFORNIA EDISON'S COMMENTS IDENTIFY AMBIGUITY IN THE COMMISSION'S ORDER THAT THE COMMISSION SHOULD CLARIFY PRIOR TO THE ISO RECALCULATING GMC BILLS

SCE's December 6, 2004 comments on the ISO's refund report seek Commission clarification that SCE is due a refund of the Control Area Services ("CAS") component of the 2001 GMC charges imposed on the Mohave Participants' exports ("MPE"). SCE takes the position that the Commission's affirmance in Opinion No. 463 of all rulings contained in the Initial Decision that were not specifically ruled upon in that opinion reflected a ruling on its favor on the MPE issue. SCE also states that the Initial Decision found that MPE energy should be assessed the CAS charge component of the GMC, but only prospectively, from 2002 forward.

The ISO agrees with SCE that the issue of whether to refund charges levied on the Mohave Participants was addressed by the Presiding Administrative Law Judge ("ALJ") in her initial decision in the docket (in a portion that the Commission affirmed without discussion in Opinion No. 463), but the ISO disagrees that the ALJ's ruling clearly entitles SCE to the refunds it seeks. In the Initial Decision, the ALJ found that the ISO had given SDG&E an exemption from the CAS charge on Southwest Power Link ("SWPL") for 2001 and that "SWPL and MPE are similarly situated for purposes of allocation of the CAS charge." *California Independent System Operator Corporation: Initial Decision*, 99 FERC ¶ 63,020 at 65,135 (2002) ("Initial Decision"). The ALJ then stated, however, that "this ruling should be prospective only, *i.e.*, applied in 2002 and forward, as to MPE." *Id*. The express ruling of the Initial Decision, therefore, was that SWPL and Mohave should be treated similarly, but only from 2002 forward. Because SWPL received an exemption from the GMC in 2001, and similar treatment was not required by the Initial Decision until 2002, by which time the ISO had ceased the CAS exemption for SWPL, Mohave was not entitled to a refund for any portion of the GMC charges it paid in 2001.

SCE interprets the Initial Decision's ruling to provide that SWPL and Mohave both should be charged the GMC, but that the application of that charge to both parties is what should be delayed until 2002. If this interpretation were accepted, it would therefore require that the ISO refund to SCE GMC charges associated with Mohave exports. The ISO does not believe that SCE's interpretation is correct, but it acknowledges that language of the Initial Decision is somewhat ambiguous. Accordingly, the ISO agrees with SCE to the extent that the Commission should indicate

to the parties which interpretation is correct so that the ISO will know whether to include a refund to SCE for the CAS associated with Mohave exports in its refund calculation.

Respectfully submitted,

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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 list 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 20th day of December in the year 2004 at Folsom in the State of California.

/s/ *Stephen A.S. Morrison*
Stephen A.S. Morrison