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May 19, 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 Corp.
Docket Nos. ER03-746-001, et al.
San Diego Gas & Electric Co., et al.
Docket Nos. EL00-95-081, 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 CERS Surcharge and Explanation of the ISO's Most Recent Estimate For Completion of the Refund Process.

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
)	
)	
San Diego Gas & Electric Company, Complainant,)	
)	
v.)	Docket Nos. EL00-95-081
)	EL00-95-074
)	EL00-95-086
Sellers of Energy and Ancillary Services Into Markets Operated by the California Independent System Operator and the California Power Exchange, Respondents.)	
)	
)	
Investigation of Practices of the California Independent System Operator and the California Power Exchange)	Docket Nos. EL00-98-069
)	EL00-98-062
)	EL00-98-073

(not consolidated)

**STATUS REPORT OF THE CALIFORNIA INDEPENDENT
SYSTEM OPERATOR CORPORATION ON CERS SURCHARGE AND
EXPLANATION OF THE ISO'S MOST RECENT ESTIMATE FOR
COMPLETION OF THE REFUND PROCESS**

Pursuant to the Order on Requests for Rehearing and Clarification of the Federal Energy Regulatory Commission ("Commission" or "FERC") issued on May 12, 2004, in the above captioned dockets ("May 12 Order"), 107 FERC ¶ 61,159 (2004), the California Independent System Operator Corporation ("ISO") hereby provides this status report to the Commission addressing the issue of the ISO's estimated time for submitting a compliance filing with respect to the Commission-mandated CERS surcharge, and an explanation of the ISO's most

recent estimate for the completion of the refund process, as outlined in the May 7 Monthly Rerun Status report. As explained below, based on clarifications provided in the May 12 Order, the ISO is able to resume preparatory rerun processing, and will be publishing rerun statements again on May 24, 2004.

I. STATUS REPORT

A. The ISO Requires Additional Time to Complete its Estimate of the Timeline for Submitting the Commission's Required Compliance Filing on the CERS Surcharge

In the May 12 Order, the Commission, in considering the issue of whether the ISO had properly accounted for CERS transactions, directed the ISO to leave its settlements records as-is with respect to CERS, to treat all of the CERS energy as Imbalance Energy, and to mitigate all of the CERS sales at the MMCP. May 12 Order at P 62. In order to "address the proper accounting and ensure that only those who received the benefit of Imbalance Energy will pay for it," the Commission also directed the ISO, after the refund process is complete, to surcharge the "appropriate customers for any amounts that were inappropriately accounted for in treating (and thus mitigating) all CERS energy as Imbalance Energy" and to submit a separate compliance filing detailing the necessary surcharge, the surcharge levels, and allocation of the surcharges. *Id.* at P 63. The Commission also required that the ISO notify it within five business days of the date of the May 12 Order of its anticipated timeline for submitting this separate compliance filing, or propose an alternative solution "that will neither

delay the immediate refund proceeding nor ignore the improper accounting of all CERS energy as Imbalance Energy.” *Id.* at P 64.

Because of the complexity of this issue, ISO settlements and finance staff are still engaged in the process of determining how, exactly, the ISO will implement the Commission’s surcharge, and thus, cannot currently provide a meaningful estimate of the timeline for the completion and filing of the compliance filing relating to that surcharge. It would be premature and unhelpful to the Commission for the ISO to attempt to provide a schedule for the completion of that process and submission of the required compliance filing at this time. However, the ISO is devoting significant attention to this issue, and expects to be able to provide the Commission with the required timeline within 30 to 45 days of the date of this filing. Although the ISO regrets that it requires more time than the five business days allocated by the Commission in the May 12 Order, the ISO believes that the Commission, and the parties, will benefit from the increased level of accuracy and assurance at the expense of this delay. In any event, such delay will not impact the timeframe for resolution of the immediate refund proceeding, because, as the Commission explained in the May 12 Order, the ISO will apply this surcharge only *after* the refund process is complete.

B. Explanation of the ISO’s Most Recent Timeline for Completion of the Refund Compliance Process

In the May 12 Order, the Commission stated that the ISO was to complete the refund process and provide its compliance filing by August 31, 2004.

Subsequent to that report, the ISO has revised the completion date for the refund process based on several events. In the ISO's most recent status report, filed with the Commission on May 7, 2004, the ISO estimated that it would complete all work by December, 2004. Herein, the ISO explains the reasons for its modification of the original August 31, 2004 estimate for completion of the refund process.

In Attachment A to the ISO's four status reports on reruns, the ISO has provided an estimated timeline for the conclusion of the refund compliance process, broken down into nine specific items that will need to be completed in order to finish the refund process. To date, the only item as to which the estimated time for completion has changed is the preparatory rerun production phase. However, the extension of the estimated time for completion of this phase has a corresponding impact on the remainder of the schedule, and, therefore, on the end date for the entire process.

In its first status report, the ISO informed the Commission that it planned to resume preparatory rerun production on February 9, 2004, that after resumption, the preparatory rerun production phase would take approximately nine to nine-and-a-half weeks of production activity to complete, and that, therefore, the ISO planned to conclude this phase on April 14, 2004. Adding in the timeframes for the completion of all other necessary activities, the ISO estimated a date of August 31, 2004 for conclusion of the refund process. However, the ISO also explained that preparatory rerun production could only

proceed for an additional two weeks after restarting on February 9, pending a decision on the CERS accounting issue.

In its second status report, filed with the Commission on March 10, 2004, the ISO explained that it had, as indicated in the first status report, resumed preparatory rerun processing on February 9, 2004, but that, two days later, based on the need to update certain meter data templates and the reassessment of the pricing of certain OOM transactions, the ISO paused publishing additional rerun statements until such issues had been thoroughly investigated. The ISO resumed publishing on February 23, 2004 for October 2000 data. The ISO explained that temporary pauses would delay the schedule for the completion of the preparatory rerun by four weeks, resulting in a May 12, 2004 target date for the conclusion of the preparatory rerun production phase, and a similar four week delay in the end date for the entire process.

In its third status report, filed with the Commission on April 12, 2004, the ISO indicated that it had continued with preparatory rerun production, and, on March 26, 2004, had completed the production and distribution of statements through January 16, 2001. The ISO stated that it had, at that point, halted further rerun production at this point pending clarification on the proper treatment of CERS transactions, which took place beginning on January 17, 2001, and had not resumed processing up until the date of filing of this status report because no decision on the CERS issue had been received. The ISO explained that this delay would have a comparable impact on the completion of the preparatory re-

run as well as the final completion date. The ISO therefore estimated that the refund process could not be concluded before November, 2004.

In the ISO's most recent status report, filed with the Commission on May 7, 2004, the ISO explained that it had published no additional settlement statements during this reporting period because the "hold" begun during the previous reporting period, pending clarification of the CERS accounting issue, had continued. The ISO noted that it could not, at that time, predict with any degree of certainty what the final impact of the hold would be on the schedule and the final completion dates for the preparatory and the refund reruns. However, the ISO extended the projected dates in its schedule for one month to at least reflect the known hold period. This resulted in an estimated completion date of some time in December, 2004.

As the ISO noted in its Interim Status Report filed last week on May 14, 2004, the ISO plans to resume preparatory rerun processing on May 24, 2004. The ISO also explained that it has commenced an expedited review of its rerun process and procedures, as well as the requirements for the various phases of the refund process set forth by the Commission, in order to identify any opportunities that might exist for expediting either the rerun or any other phase of the refund process, and that it will provide the results of that review as soon as it is completed. This review is continuing.

In summary, the first monthly status report showed a completion date of April 14, 2004 for the preparatory rerun production phase. With the delays that have been experienced that completion date is now projected as July 12, 2004,

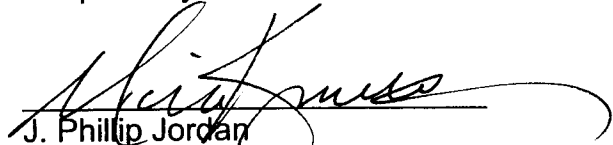
which represent a delay of 3 months from the original estimate. It should also be noted that the July 12 date has no contingency included for any additional delays.

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Dated: May 19, 2004

Respectfully submitted,



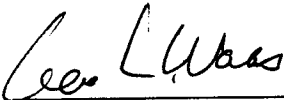
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CERTIFICATE OF SERVICE

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 19th day of May, 2004.


Gene L. Waas

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