



October 20, 2004

## BY ELECTRONIC TRANSMISSION

The Honorable Magalie Roman 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. EL00-95-000, et al. and EL00-98, 000, et al.**

Dear Secretary Salas:

Enclosed for electronic filing please find the Reply Comments of the California Independent System Operator Corporation Following the October 7, 2004 Technical Conference in the above-referenced docket.

Thank you for your assistance in this matter.

Very truly yours,

**/s/ Gene L. Waas**

---

Gene L. Waas

Counsel for the California Independent  
System Operator Corporation

Enclosures

cc: All parties of record

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

<b>San Diego Gas &amp; Electric Company,</b>	)	
<b>Complainant,</b>	)	
	)	
<b>v.</b>	)	<b>Docket Nos. EL00-95-000, et al.</b>
	)	
<b>Sellers of Energy and Ancillary Services</b>	)	
<b>Into Markets Operated by the California</b>	)	
<b>Independent System Operator and the</b>	)	
<b>California Power Exchange,</b>	)	
<b>Respondents.</b>	)	
	)	
<b>Investigation of Practices of the California</b>	)	<b>Docket Nos. EL00-98-000 et al.</b>
<b>California Power Exchange</b>	)	
	)	
	)	
<b>California Independent System</b>	)	<b>Docket No. ER03-746-000, et al.</b>
<b>Operator Corporation</b>	)	

(not consolidated)

**REPLY COMMENTS OF THE CALIFORNIA INDEPENDENT  
SYSTEM OPERATOR CORPORATION FOLLOWING THE OCTOBER 7, 2004  
TECHNICAL CONFERENCE**

**I. INTRODUCTION**

Pursuant to the Commission's Order of October 13, 2004 and the previous request of Commission Staff, the California Independent System Operator ("ISO") provides the following reply comments<sup>1</sup> addressing issues raised at the Technical Conference held in the above captioned dockets on October 7, 2004 ("Conference") and the comments of the various parties filed with the Commission on Friday, October 15, 2004.

---

<sup>1</sup> Capitalized terms not otherwise defined herein shall have the meanings set forth in the Mater Definitions Supplement, Appendix A to the ISO Tariff.

## II. COMMENTS IN REPLY

### A. The Net vs. Gross Issue

1. **Statistics provided by Mr. Wang are irrelevant in terms of demonstrating the frequency of the hypothetical scenario described in the comments of Reliant and Mirant.**

In their comments, Reliant and Mirant reiterate the example provided by Mr. John Stout, a Vice President of Reliant Energy, at the October 7 conference, purporting to show a potential inequity that may result under some market conditions if an entity's spot market purchases are netted from its sales prior to calculating sales eligible for fuel cost allowances ("FCA").<sup>2</sup> As noted in the ISO's initial comments,<sup>3</sup> the example provided by Mr. Stout is flawed in that it fails to include the decreased gas generation costs and/or the additional revenues from unmitigated bilateral market sales derived from the purchase of decremental energy from the ISO. In addition, the ISO's initial comments included results of analyses showing that the market conditions that could give rise to the alleged inequity in Mr. Stout's example rarely occurred.

In their initial comments, however, Reliant and Mirant suggest that the market conditions that could give rise to the alleged inequity in Reliant's example would frequently occur, and cite statistics showing that "different prices across CAISO and PX markets in a given hour occur virtually every hour of the refund period and are not a rare exception." Wang Affidavit at ¶13. The statistics cited by Mr. Wang, however, are entirely irrelevant to the issue of how frequently the

---

<sup>2</sup> Comments of Reliant Energy Power Generation, Inc., Reliant Energy Services, Inc., Mirant Americas Energy Marketing, LP and Mirant California, LLC on Technical Conference Regarding Fuel Cost Allowance Claims, p.5.

<sup>3</sup> See ISO Comments pages 3-4.

situation in Mr. Stout's example could actually occur. Mr. Stout's example is based on a situation in which a generator makes a sale of energy in the PX or ISO spot markets that is mitigated, while, during the same hour, this same generator makes a purchase of energy in the ISO spot market that is unmitigated. Thus, differences in the initial transaction prices examined by Mr. Wang provide no indication whatsoever of the potential frequency of the hypothetical example provided by Mr. Stout. In addition, in order for any such analysis to have meaning in this context, it must be done based on sales and purchases of each individual Market Participant for each hour (rather than for the market as a whole, as in Mr. Wang's analysis), since netting would be performed for each Market Participant separately.

Analysis described in the ISO's initial comments indicates that the quantity of mitigated sales in the ISO Market that would be netted against a mitigated purchase in the PX or ISO markets for the purpose of calculating the fuel cost allowance represents about 2.16% of all mitigated sales in the PX or ISO markets. This indicates that the situation in Mr. Stout's example would likely apply only to an extremely small portion of overall mitigated sales.

**2. The actual sales and purchases data for Reliant provided by Mr. Wang illustrate the equity of netting purchases of real time energy from sales in calculating fuel cost allowances.**

The comments of Reliant and Mirant also contend that "the CAISO argued during the technical conference that netting of electricity sales and purchases reflects the CAISO's actual imbalance energy market, which the CAISO claims is settled on a net basis," and then alleges that "this is not true. The CAISO

imbalance energy market is settled on a net dollar basis but not on a net MWh basis.” Reliant and Mirant at 9 and 10.

In light of the confusion created by generators concerning this issue, the ISO clarified -- at the conference, in direct discussions with Mr. Stout, and again in its initial comments -- that uninstructed energy is settled on a net basis for each Market Participant, while instructed energy is settled on a unit-by-unit basis. ISO Comments at 10– 11. In fact, the sample settlement data from Reliant included in Mr. Wang’s affidavit clearly demonstrate this fact. As shown in the settlement data provided in Attachment A to Mr. Wang’s affidavit (and reproduced in Table 1 below), five units in Reliant’s portfolio provided a total of 32.30 MWh of instructed energy during the example interval. However, during this same interval, the net sum of all uninstructed deviations for Reliant’s resource portfolio was a negative 18.80 MWh, see Quantity for Charge Code 407 in Attachment A to Mr. Wang’s Affidavit.

As shown in Table 2, which provides a detailed unit-by-unit summary of other settlement data showing uninstructed deviations for all of Reliant’s thermal units, virtually all of this negative 18.8 MWh deviation was due to a net negative deviation of 18.6 MWh for all of Reliant’s thermal generating units. Thus, while the five units listed in Table 1 provided 32.20 MWh of instructed energy, three of Reliant’s other thermal generating unit’s generated 18.9 MWh less than their scheduled levels. This clearly demonstrates the fundamental logic of netting: while five of Reliant’s units provided 32.2 MWh of instructed energy, three of

Reliant’s other thermal units ran below their scheduled levels, so that Reliant provided only 18.5 MWh of net energy to the ISO’s imbalance energy market.

Furthermore, the example provided in Mr. Wang’s affidavit also illustrates why simply examining differences in the initial transaction prices (prior to price mitigation) does not provide any indication that the alleged inequity in Mr. Stout’s example will actually occur. As shown in Attachment A of Mr. Wang’s example, the five unit-level instructed energy sales and one portfolio-level uninstructed energy purchase during this interval are all listed as having different initial transaction prices in the “original” ISO settlement records. However, after price mitigation that is performed as part of the refund rerun, each of these transactions is listed as having the same transaction price (\$127.36). Thus, as this example illustrates, the initial unmitigated transaction prices of sales and purchases being netted are not relevant, since mitigation will typically equalize prices of sales and purchases being netted.

**Table 1. Instructed and Uninstructed Settlement Data  
For Reliant’s Thermal Generating Units  
12/31/2000, Hour 21, Interval 1**

Unit	Quantity
Ormond 2	21.85
Coolwater 3	5.95
Mandalay 1	2.98
Mandalay 1	.80
Coolwater 1	.72
Total Instructed Energy	+32.30
Net Uninstructed (UE)	-18.80
Net Imbalance Energy	+13.50

**Table 2. Uninstructed Energy Settlement Data  
For Reliant’s Thermal Generating Units  
12/31/2000, Hour 21, Interval 1**

Unit *	UE	Positive	Negative
Unit 1	0		
Unit 2	.1352	.1352	
Unit 3	0		
Unit 4	0		
Unit 5	-4.4237		-4.4237
Unit 6	-11.7846		-11.7846
Unit 7	.1545	.1545	
Unit 8	-2.696		-2.696
Unit 9	0		
	-18.6146	.2897	-18.9043

\* Actual unit names not provided to maintain confidentiality of data.

**3. Netting of sales and purchases across different markets does not introduce significant complexity to the FCA process.**

The comments of Reliant and Mirant also contend that the “only real consensus at the technical conference was that MWh netting of electricity purchases from electricity sales raises many complex issues and problems for both the FCA calculations and the rest of the refund calculations,” and that “for that reason alone, the Commission should reject MWh netting...”<sup>4</sup> The ISO disagrees.

First, it should be noted that the filing of Reliant and Mirant does not oppose netting of purchases from sales within markets (i.e. PX Day Ahead, ISO Instructed Energy and ISO Uninstructed Energy), but only asks that “The

<sup>4</sup> Comments of Reliant Energy Power Generation, Inc., Reliant Energy Services, Inc., Mirant Americas Energy Marketing, LP and Mirant California, LLC on Technical Conference Regarding Fuel Cost Allowance Claims, p.4.

Commission Should Not Require FCA Claimants to Net MWhs of Purchases and Sales across Different Markets.” (emphasis added)<sup>5</sup> Thus, there is apparent agreement between the ISO and these two generators that netting of purchases from sales within markets is required. The ISO further notes that netting within markets is easily incorporated directly within the formats established by the ISO by making the following clarifications:

(1) The sum of PX sales attributed to individual generating units scheduled in the Day Ahead market in Table 1 of the ISO’s proposed format eligible for FCA should not exceed the Market Participant’s total net sales in the PX Day Ahead market (taking into account any purchases and any sales made to cover non-spot Block Forward Market obligations).

(2) The sum of ISO Instructed Energy sales from individual generating units reported as eligible for FCA in Table 2 of the ISO’s proposed format should not exceed the Market Participant’s total net sales of Instructed Energy (taking into account any decremental energy purchases).

(3) The sum of ISO Uninstructed Energy sales from individual generating units reported as eligible for FCA in Table 4 of the ISO’s proposed format should not exceed the Market Participant’s total net sales of Uninstructed Energy as shown in ISO settlement records (and Table 3 of the ISO’s proposed format).

Netting of MWhs across markets can easily be performed based on the transaction level data provided in Table 1–4 of the ISO’s proposed format, as illustrated in the example scenarios shown in Table 3. As shown in Table 3, the

---

<sup>5</sup> Comments of Reliant Energy Power Generation, Inc., Reliant Energy Services, Inc., Mirant Americas Energy Marketing, LP and Mirant California, LLC on Technical Conference Regarding Fuel Cost Allowance Claims, p.3.



total net sales (or purchases) from each market are simply summed to calculate total net spot market energy sales (or purchases) each hour. Finally, the incremental fuel costs associated with the Market Participant’s total net sales can then be calculated based directly on individual transaction and unit-level data reported in the templates provided by the ISO. In this final step, the total gas allowance associated with the supplier’s net spot market sales could be based on the specific mitigated sales transactions reported in these templates with the highest incremental costs (or highest FCA).

**Table 3. Netting of Energy Sales and Purchases Across Markets**  
**Example Scenarios**

	Hour 1	Hour 2	Hour 3	Hour 4	Hour 5
Net PX Sales (Purchases)	100	100	100	(100)	(100)
Net Instructed Energy Sales (Purchases)	50	50	0	75	25
Net Uninstructed Energy Sales (Purchases)	25	(25)	(25)	50	25
<b>Total Net Spot Energy Sales (Purchases)</b>	<b>175</b>	<b>125</b>	<b>75</b>	<b>25</b>	<b>(50)</b>

With this approach, it should be noted that sellers could, in effect, net any purchases from any unmitigated (or lower priced) sales first, so that the FCA allowance is based on the higher gas costs associated with mitigated (or higher priced) sales. For example, under the scenario shown for Hour 2 in Table 3, the generator would calculate its FCA claim for net sales of 125 MWh based on the highest cost 125 MWh out of the generator’s 150 MWh of sales in the PX Day Ahead market and ISO Instructed Energy markets. Similarly, during Hour 4, the

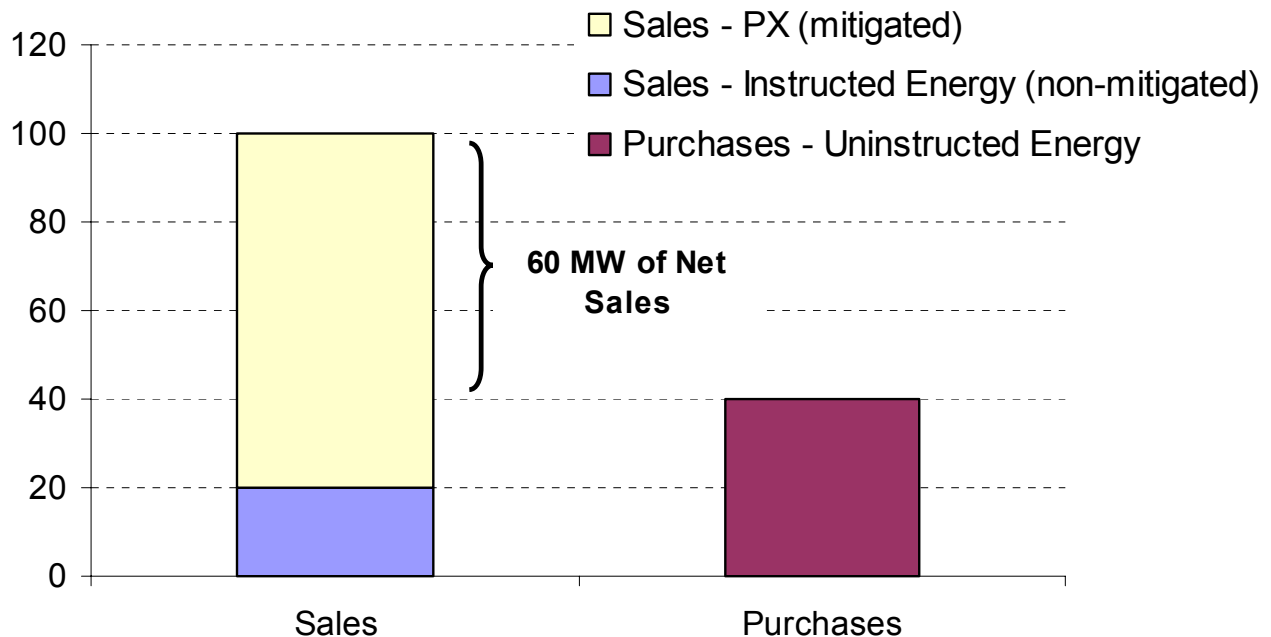
generator's FCA for 25 MWh of net sales would be calculated based on the highest cost 25 MWh out of the generator's 125 MWh of sales in the ISO's Instructed and Uninstructed Energy markets.

The simplicity of netting across markets is further illustrated in Figure 1. In this example, it is assumed that the generator's net sales/purchases in each market are as follows:

- 80 MWh of net mitigated sales in the PX,
- 20 MWh of net unmitigated sales of ISO Instructed Energy, and
- 40 MWh of purchases of ISO Uninstructed energy

As shown in Figure 1, the generator would have 60 MWh of total net sales. The FCA associated with this 60 MWh could be calculated by taking the highest cost thermal units scheduled to meet the generators 80 MWh of net sales in the PX market.

**Figure 1. Netting of Sales and Purchases**



## B. Format for Fuel Cost Allowance Submissions

SMUD requests clarification that “while the information listed for each of the Tables 1 through 4 of the CAISO template must be submitted to the CAISO, parties are not obligated to submit data in the precise columns listed in each table.” SMUD at 2. However, SMUD’s own filing then goes on to explain that “[w]hile the difference in submitting the data to the CAISO as a row versus a column might appear on its face as a minor formatting difference, that is not the case, “ and indicates that the data SMUD intends to file is the same data submitted on May 12, 2003. SMUD at 3.

In response, the ISO first notes that, as a general matter, the Commission has established “specific sets of data that each seller must identify in their claims” in order to “lend consistency to the data the auditor will review,” and otherwise promote “administrative efficiency and economy”.<sup>6</sup> Second, the burden of making these claims has been expressly placed on Market Participants.<sup>7</sup> Finally, the Commission has expressly recognized that since claims were first filed in May 2003, “the requirements for calculating the claims have been modified and the format standardized as a result of our intervening orders,” so that “review of earlier claims now would be wasteful.”<sup>8</sup>

If, as SMUD contends, reformatting of SMUD’s previous filing would require the expenditure of significant resources even for SMUD staff familiar with

---

<sup>6</sup> See Order on Auditor Selection and Request for Waiver and Clarifying Audit Issues, 108 FERC ¶ 61,219 P.27 Issued September 2, 2004.

<sup>7</sup> See Order on Auditor Selection and Request for Waiver and Clarifying Audit Issues, 108 FERC ¶ 61,219 P.26 Issued September 2, 2004.

<sup>8</sup> See Order on Auditor Selection and Request for Waiver and Clarifying Audit Issues, 108 FERC ¶ 61,219 P.28 Issued September 2, 2004.

the data and format, the ISO respectfully suggests that the burden of reformatting the data should be placed on SMUD, rather than the ISO or any other entity. In addition, however, the ISO notes that SMUD's response suggests that they intend to re-submit calculations completed for its May 12, 2003 submission, rather than re-calculate the fuel cost allowance using the final Mitigated Market Clearing Prices (MMCPs) that were completed in summer of 2004. The ISO believes that these final MMCPs must be used to determine whether SMUD's sales were mitigated and are therefore eligible for a fuel cost allowance. Thus, the ISO suggests that the actual burden to SMUD of conforming with the ISO's general format may in fact be minimal, given the need to for SMUD to update its May 12, 2003 submission to reflect the specific modifications and data requirements that have been established by the Commission since SMUD completed its earlier filing.

### III. CONCLUSION

Wherefore, for the reasons stated above the ISO respectfully asks the Commission to accept this reply to certain of the comments filed on October 15<sup>th</sup> related to the Technical Conference on Fuel Cost Allocation and Submission of Templates to be used in Refund Calculations held on October 7, 2004.

Respectfully Submitted,

**/s/ Gene L. Waas**

J. Philip Jordan  
Michael Kunselman

Swidler, Berlin, Shereff and Friedman, LLP  
3000 K Street, Ste. 300  
Washington, D.C. 20007  
Telephone: (202) 424-7500

Counsel for the California Independent  
System Operator Corporation

Charles F. Robinson  
General Counsel  
Gene L. Waas  
Regulatory Counsel

The California Independent System  
Operator Corporation  
151 Blue Ravine Road  
Folsom, CA 95630  
Telephone: (916) 608-7049

Date: October 20, 2004

**CERTIFICATE OF SERVICE**

I hereby certify that I have on this 20th day of October 2004, served copies of the foregoing document upon each person designated on the official service list compiled by the Secretary in this proceeding.

**/s/ Gene L. Waas**  
Gene L. Waas