

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

San Diego Gas & Electric Company)	Docket No. EL00-95-000
v.)	
Sellers of Energy and Ancillary)	
Services Into Markets Operated)	
by the California Independent)	
System Operator and the)	
California Power Exchange)	
)	
Investigation of Practices of the)	Docket No. EL00-98-000
California Independent)	
System Operator and the)	
California Power Exchange)	
)	
California Independent System Operator)	Docket No. RT01-85-000
Corporation)	
)	
Investigation of Wholesale Rates of Public)	Docket No. EL01-68-000
Utility Sellers of Energy and)	
Ancillary Services in the Western)	
Systems Coordinating Council)	

**SECOND STATUS REPORT OF THE CALIFORNIA INDEPENDENT SYSTEM
OPERATOR CORPORATION ON IMPLEMENTATION OF THE MITIGATION
PROPOSAL CONTAINED IN THE COMMISSION'S APRIL 26 ORDER**

I. INTRODUCTION

Pursuant to Rules 207 and 215 of the Rules of Practice and Procedure of the Federal Energy Regulatory Commission ("Commission"), 18 C.F.R. §§ 385.207 and 385.215, the California Independent System Operator Corporation ("ISO") hereby files a second status report on its progress to implement the mitigation plan contained in the Commission's April 26, 2001, *Order Establishing Prospective Mitigation and Monitoring Plan for the California Wholesale Electric Markets and Establishing an Investigation of Public Utility Rates in Wholesale*

Western Energy Markets, 95 FERC ¶ 61,115 (“April 26 Order”) in this proceeding.

II. COMMUNICATIONS

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III. BACKGROUND

On May 18, 2001 the ISO filed a status report in this proceeding explaining its efforts to implement the mitigation plan contained in the Commission's April 26, 2001 order. As noted in its request for rehearing of the April 26 Order filed today, the ISO believes the mitigation plan contained in April 26 Order has serious flaws and fails to protect consumers from having to pay unjust and unreasonable rates. However, notwithstanding the concerns in its request for rehearing, the ISO continues to make every effort to implement the Commission's mitigation plan by May 29, 2001.¹

¹ The mitigation plan contained in the April 26 Order does not fulfill the Commission's statutory duty to mitigate the exercise of market power in all relevant markets and in all relevant time periods. Whatever reservations one might have about the existing "soft cap" regime, it applies to all ISO markets and in all time periods. The Commission's retreat from a comprehensive approach to mitigating only real time transactions is indefensible.

In its first status report, the ISO outlined the process and timeline required to make changes to its markets when the changes depend upon revising market application software and the ISO's computer systems. The process contains at least seven steps (*i.e.*, scope & definition, design, coding, unit testing, integration testing, market simulation, and release & notice to Market Participants) and requires 11 or 12 weeks before a change can be released or put to use by Market Participants.² Given the extraordinary circumstances, the ISO estimated that it could have a manual mitigation process in place on May 29, 2001 and an automated mitigation process in place by July 1, 2001.³ The ISO continues to make every conceivable effort to implement the Commission's mitigation plan and, barring any major problems, continues to believe that it can have a manual mitigation process in place by May 29, 2001. The following update provides the Commission with the latest information on the ISO's efforts.

IV. DISCUSSION

Software Testing & Implementation

The ISO received the software that will allow for implementation of a manual mitigation process on Thursday, May 24, 2001, and will test this software over the upcoming three-day weekend. As noted in the ISO's previous report, unit testing, integration testing and market simulation, under the best of circumstances, normally takes three weeks. Given that the ISO is compressing a three week process into three days, problems could arise that would prevent the

² See May 18, 2001 Status Report at 9-10.

³ *Id.* at 9.

ISO from implementing the Commission's mitigation plan. If the ISO encounters any major problem this weekend that prevents implementation of the new mitigation procedures, the ISO will: (1) immediately inform the Commission and (2) continue to impose the existing "soft cap" regime.

Inclusion of Emissions Costs in the Proxy Price

Due to the reply of the South Coast Air Quality Management District ("SCAQMD") to the Commission's May 9, 2001 request for additional information on nitrogen oxide (NOx) emission costs, the ISO intends to use a \$0.00 emissions rate for calculating the proxy price. The SCAQMD notes that the emissions costs in the SCAQMD are unique to that district and that power plant operators are no longer participating in the Regional Clean Air Incentives Market (RECLAIM) program. Instead, power plant operators in the SCAQMD may exceed their RECLAIM NOx allocations and pay a mitigation fee of \$7.50 per pound of NOx instead of purchasing RECLAIM Trading Credits (RTCs). In these circumstances, emissions costs should not be included in the calculation of the proxy price; rather, any emissions costs or mitigation fees are appropriate components of an individual supplier's attempt to justify an "as bid" price above the proxy market clearing price ("MCP").

Publication of Average Daily Gas Prices for California Delivery Points

As described in the April 26 Order, the ISO is to use "an average of the daily prices published in Gas Daily for all California delivery points." April 26 Order, 95 FERC at 61,359. For purposes of implementation, the ISO intends to use a simple average of the Gas Daily midpoint index prices for Malin, PG&E

Citygate, and SoCalGas large packages.⁴ Gas Daily also cites daily prices for Kern River Station and PG&E large packages, both which reflect gas deliveries into Southern California. While the ISO believes it is appropriate to include a Southern California index point, including all three into the state average would inappropriately weigh the index towards a Southern California border price. The ISO chose to use the SoCalGas large packages as the index price for Southern California as it reflects gas transactions for virtually all Southern California pipelines and represents the greatest proportion of gas traded in Southern California. In addition, while Malin is not in California it does represent a pricing point for delivery to California. Therefore, for purposes of implementation, the ISO intends to use a simple average of Gas Daily index prices for Malin, PG&E Citygate, and SoCalGas large packages.

Information Requirements

Finally, the ISO reiterates that has not received all of the information required to implement the Commission's mitigation plan from all suppliers that are subject to that plan.⁵ Without this information, the ISO will not be able to monitor compliance for all of the suppliers subject to the Commission's must-offer requirement.

⁴ In the May 18, 2001 Status Report, Footnote 17 on p. 18, the ISO indicated it would use the Malin, PG&E Citygate and Kern River Station index prices for implementation. Based on a subsequent review of the Southern California indices published by Gas Daily, we believe the "SoCalGas large pkgs." is a better representation of Southern California border prices than the Kern River Station index.

⁵ See May 18, 2001 Status Report at 5-8.

V. CONCLUSION

If the ISO encounters any problem in software testing that indicates the ISO cannot implement the Commission's mitigation plan on May 29, 2001, the ISO immediately will inform the Commission, provide the Commission with an estimate of the delay, and will continue to impose the existing "soft cap" regime. The ISO also requests that the Commission consider the ISO's comments contained herein and immediately advise the ISO of any necessary modifications to the ISO's plan to implement the Commission's mitigation proposal.

Respectfully submitted,

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Dated: May 25, 2001

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon each person designated on the official service list compiled by the Secretary in the above-captioned dockets.

Dated at Washington, DC, on this 25th day of May, 2001.

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