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February 9, 2004

The Honorable Magalie R. Salas
Secretary
Federal Energy Regulatory Commission
888 First Street, N.E.
Washington, D.C. 20426

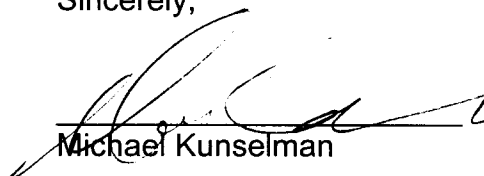
**Re: California Independent System Operator Corporation
Docket No. ER03-746-000, et al.**

Dear Secretary Salas:

Enclosed please find one original and fourteen copies of the Status Report of the California Independent System Operator Corporation on the Preparatory Re-Run and Other Re-Run Activity filed in the above-captioned docket.

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

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 Nos. ER03-746-001 ER03-746-002
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**STATUS REPORT OF THE CALIFORNIA INDEPENDENT
SYSTEM OPERATOR CORPORATION ON THE
PREPARATORY RE-RUN AND OTHER RE-RUN ACTIVITY**

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 first monthly status report.¹

I. BACKGROUND

On April 15, 2003, the ISO filed² Amendment No. 51 to its Tariff, to which the Commission assigned Docket No. ER03-746 (“Amendment No. 51 filing”). In the Amendment No. 51 filing, the ISO proposed to conduct a preparatory re-run in preparation for the Commission-mandated re-run in the California refund proceeding (Docket Nos. EL00-95-045, *et al.*) and requested approval of Tariff

¹ The Commission’s order at paragraph 21 states, “The CAISO is hereby directed 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 settlement and billing process for calculating refunds, as discussed in the body of this order” 106 FERC ¶ 61,099 (2004).

² Capitalized terms not otherwise defined herein shall have the meanings set forth in the Master Definitions Supplement, Appendix A to the ISO Tariff.

amendments to “wall off” that re-run from the settlement processes currently in use to clear the ISO Market.

The Commission, on June 13, 2003, issued its “Order Conditionally Accepting and Suspending Tariff Amendments Pending Further Commission Action,” 103 FERC ¶ 61,331 (2003) (“June 13 Order”). In the June 13 Order the Commission conditionally accepted and suspended Tariff Amendment No. 51, to become effective the earlier of November 14, 2003 or a date specified in a further Commission order in this proceeding. The Commission also directed the ISO to provide additional information on the impact of the various components of the preparatory re-run.

The ISO submitted the additional information requested by the Commission in a filing dated July 3, 2003, along with an addendum to the filing dated July 9th. In this filing the ISO supplied details of the impact of each of the proposed re-run adjustments on the Market Participants involved and the impact on the remainder of the ISO Market.

On November 14, 2003, the Commission issued its Order on Rehearing and Compliance (“November 14 Order”), in which it denied the ISO request to make certain of its proposed adjustments (including, *inter alia*, those to reflect the results of the Williams Good Faith Negotiation (“Williams GFN”)) while approving others. The Commission also directed the ISO to complete the preparatory re-run and make a compliance filing with the results thereof by January 30, 2004.

On November 25, 2003, Williams Energy Marketing and Trading Company (“Williams”) filed a motion for clarification, or in the alternative rehearing, stating

that the November 14 Order mistakenly denied the ISO's proposal to include adjustments relating to the Williams GFN, and requesting that the Commission clarify that the ISO should make these adjustments in the preparatory re-run. The ISO filed an answer in support of Williams' motion on November 26, 2003.

On December 15, 2003, the ISO filed its request for rehearing of the November 14 Order. Therein, the ISO informed the Commission that it could not provide the ordered compliance filing by January 30th, but instead would make the filing as soon as practicable. In the February 3 Order, the Commission granted the ISO the additional time needed to make the compliance filing relative to the preparatory re-run, but also required the ISO "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. This filing constitutes the first such report required by the Commission.

II. CURRENT STATUS OF RE-RUN ACTIVITY

As of the date of this filing, the ISO has completed preparatory re-run production activity for the months of October and November 2000, and distributed the revised Settlement Statements for these months, along with associated settlement detail files, to Market Participants. The ISO has also been informing Market Participants of new developments throughout the preparatory re-run process and has been discussing with Market Participants the

methodological issues involved in the preparatory re-run, with a view to obtaining their understanding and “sign off” on those issues early on in the re-run process. The ISO has interfaced with Market Participants via market notices, telephonic conferences, and direct consultation. The ISO has posted a calendar containing the schedule for the preparatory re-run on its website, and provided the link to that calendar to Market Participants in a market notice.³

On January 13, 2004, the ISO issued a market notice informing Market Participants that preparatory re-run activity was on hold pending a Commission decision on the issue of whether the ISO should include the results of the Williams GFN in the preparatory re-run.⁴ Based on the Commission’s February 3 Order, the ISO plans to resume publishing preparatory re-run statements on February 9, 2004.

III. ESTIMATED SCHEDULE FOR COMPLETION OF RE-RUN ACTIVITY

The ISO initially announced its schedule for the completion of the preparatory re-run and all the phases of the refund re-run and financial clearing in its April 25, 2003, filing in Docket No. EL00-95-045. The time durations included in that filing have subsequently been updated based on recent events, including the ISO’s recent initiatives to accelerate the schedule. The ISO currently believes that an August 2004 completion date for all of the re-run activity and the financial clearing based on the re-run activity, is possible, with the

³ The ISO’s preparatory re-run calendar, market notices, and re-run procedural manual are located on the ISO’s website at www.caiso.com/docs/2004/01/16/200401161414093653.html

⁴ This issue has been referred to as “Issue No. 9” by the ISO in its various pleadings filed in this docket.

ISO acceleration initiatives and with timely Commission action on the CERS transaction issues, and final determination on the gas price adjustments and emissions offsets. A detailed schedule is included in this filing as Attachment A.

Key aspects of this schedule:

Preparatory Re-run Phase

- The ISO will resume publishing the preparatory re-run statements on February 9, 2004.
- Following that restart, production can proceed for approximately two weeks pending a Commission statement on the CERS accounting issue discussed by the ISO in its November 17, 2003 Request for Clarification and/or Rehearing submitted in Docket Nos. EL00-95-081, *et al.* (“November 17, 2003 Filing”). As noted in the November 17, 2003 Filing, there is a concern that resolution of this issue could extend the schedule due to implementation issues.
- The preparatory re-run schedule requires, in total, approximately twelve weeks of production activity, during which the ISO publishes four to five days of the re-run period on Scheduling Coordinator bills each day. Currently, nine to nine and a half weeks of production activity remains.
- In the November 14 Order, the Commission extended the period for resolution of any disputes concerning the preparatory re-run data to 30 business days. This, together with an allowance of two weeks for the ISO to research disputes and perform any necessary adjustments, results in

an eight-week dispute window following completion of production activity in the preparatory re-run. The two week allowance for ISO research and adjustments is aggressive. Also it is possible that disputes on adjustments made on the latter months of the refund period would not be made prior to the initial financial clearing. The validation of statements by Scheduling Coordinators and dispute research is very labor intensive and in some cases time intensive. The ISO has initiated several conference calls as well as an online settlements training session for Schedule Coordinators on Thursday, February 5th, to assist in the understanding of the re-run statements.

Refund Re-run Phase

- The ISO originally estimated that the production portion of the refund re-run would take twelve weeks to complete. However, ISO management has recently approved the hiring of additional contractor support that will be trained during the preparatory re-run and will help accelerate the refund re-run production phase, reducing the estimated schedule from twelve weeks to six weeks. This means that approximately ten days of refund period⁵ activity will be produced each day during the refund re-run phase.
- For the refund re-run production work, the ISO will apply the new MMCP based on calculations ordered by the Commission. The ISO will release the revised MMCP calculations to Market Participants for review and

⁵ The refund period is October 2, 2000 through June 20, 2001.

comment during the month of February 2004, weeks in advance of beginning of the refund re-run production.

- In its original April 25, 2003 schedule, the ISO indicated that it would allocate two and a half to three weeks for disputes relating to the refund re-run production. However, because parties will have the opportunity to comment on the compliance filing ordered by the Commission, discussed below, the ISO no longer believes that a discrete dispute period for the refund re-run is necessary.
- Two weeks after the completion of the refund re-run production phase, the ISO will file the compliance filing required by the Commission in its October 16, 2003 Order on Rehearing issued in the EL00-95, *et al.* Docket. As noted in its November 17, 2003 Request for Clarification and/or Rehearing filed in Docket Nos. EL00-95, *et al.* The ISO interprets the October 16 Order to mean that the ISO is required to submit, for this compliance filing, only the results of the ISO's re-run of its settlements system. As noted below, the ISO will submit the results of the financial phase in a separate compliance filing at the conclusion of that phase.

Financial Phase

- This phase involves the calculations that must be performed and applied to the output of the refund re-run production, in order to reach an accounting of "who owes what to whom" in the refund proceeding, and includes offsets relating to emissions, gas cost adjustments, adjustments

for global settlements, and accounting for interest on refunds and amounts unpaid. This phase also includes the clearing and invoicing of these amounts to Market Participants.

- The financial phase of the re-run process will be critical and could take several months to complete, depending on when and how the Commission directs the application of gas price adjustments and the final financial clearing. The ISO's "best case" estimate of this final financial activity is approximately six weeks if several matters can be settled simultaneously, as noted below.
- Several things must occur before the accounting of "who owes what to whom" can be completed, and the financial clearing process implemented.

They are:

- Gas Price adjustment determination by the Commission
- Final emissions offsets determined by the Commission.⁶
- Direction from the Commission regarding the final date on which payments will be due from Market Participants with respect to all amounts invoiced as a result of this process. This date is necessary in order to accurately calculate interest on refunds and amounts unpaid.
- Adjustments for global settlements reached between certain generators and the state of California, and approved by the Commission.

⁶ In the March 26 Order, the Commission required several parties to recalculate their emissions offsets. To date, no party has filed these recalculated offsets with the Commission.

- Final billing and interest calculations completed based on the results of the preparatory re-run and refund re-run, as well as the above steps, and publishing of these calculations to Market Participants.
- Because of the intricacy of the calculations and the dollar magnitudes involved, the ISO intends to have an independent auditor review certain portions of the financial clearing.
- If the Commission completes determination on the gas price adjustments and emissions offsets prior to the completion of the refund re-run, the final financial phase, including clearing, could be completed in six weeks. There would likely be a need to adjust the amounts owed and owing based on protests and issues subsequently identified, but this initial financial clearing would permit transfer of most of the money due under the refund action in an expeditious manner. Of course, the ISO recognizes that the Commission has reserved for itself the question of when and how refunds actually will flow, and that the Commission could decide to defer financial clearing until resolution of protests and other issues.
- After the ISO completes all of the calculations relating to this financial phase, the ISO will file with the Commission a compliance filing that contains the results of the financial phase, *i.e.* an accounting of “who owes what to whom.” Under the current schedule, the ISO proposes to provide

this compliance filing seven days prior to the date in the schedule for the initial financial clearing.

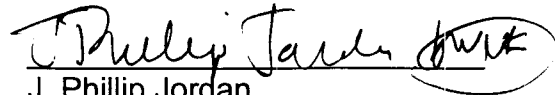
The above outline and attached schedule are consistent with an initial financial clearing of the refund period by the end of August 2004. It assumes Commission action on the CERS transaction issues by the indicated dates, and final determination on the gas price adjustments and emissions offsets in time for those amounts to be taken into account in a timely fashion in the financial phase. It would require a subsequent clearing later if changes are required as a result of protests on the ISO's compliance filing.

The ISO is committed to making this schedule work, but notes there are potential issues that could affect the schedule, including unforeseen issues involving manual adjustments requiring correction or an unusually high level of disputes. In an effort to reduce errors, the ISO is conducting an internal quality assurance review of the preparatory re-run in addition to an independent auditor review of portions of the financial clearing process. Further transparency initiatives are intended to communicate as much as possible to participants to facilitate their review work. The ISO is conducting weekly internal reviews of the schedule and status to identify issues and plans to mitigate the impact of any issues on quality or schedule. In summary, the ISO is committed to work with the Commission and Market Participants to make every effort to complete the refund proceeding by the end of this summer.

IV. CONCLUSION

The ISO respectfully requests that the Commission accept the ISO's initial status report in compliance with the Commission's February 3 Order in the above captioned dockets.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "J. Phillip Jordan", with a circled initial or mark at the end.

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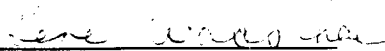
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Dated: February 9, 2004

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 9th day of February, 2004.



Gene L. Waas

ATTACHMENT A – RE-RUN SCHEDULE

Item	Durations Shown in April 25, 2003 Filing	Changes to Schedule Through January 30, 2004	Target Completion Date	Comments
Prep Re-run Production	12 weeks	No change - 9 to 9 ½ weeks remaining	April 14, 2004	Preparatory Re-run began on Dec. 18, 2003. 2 ½ weeks have already been completed. Approximately 9 ½ weeks remain. The Target Date assumes that the CERS issue is resolved by Feb. 11 with minimal implementation issues.
Prep Re-run Dispute Period	2.5-3 weeks	8 weeks	June 9, 2004	FERC order provides for a 30 business day dispute period. The ISO has allowed for 10 additional business days to research and adjust disputes.
Refund Re-run Production	12 weeks	6 weeks	July 21, 2004	ISO Management has approved the hiring of additional contractors who will be trained during the remainder of the preparatory re-run and can accelerate the manual work required during the refund re-run.
Refund Re-run Dispute Period	2.5-3 weeks	Unknown	} Aug 31, 2004	The ISO now anticipates that the refund re-run compliance filing will be submitted before any further dispute or protest period.
Refund Re-run Compliance Filing	Not Shown	2 weeks following the completion of the refund re-run production.		
FERC Approval Process and Ruling on Gas Price Adjustments and Emissions Offsets	Unknown	Unknown		The Aug. 31 date assumes FERC finalizes adjustments and offsets by July 21, 2004.
Final Financial Phase Including Interest Calculations, Global Settlement Adjustments, Gas Price Adjustment Calculations, and Emissions Offsets	6 to 7 weeks (shown as 2 weeks plus 4-5 weeks)	Can be performed in parallel with completion of compliance filing and financial clearing		
Financial Phase Compliance Filing	Not Shown	7 days prior to the initial financial clearing		
Financial Clearing	1 week			The Cal PX bankruptcy will potentially impact the financial clearing phase depending on the status of that proceeding.

Key assumptions/comments to support the August 31, 2004 schedule

- *The ISO's request for rehearing regarding resolution of the CERS transactions is decided on or before Feb. 13, 2004 and is decided by the Commission in a way that does not adversely impact the implementation, as outlined in the ISO's November 17, 2003 Request for Clarification and/or Rehearing in Docket Nos. EL00-95, et al. and in the ISO's December 15, 2003 Request for Rehearing in Docket No. ER03-746.*
- *There will be one primary financial clearing of the preparatory re-run and refund re-runs including interest calculations, gas price adjustments, and emissions offsets, possibly followed later by a smaller clearing of adjustments.*
- *The Commission intends to provide ruling on the gas price adjustments prior to the final financial clearing of the refunds. This will be provided to the ISO in the form of dollar adjustments on a daily or monthly basis. It will not be in the form of price adjustments that will require further re-run production. The ISO will assess those charges to Control Area Load and Export.*
- *Parties will provide and the Commission will approve all outstanding emissions costs offsets.*
- *Interest calculations will be completed at the ISO following the Commission's ruling on gas price adjustments and emissions offsets.*
- *If the Commission could provide determination on the gas price adjustments and emissions prior to the completion of the refund re-run production re-run, the ISO could complete the financial phase, consisting of the gas price adjustments, emissions offsets, interest calculations, and global settlement calculations (i.e. Williams and El Paso settlements), as well as the financial clearing, in six weeks. The ISO could also provide a compliance filing detailing the results of the financial phase seven days prior to the initial financial clearing.*
- *To reduce protests and disputes, the ISO will publish MMCP calculations and transactions exempt from mitigation to Market Participants well in advance of the refund re-run production..*
- *A subsequent clean-up clearing would be required pending resolution of any protests received concerning the financial clearing. Note that the ISO intends to research and correct normal disputes in accordance with the dispute timeline identified in the schedule above.*
- *The Cal PX bankruptcy will potentially impact the financial clearing phase depending on the status of that proceeding at the time.*