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April 12, 2006

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

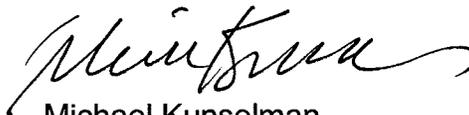
**Re: California Independent System Operator Corporation
Docket Nos. ER03-746-000, et al.
San Diego Gas & Electric Co., et al.
Docket Nos. EL00-95-081, et al.
California Independent System Operator Corporation and
California Power Exchange
Docket Nos. EL00-98-069, et al.**

Dear Secretary Salas:

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

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 No.	ER03-746-000
)		
)		
San Diego Gas & Electric Company,)		
Complainant,)		
)		
v.	)	Docket Nos.	EL00-95-081
	)		EL00-95-074
Sellers of Energy and Ancillary Services	)		EL00-95-086
Into Markets Operated by the California)		
Independent System Operator and the)		
California Power Exchange,)		
Respondents.)		
)		
Investigation of Practices of the California	)	Docket Nos.	EL00-98-069
Independent System Operator and the	)		EL00-98-062
California Power Exchange	)		EL00-98-073

(not consolidated)

**TWENTY-SEVENTH STATUS REPORT OF THE CALIFORNIA INDEPENDENT
SYSTEM OPERATOR CORPORATION ON
SETTLEMENT 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 twenty-seventh regular monthly status report.

Every section of this month's report contains new information, except for sections I (Background), II.E (Status of ADR Claims), II.F (December 1 Disputes) and III (Estimated Schedule for Completion of the Refund Re-Run Activity).

I. BACKGROUND¹

In the February 3 Order,² the Commission directed the ISO³ “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. The first such status report was filed with the Commission on February 9, 2004. This filing is the twenty-seventh such report required by that Commission Order. While the preparatory and FERC refund re-runs are now complete, the ISO will continue to provide monthly status reports throughout the resettlement and financial phases of the process because the ISO believes that these reports have been a valuable tool for communicating with the Commission and Market Participants, in addition to meeting the Commission-mandated reporting requirement.

¹ In its October 16, 2003 Order on Rehearing, 105 FERC ¶ 61,066 (2003), the Commission ordered the ISO to file within five months of the date of the order the results of the preparatory re-runs along with the appropriate explanations. The ISO considers that this directive has been overtaken by FERC’s later recognition in the Amendment No. 51 proceeding that the ISO could not possibly comply with the deadline in the October 16 Rehearing order, as well as the deadlines in the previous Amendment 51 orders. The ISO is endeavoring to comply, however, with FERC’s directive that the ISO work as fast as practicable, keep the parties well informed, and file monthly status reports. For this reason, in addition to the Amendment No. 51 docket, the ISO is also filing this report in the dockets associated with the California refund proceeding.

² 106 FERC 61,099 (2004). The context of the February 3 Order is detailed in the ISO’s previous twenty-six status reports, most recently filed in the above-captioned dockets on March 16, 2006.

³ Capitalized terms not otherwise defined herein shall have the meanings set forth in the Master Definitions Supplement, Appendix A to the ISO Tariff.

II. CURRENT STATUS OF RE-RUN ACTIVITY

The ISO has finished publishing settlement statements reflecting the refund re-run, and has begun the financial adjustment phase, in which the ISO is making adjustments to its refund re-run settlement data to account for fuel cost allowance offsets, emissions offsets, cost-based recovery offsets, and interest on amounts unpaid and refunds. As of the date of this report, the ISO has begun adjustment processing activities associated with the fuel cost and emissions offsets. The ISO completed the first portion of the fuel cost adjustment calculations, which is determination of allocation percentages for each Scheduling Coordinator (as discussed in greater detail below), and distributed those calculations to Scheduling Coordinators for their review on December 22, 2005.⁴ The ISO received comments from several parties on the allocation percentages data. Specifically, the ISO received comments from the PX, APX and the California Parties (mention of the PX comments was unintentionally omitted from prior reports). The ISO also received email correspondence from Powerex raising questions regarding the FCA allocation data. Powerex filed a protest in these dockets relating to this correspondence on April 6, 2006, in which it alleged that the ISO had not responded to its questions. After investigating this issue, the ISO demonstrated to Powerex that ISO staff had, in fact, responded to Powerex's questions, and had not subsequently heard anything further from Powerex on this issue. Counsel from Powerex has confirmed to counsel for the ISO that the ISO did respond to Powerex's correspondence, and stated that

⁴ The calculations were placed on a CD and sent via Federal Express, and were received by Scheduling Coordinators on December 23, 2005.

Powerex will file an errata to its protest making this fact clear, and that Powerex expects to make this filing either as of the date of this filing, or the day after.

Based on two issues raised in these comments, the ISO performed minor updates to the allocation percentage data. The ISO will distribute the revised percentage data for a one-week review period, along with a market notice informing parties of this distribution, by May 16, 2006.⁵ At the close of the review period, the ISO will accept comments from parties limited to issues concerning the changes made to the allocation percentage data.

Also, on January 26, 2005, the Commission issued an order on the cost-based recovery filings made by a number of parties. 114 FERC ¶ 61,070 (2006). Therein, the Commission approved a number of the cost filings, rejected certain cost filings with prejudice, required other parties to make compliance filings to correct errors in their submittals, and deferred ruling on certain cost filings where the filing entity is likely to be a refund recipient. The Commission also directed the ISO and PX to submit certain updated data to the parties. The ISO submitted the data required by the Commission to parties on February 15, 2006. This is discussed in Section II.C below. In the January 26 Order, the Commission required parties to submit updated cost filings to the ISO. The ISO has received all of the updated cost filings that it expects to receive, and made a posting to the listserv on March 31, 2006 informing parties as to the updated cost filings it had received, and which of those filings it intends to process.

⁵ The ISO is planning to distribute the updated FCA data in May because, as set forth below, the ISO plans to distribute early next week data on emissions offset calculations, and the ISO does not want to overlap the review periods for these two items, so as to avoid overburdening parties reviewing these data sets.

Several issues that preclude the ISO from completing its calculations and, ultimately, its compliance filing, still remain unresolved. Specifically, the ISO is awaiting Commission rulings on the following issues:

- Issues identified by Ernst & Young in its audit reports on certain fuel cost claims (see pp. 5-9), including an additional issue raised in its report on Burbank's claim (see pp. 8-9);
- The methodology for allocation of cost-based offsets (see pp. 11-12).

The ISO discusses in the following sections how it proposes to address these issues.

A. FUEL COST ALLOWANCE DATA

As noted in its last seven status reports, on August 30, 2005, consistent with the Commission's notice issued on July 28, 2005,⁶ the ISO received fuel cost data from a number of entities claiming fuel cost offsets and copies of the audit reports prepared by Ernst & Young for each of the entities that it audited. The ISO also noted that, with respect to several claimants, Ernst & Young had detailed a number of potential "exceptions" from the Commission's fuel cost methodology, and that Ernst & Young had committed to resolving these exceptions with the applicable claimants over a 30-day period beginning on August 30, 2005. Subsequently, Ernst & Young notified the Commission that because of the adverse weather affecting the southeast United States, they could

⁶ "Notice of Extension of Time," issued in Docket Nos. EL00-95-098, *et al.* (July 28, 2005).

not commit to producing updated audit reports reflecting their attempts to reach resolution on these issues until October 10, 2005. By October 13, 2005, the ISO had received supplemental reports from Ernst & Young with respect to Sempra, Duke, Mirant, and Puget Sound.⁷ In each report, Ernst & Young stated that although it had resolved several issues with these claims, certain issues still remained open with respect to Mirant and Puget Sound. Ernst & Young also informed the ISO that it was still in the process of auditing the fuel cost claim submitted by the City of Burbank.

Shortly after its November refund status report was filed, the ISO filed with the Commission a motion concerning the issues raised by Ernst & Young in its fuel cost audit reports, asking that the Commission clarify that the ISO will not be required to complete the fuel cost allocations or the calculation of interest until the Commission resolves the issues raised by Ernst & Young. Specifically, the ISO stated that it planned to adopt a two-track approach to allocating the fuel cost allowance offsets, and requested that the Commission clarify that this process is appropriate. Under this two-track approach, the ISO explained that it would first calculate, for each entity that participated in the ISO's markets during the Refund Period (*i.e.*, October 2, 2000 through June 20, 2001), the percentage of the total fuel cost claim amounts to be allocated to these entities for each hour, consistent with the methodology approved by the Commission for doing so, then distribute those allocation percentages to the parties for their review, and provide

⁷ On November 8, 2005, the ISO received a copy of Ernst & Young's Second Supplemental report on Mirant.

a three-week period for parties to dispute the ISO's calculations.⁸ This review process is intended to provide parties the opportunity to validate that the ISO has correctly reflected their total mitigated spot market purchases for each hour, as that term is used in the Addendum to the Eighteenth Status Report. The ISO will then use these validated numbers to calculate the final allocation percentages, as well as the final allocation of actual dollar amounts. As noted above, on December 22, 2005, the ISO distributed the allocation percentages to parties, and received comments from several parties. Based on two issues raised in comments received from APX and the California Parties, the ISO performed minor updates to the allocation percentage data.⁹ The ISO will distribute these revised allocation percentages to the parties on May 16, 2006 for a one-week review period. At the end of that review period, the ISO will accept comments from parties limited to the changes made to the allocation percentage data based on the issues raised by APX and the California Parties. The ISO has also sent letters directly to the parties providing comments on the FCA allocation percentage data informing them of the resolution of the issues that they raised concerning these data.

As explained in prior reports, the ISO will now await Commission resolution of the issues raised by Ernst & Young. After the Commission rules on these issues, and claimants make any necessary modifications to their claims

⁸ The ISO subsequently extended this period to four weeks because of the intervening holiday season.

⁹ Specifically, the ISO refined the calculations to include intervals when: (1) total charges for negative deviations were mitigated by less than \$0.01, and (2) when only the Charge Type 407 settlement price was mitigated. The initial calculations did not capture these two scenarios. These changes affected a total of only 16 intervals during the Refund Period, all which occur during the months of October and November of 2000.

based on the Commission's ruling, the ISO will apply the total approved amount of the fuel cost allowances to the parties based on their respective allocation percentages. Finally, the ISO will distribute the final allocation data to parties for a one-week review period. As the ISO explained in greater detail in its motion for clarification, proceeding in this manner will be the most efficient use of time and resources, and will expedite the conclusion of the refund process, as it will avoid the need to re-do significant portions of the financial adjustment phase if the Commission determines that any of the issues identified by Ernst & Young require that one or more entities revise their fuel cost claims.

Finally, as first noted in its February 2006 status report, the ISO received, on January 3, 2006, the fuel cost claim of the City of Burbank, as audited by Ernst & Young. The ISO therefore plans to allocate FCA amounts relating to Burbank to Market Participants during the Refund Period based on the allocation methodology approved by the Commission. However, the ISO notes that in its report on Burbank's FCA claim, Ernst & Young raises two potential exceptions with respect to that claim. First, Ernst & Young states that it disagrees with Burbank's use of storage gas in its calculation of its average daily cost of fuel, and that the impact of the methodology used by Burbank is material. Also, Ernst & Young notes that the heat rates used by Burbank were not based on "objective third-party evidence," because Burbank is located outside of the ISO Control Area, and therefore, does not have heat rates on file with the ISO. As with the issues raised by Ernst & Young relating to other FCA claimants, which were the subject of the ISO's November 2005 motion for clarification, the ISO requires

Commission direction on the Burbank issues before it will allocate Burbank's claim.¹⁰

B. EMISSIONS OFFSETS

In the Findings of Fact in the Refund proceeding¹¹ and again in the Commission's Order of March 26, 2003,¹² the Commission found that 3 entities, Duke, Dynegy, and Williams, had supported their requested emissions allowance. Three other entities – Reliant, the City of Pasadena, and the Los Angeles Department of Water and Power ("LADWP") – were ordered to reallocate and recalculate their emissions allowances.¹³ Also, in the Commission's October 16, 2003 order, the Commission clarified that emissions offsets would be recoverable only for mitigated intervals.

On September 20, 2005, the Commission issued an order accepting the recalculated emissions claims of Pasadena and LADWP. 112 FERC ¶ 61,323 (2005). The Commission also acknowledged receipt of Reliant's informational filing detailing a pro rata allocation of its emissions costs offset among mitigated and non-mitigated intervals. *Id.* at P 40.

¹⁰ A copy of the most recent audit report prepared by Ernst & Young concerning Burbank's fuel cost allowance claim is attached to this status report as Attachment B.

¹¹ Certification of Proposed Findings on California Refund Liability, Issued December 12, 2002, PP 729-760.

¹² 102 FERC ¶ 61,317 (2003) item BB.

¹³ With respect to Reliant, the Commission, in its March 26 Order, accepted the Presiding Judge's finding that although Reliant would be required to recalculate its emissions on a pro-rata basis, Reliant would be permitted to use the California Generators' existing pro rata allocation exhibit, and would not be required to re-file that information.

In its most recent status reports, the ISO noted that it had received revised emissions claims for all outstanding entities, and will incorporate these data into the financial adjustment phase.

The only remaining outstanding issue concerning emissions that the ISO is aware of is whether the ISO should allocate emissions offsets to all Control Area Gross Load during the Refund Period, or only during mitigated intervals. In the Addendum to its Eighteenth Status Report on Re-run Activity,¹⁴ the ISO explained that it planned to do the latter, reasoning that this was the most appropriate allocation methodology given the fact that emissions offsets were only available for mitigated intervals.¹⁵ Subsequently, the California Parties filed comments in which they disputed the ISO's proposal, arguing that allocating emissions costs to all Gross Load was most appropriate, given the Commission's orders addressing this issue. The Commission has yet to rule on this issue.

In earlier reports, the ISO explained that rather than wait for the Commission to rule before processing the emissions offsets, the ISO intends to perform its emissions allocation calculations using both methodologies, and

¹⁴ Filed in the above-captioned dockets on July 22, 2005.

¹⁵ In its protest of the ISO's addendum, filed in these dockets on August 11, 2005, Reliant argued that the ISO should define as a mitigated interval any interval in which a supplier's price was mitigated, even if the MMCP exceeded the MCP. Because of the operation of the "soft cap" in the ISO markets during the Refund Period, suppliers were sometimes paid in excess of the MCP. In cases where the MMCP was lower than the price paid to a certain supplier, but higher than the MCP, the price paid to that supplier was reduced, as part of the refund re-run, to the MMCP. Reliant contended that such situations should be counted as "mitigated intervals." The ISO, in response to Reliant, agreed in theory with Reliant, but indicated that it would need to determine whether it was practical to implement this variation of its methodology. The ISO has subsequently determined that it can determine mitigated intervals based on whether any supplier's price was mitigated, regardless of whether the MCP exceeded the MMCP, and therefore, if the Commission were to agree with the ISO's methodology of allocating emissions costs only to mitigated intervals, would determine mitigated intervals in the manner proposed by Reliant.

present both sets of results to Market Participants to review. However, in the February 2006 report, the ISO explained that after considering the issue further, it had concluded that the best course of action would be to simply allocate emissions costs to all Control Area Gross Load during the Refund Period, regardless of whether that load occurred during a “mitigated interval.” The ISO determined that allocating emissions costs only to load during mitigated intervals would be more complicated than originally thought. The Commission approved this approach in its order issued in the EL00-95 dockets on March 28, 2006.¹⁶ Based on this ruling, the ISO plans to distribute the results of the emissions offset calculations on April 18, 2006. In the next few days, the ISO will publish a market notice and make a posting on the EL00-95 email listserv informing parties that it will be distributing this information on April 18. Comments on this information will be due from parties on May 16, 2006.

C. COST-BASED RECOVERY FILINGS

On January 26, 2006, the Commission issued an order on the cost-based recovery filings. Therein, the Commission approved a number of the cost filings, rejected certain cost filings with prejudice, required other parties to make compliance filings to correct errors in their submittals, and deferred ruling on certain cost filings where the filing entity is likely to be a refund recipient. The Commission directed those parties whose filings required modification to submit their modified cost filings directly to the ISO. The Commission also directed the ISO and PX, within 15 days of the date of the order, to submit to parties in this

¹⁶ 114 FERC ¶ 61,313 at P 21 (2006).

proceeding updated settlements data that included the impact of the MMCPs and all manual adjustments. On February 10, 2005, the ISO filed with the Commission a request for a four-business day extension of this deadline in order to complete the process of compiling and submitting this data. The Commission granted this request, and on February 15, 2006, the ISO distributed to parties the data that the Commission required it to distribute in the January 26 Order.

As noted above, the ISO has received from parties the various modified cost filings, and the ISO posted a list of the filings that it received on the EL00-95 email listserv on March 31, 2006, and information about which filings it intends to process.

The ISO is still not certain how the cost-based recovery issue will impact the refund schedule. This is because the January 26 Order did not finalize all offset amounts, and it did not address a methodology for allocating the cost-based offsets. Therefore, the ISO's schedule still does not include a timeframe for completing this process. The ISO is hopeful that the Commission will approve a methodology that can be implemented easily by the ISO, but because the Commission has not yet ruled on this issue, the ISO cannot yet estimate how long it will take to allocate any cost-based recovery amounts.

D. INTEREST CALCULATIONS

In its last five status reports, the ISO has indicated that it plans to slightly revise its methodology, so as to include interest on all past due amounts associated with market activity during the Refund Period, including that market

activity that was invoiced after the Refund Period. This means that the ISO will include, as part of the calculation of interest in the financial adjustment phase, past due amounts that were invoiced in the months of July and August of 2001, as well as the remainder of June, 2001. As the ISO noted in its February status report, this treatment is appropriate because all of the past due amounts associated with these two months that are subject to interest charges were invoiced as part of a re-run of transactions that originally occurred during the Refund Period.

Additionally, the ISO, on January 12, 2006, distributed to parties via the Listserv a spreadsheet showing the reversal of all interest amounts originally charged to entities that transacted with the ISO during the Refund Period, along with an explanatory memorandum.

Finally, the ISO plans to distribute, by April 21, 2006, a spreadsheet showing the calculation of interest on unpaid invoices during the Refund Period, pursuant to the methodology approved by the Commission. The ISO will also, in the next few days, distribute a market notice and make a posting on the EL00-95 email listserv informing parties of the date of this distribution.

E. STATUS OF ADR CLAIMS

As noted in previous reports, a number of claims that relate to the Refund period are being pursued by various Market Participants in Alternative Dispute Resolution (“ADR”) pursuant to Section 13 of the ISO Tariff. In previous monthly reports, the ISO noted that charges resulting from three of these disputes, should

they be resolved soon, may be “walled off” and charged to the Scheduling Coordinators active in the ISO Market at the time of the activity giving rise to the dispute. The prior reports also noted the following claims posted on the ADR page of the ISO website (<http://www.caiso.com/clientserv/adr/>): “SMUD Dispute Matter”, “California Department of Water Resources 7/20/04”, “San Diego Gas & Electric Matter 7/6/01.” In addition, the ISO also noted that it would inform the Commission and the Market Participants, in a subsequent status report, if and when these disputes are resolved, and the financial impact on Scheduling Coordinators of resolving these disputes.

In its October 2005 status report, the ISO reported that the parties have reached settlement on the “San Diego Gas & Electric Matter 7/6/01,” and the ISO is currently performing related settlements adjustments. The ISO explained that the total dollar impact for the adjustments relating to this settlement that will be “walled off” and invoiced as part of the preparatory and refund re-run process, for the period April 1998 through June 2001, is approximately \$23 million. The ISO also explained that the impacted ISO Charge Types are Uninstructed Energy (CT 405, 407), Neutrality (CT 1010, 1210), Intrazonal Congestion (CT 452), Minimum Load Compensation Costs (CT 595), Summer Reliability Agreements (CT 1120, 1121), Interest (CT 2999), and FERC Fee (CT 550).

In its February 2006 status report, the ISO noted that it was also planning to make an additional adjustment that will impact Refund Period data in order to properly reflect the resolution of a GFN between the ISO and Sempra. Specifically, during the refund re-run, prices for purchases made by Sempra on

two days in December of 2000 that were reduced as a result on the GFN were raised up to the level of the MMCP. Thus, the refund re-run inadvertently failed to reflect the agreement that resolved the GFN, and the pending adjustment will merely correct the data to reflect the appropriate price for these transactions, as determined in the GFN between Sempra and the ISO.

The ISO continues to suspend conference calls with Market Participants on the status of re-run activity until any issues surface that suggest the need for additional calls. The ISO will likely schedule another conference call after it distributes the data from the financial adjustment phase, in order to field questions from Market Participants on that data. The ISO will inform Market Participants when it schedules that call.

F. DECEMBER 1 DISPUTES

On December 1, 2005, pursuant to the Commission's August 8, 2005 order on cost-based recovery issues,¹⁷ several entities filed with the Commission pleadings raising actual, or potential, disputes with respect to re-runs and offsets. The ISO responded to a number of these pleadings on December 16, 2005, but nevertheless, the ISO does not believe that it should halt the processing of the financial adjustments due to the filing of these pleadings, and therefore, does not plan to do so barring Commission instructions to the contrary. The ISO nevertheless observes that were the Commission to grant one or more of the disputes, it is highly likely that the ISO will be required to re-do all, or a portion of,

¹⁷ 112 FERC ¶ 61,176 (2005) at P 116.

the financial adjustment phase calculations. (This was also noted in the last several status reports).

III. ESTIMATED SCHEDULE FOR COMPLETION OF THE REFUND RE-RUN ACTIVITY

Attachment A to this status report contains the ISO's estimate of the time that will be required to complete the financial adjustment phase. As noted above, the preparatory re-run was completed July 16, 2004, the FERC refund re-run statement production phase was completed February 15, 2005, and the ISO is currently processing the financial adjustment phase offsets. The ISO has completed the first step of the two-step fuel cost allowance allocation process, and has distributed the results of these calculations to parties, as noted above. The ISO is now processing emissions offsets, and expects to distribute these calculations to parties for review in the near future. As discussed above, however, the ISO is still not certain how long the allocation of cost recovery offsets will take, because the Commission has not yet finally ruled on the universe of authorized offsets, or a methodology for allocating these offsets. The ISO anticipates that if the Commission approves a methodology that can be easily implemented by the ISO, then this allocation will require approximately the same amount of time as the other two offsets. As with the other two offsets, the ISO plans to provide this data to parties after completing the allocation for a three- week review period.

Moreover, the ISO cannot say until it receives the Commission's ruling on the various issues discussed above (*i.e.* the Ernst & Young fuel cost issues, the

allocation of emissions issue, and the cost-based recovery filings) when the ISO will be able to complete the financial adjustment phase and submit its compliance filing.

Finally, the ISO also recognizes that this schedule could change as the result of any number of legal challenges to Commission orders, including the recent decision by the Ninth Circuit Court of Appeals in *BPA v. FERC* concerning the refund liability of non-FERC jurisdictional entities. However, the ISO believes that given the status of these various challenges,¹⁸ there is no basis at this time for the ISO to depart from the schedule directed by the Commission for completing the refund process. The mandate has not yet issued on the *BPA* decision, and thus it is not certain when or if that decision will become effective. Moreover, the ISO has expended a great deal of effort so far in the refund re-run and adjustment process, and there are relatively few steps remaining before the ISO completes its calculations. Therefore, the ISO does not believe it would be warranted to suspend the refund calculations at this time; rather, it would be preferable to complete the calculations for all entities identified by the Commission as subject to refund.

¹⁸ The only decision that has been rendered concerning the various issues in this proceeding is the *BPA v. FERC* decision, and the Ninth Circuit has yet to issue the mandate for that decision.

IV. CONCLUSION

The ISO respectfully requests that the Commission accept the ISO's twenty-seventh refund status report in compliance with the Commission's February 3 Order, referenced above.

Respectfully submitted,



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Dated: April 12, 2006

ATTACHMENT A

TIMELINE FOR COMPLETION OF FINANCIAL ADJUSTMENT PHASE
OF REFUND PROCEEDING
APRIL 2006

A. Allocation of Fuel Cost Allowance Offsets – 3 Weeks

- First Phase, Part 1 – ISO Calculates Allocation Percentages and Distributes to Market Participants for a 4-Week Review Period = **Complete**
- First Phase, Part 2 – ISO Distributes Revised Allocation Percentages to Market Participants for a 1-Week Review Period = **1 Week**
- Second Phase – After Resolution of Ernst & Young Issues, ISO Calculates Actual Dollar Offsets for each Market Participant and Distributes to Market Participants for a 1-Week Review Period = **2 Weeks**
- Outstanding Issues:
 1. Ernst & Young has identified issues with respect to several fuel cost claims. All but two (Mirant and Burbank) involve the propriety of heat rate data for units located outside the ISO Control Area. The ISO does not plan to allocate actual dollar amounts until these issues are resolved by the Commission.

B. Allocation of Emissions Offsets – 4 Weeks

- The ISO will calculate the emissions offsets using the “total Control Area Gross Load” methodology and then distribute the results of both methodologies to Market Participants for a 3-week review period
- This step can be done in parallel with the fuel cost allowance calculation/review period.

C. Allocation of Cost-Recovery Offsets – Unknown; Awaiting Commission Ruling on Allocation Methodology

D. Calculation of Interest – 4 Weeks

- Consists of the ISO's own calculations, and the sharing of information between the ISO and PX to ensure consistency between the two.
- The calculations for interest cannot commence until all of the allocation steps are completed. Therefore, the time to complete the interest calculations is in addition to all of the previous steps.

ATTACHMENT B

ACCOUNTANTS' REPORT – FUEL COST ALLOWANCE CLAIM

City of Burbank
December 12, 2005

 **ERNST & YOUNG**

December 12, 2005

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Washington, DC 20005-1175

Terry Stevenson, Esq.
Senior Assistant City Attorney
City of Burbank
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Accountants' Report— Fuel Cost Allowance Claim—City of Burbank

Ernst & Young LLP (“E&Y”) was selected by the Federal Energy Regulatory Commission (the “Commission”) to test and report on the fuel cost allowance (“FCA”) claims of sellers into the markets (collectively the “Claimants”) operated by the California Independent System Operator (“CAISO”) and the California Power Exchange (“PX”) for the period from October 2, 2000 to June 20, 2001 (the “Refund Period”). Our selection was described in paragraph 10 of the September 2, 2004 Order on Auditor Selection and Request for Waiver and Clarifying Audit Issues, 108 FERC ¶ 61,219 (“September 2 Order”).

You have acknowledged to us that the presentation of City of Burbank’s (“Burbank’s”) FCA claim is the responsibility of Burbank. It is our responsibility to perform testing procedures on that claim and report our conclusions to you.

We have reviewed Burbank’s FCA claim, and our procedures and conclusions are set forth herein. We understand that Burbank is submitting its FCA claim in the amount of **\$1,027,470** to CAISO contemporaneously with the issuance of this report.

This letter was prepared for use in conjunction with Burbank’s fuel cost allowance submission before the Commission, including any disputes that may ensue, and should not be used for any other purpose. It was prepared in accordance with professional standards set forth by the American Institute of Certified Public Accountants for engagements of this nature.

Jon R. Stickman, Esq.
Terry Stevenson, Esq.
December 12, 2005

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Accountants' Report

Summary of conclusions

Our tests of Burbank's calculation are described below.

Based on our review and analysis, it is our opinion with respect to Burbank's FCA calculation that the source data used are correct and comprehensive and that the calculations performed conform to the Commission's directives, within immaterial differences, with the exception of the following:

Utilizing storage gas in the calculation of daily cost of fuel

In calculating its FCA claim, Burbank has calculated its daily average cost of fuel based upon purchases of gas above and beyond its monthly contracted volumes, with limited consideration of the particular day the incremental purchases were made. Burbank represents that these purchases, which are reflected as daily gas purchases on the supplier invoices, were put into storage for use as needed for incremental generation of electricity. Burbank utilized these storage gas purchases on a first in first out (FIFO) basis to compute its daily cost of fuel.

We disagree with the use of storage gas to set a daily average cost of fuel. While it is quite possible that Burbank's method results in a more precise depiction of its actual gas purchase strategy, we believe that the guidance set forth by the Commission contemplates a cost of fuel for each day based upon purchases on that day, without consideration of gas removed from storage on that day. Burbank correctly notes that there is some ambiguity in the Commission's orders on this topic, and that there is no specific prohibition of the method selected by Burbank. The impact of the methodology used by Burbank on the total FCA claim is material—we have analyzed an alternative calculation of the FCA which computes the daily cost of fuel in a manner consistent with our understanding of the Commission's order. This alternative calculation results in an FCA of \$478,952.

The Commission's March 26, 2003 Order, paragraph 61, requires that each generator base its FCA on its actual daily cost of fuel incurred to make spot power sales in the PX and CAISO spot markets and that the average cost of this portion of the generator's fuel supply portfolio is to serve as the cost of fuel for the FCA.

Heat rates not on file with CAISO

Burbank is located outside of the CAISO control area and thus did not have heat rates on file with CAISO. The heat rates used in the FCA claim are based upon the basic unit Btu consumption data used by Burbank schedulers during the Refund Period. Burbank has represented that the heat rates used in the FCA calculation are accurate and that they are still used to dispatch Burbank's plants. Incremental heat rates were calculated for the generation level of each plant during each interval to rank the plants and calculate the fuel burned for sales to CAISO.

The data on which the heat rate calculations are based appear reasonable, and it appears that Burbank has performed the heat rate calculations using professional care. However, the heat

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rates are not based on objective third-party evidence similar to what we have received to verify other issues in the FCA calculation.

Burbank has represented that its FCA claim and supporting work papers will be provided to the CAISO, as required by the Commission. This will enable the CAISO to undertake appropriate validation of the heat rate information. We believe this matter would be best resolved by either agreement of the parties to this proceeding or Commission order. If no party objects to the heat rate calculation methodology used by Burbank, we would withdraw this exception.

Resolution of exceptions

Although it is our responsibility to disclose the issues described above, we do not believe that we have the authority to determine whether or not Burbank's FCA claim is "deficient" in the eyes of the Commission. We submit the above issues as potential departures, while recognizing that only the Commission is in a position to ultimately opine on the validity of the methodologies used by Burbank.

Responsibilities of Ernst & Young

The Commission described its directive to us in its May 12, 2004 Order Addressing Fuel Cost Allowance Issues, 107 FERC ¶61,160 ("May 12 Order"), paragraph 74. Per the Commission, we are to:

“. . . review and verify that the source data used in fuel cost calculations are correct and comprehensive, and that the calculations performed to determine a fuel cost allowance claim conform to the Commission's directives.”

The Commission further directed in its September 24, 2004 Order Denying Rehearing, Clarifying Fuel Cost Allowance Issues, and Accepting In Part Compliance Filing, 108 FERC ¶61,311 ("September 24 Order") that:

“. . . if during its review of the claims the independent auditor determines that a filing is inaccurate, incomplete, or not in conformance with our orders, the claim should be found deficient.”

In performing our work, we relied upon the rulings of the Commission in this docket, including the following:

- March 26, 2003 Order on Proposed Findings on Refund Liability, 102 FERC ¶61,317
- April 22, 2003 Order Clarifying Fuel Cost Allowance, 103 FERC ¶61,078
- October 16, 2003 Order on Rehearing, 105 FERC ¶61,066

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- May 12, 2004 Order Addressing Fuel Cost Allowance Issues, 107 FERC ¶61,160 (“the May 12 Order”)
- September 24, 2004 Order Denying Rehearing, Clarifying Fuel Cost Allowance Issues, 108 FERC ¶61,311
- December 20, 2004 Order Addressing Compliance Filing, Emergency Motion, and Comments Following Technical Conference, 109 FERC ¶61,297
- March 18, 2005 Order Granting In Part and Denying In Part Rehearing, Providing Clarification, and Extending Deadline for Submission of Fuel Cost Allowance Claims 110 FERC ¶61,293

We also referred to templates approved for submitting fuel cost information that were developed by CAISO. These templates were included in the following filings with the Commission:

- Motion for Leave to File Answer and Answer of the California Independent System Operator Corporation to Comments and Protests on Compliance Filing, filed September 14, 2004
- Answer of the California Independent System Operator Corporation (“CAISO”) to Indicated Generators’ Motion to Reject the CAISO’s Fuel Cost Submission Template and Answer in Support, filed October 5, 2004
- Comments of the California Independent System Operator Corporation Following the October 7, 2004 Technical Conference, filed October 15, 2004
- Seventeenth Status Report of the California Independent System Operator Corporation on Settlement Re-run Activity, filed June 10, 2005

Testing performed

We performed tests for data accuracy and completeness to comply with the Commission’s directive to verify that the source data incorporated into the FCA calculation is correct and comprehensive. We performed tests of the logic of the FCA calculation model to comply with the Commission’s directive to verify that the FCA calculation conforms to the Commission’s directives.

Tests for accuracy

Our tests for accuracy verified that the data inputs in Burbank’s FCA calculation are correct. These tests for accuracy included identifying and obtaining supporting source documentation and agreeing the calculation inputs back to this source data. For example, when reviewing the physical gas purchases, financial gas transactions, and transportation costs included in the FCA calculation, we verified their accuracy by comparing the data included in Burbank’s FCA calculation to third-party invoices and/or other supporting documentation.

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Other data elements, including sales volumes, market clearing prices ("MCPs"), mitigated market clearing prices ("MMCPs"), and Harris prices, are on file with CAISO and PX. To the extent possible, we obtained this data electronically from CAISO and PX for each day during the Refund Period and compared the information in these data files to Burbank's FCA calculation to assess that the data used in the FCA calculation is correct.

Because Burbank is outside of the CAISO system, no metered generation data or heat rates were on file with CAISO. However, Burbank provided E&Y with documentation supporting that the metered generation used in the FCA calculations was a direct output from Burbank's contemporaneously-prepared "DC&LR" worksheets (Daily Calculations & Loads and Resources").

As discussed in more detail above, the heat rates were represented to us as those used by Burbank schedulers during the Refund Period.

Tests for completeness

Burbank purchased all of its gas for electrical generation from a single supplier of natural gas. All purchases during the Refund Period from this vendor have been properly considered for inclusion in Burbank's FCA calculation.

In reviewing the gas purchases and financial transactions included in Burbank's FCA calculation, we performed tests for completeness to assess that Burbank considered for inclusion its entire population of transactions relevant to the FCA calculation and that the subset of transactions ultimately included in the calculation is appropriate.

We tested physical gas purchases by agreeing the dollar amount of gas purchases in Burbank's general ledger during the Refund Period to the universe of domestic gas purchases subject to consideration for inclusion in the FCA calculation.

Burbank represented that it did not routinely engage in financial transactions during the Refund Period and therefore did not maintain a formal trading book. This was consistent with our review of Burbank's financial records, which did not reveal the existence of separate accounts for financial transactions. We reviewed all gas transaction invoices from Burbank's single vendor during the Refund Period and noted only one financial transaction, which was properly considered in the calculation of cost of gas.

We verified that the subset of gas purchases and financial transactions ultimately included in Burbank's FCA calculation is proper.

Tests for logic

We designed our tests for model logic and methodology to:

- Assess that the formulas used in Burbank's FCA calculation are working properly and as intended, and
- Determine that Burbank's overall FCA calculation methodology is in accordance with our understanding of the Commission's orders.

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These tests involved physically reviewing the calculations, testing calculation formulas to identify any errors in calculation, mapping out the calculation methodology, and comparing the methodology used to the methodology set forth in the Commission's orders.

We reviewed the formulas incorporated into the FCA calculation to assess that they are free of mechanical errors. In doing so, we manually tested the output of the formulas on a sample basis.

Format of the FCA calculation

Burbank submitted its FCA claim to us for testing in the format set forth by CAISO. That format provides for electronic spreadsheets for generating units outside the CAISO system:

- FCA submissions for mitigated ISO instructed energy ("IE") sales for resources outside of the ISO system (Table I-3)
- FCA submissions for mitigated ISO IE sales for resources outside of the ISO system at the unit level (Table I-4)

CAISO also makes provisions for formats for mitigated PX energy sales, but these are not applicable to Burbank.

Additionally, in accordance with the May 12 Order, we reviewed the following required components of Burbank's FCA submission. We tested these components as part of our overall analysis and review of the FCA calculation:

- Fuel purchases ranked by term from shortest to longest, which indicates price, term, date, and quantity for each transaction. This information was provided to us in an Excel workbook and appears in the worksheet "Gas\$" in the workbook containing Burbank's claim.
- Marginal heat rate by unit. This information appears in the worksheets "HeatRate" and "HeatRateData" in the workbook containing Burbank's claim.
- Megawatt-hours by unit sold to the ISO over the applicable interval. This information appears in the worksheets "Burb Data per SET", "Oct 2000", "Nov 2000", "Dec 2000", "Jan 2001", "Feb 2001", "OCT Unit Data", "NOV Unit Data", "DEC Unit Data", "JAN FEB Unit Data" in the workbook containing Burbank's claim.
- Average daily fuel cost per MMBtu, a demonstration of how this calculation was derived based on the fuel supply stack, and supporting workpapers. This information appears in the worksheet "Gas\$" in the workbook containing Burbank's claim.

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- Overall fuel cost allowance amount, on a monthly basis, to offset the refund owed by each generator. This information appears in the worksheet "Summ" in the workbook containing Burbank's claim.

Other disclosures

Burbank acquired shares in natural gas pipeline capacity several years before the creation of the California ISO. According to Burbank, prior to the Refund Period, this capacity was sold to BP Canada and El Paso in exchange for a share of the future profit earned by these companies in transporting gas. The sold pipeline capacity was not used by Burbank to provide natural gas for the operation of relevant Burbank generating units during the Refund Period. Accordingly, any credits received from BP Canada and/or El Paso in conjunction with this transaction were considered by Burbank to be outside of the scope of the FCA claims. This appears reasonable.

* * * * *

We performed those procedures that we believe were necessary to comply with the Commission's directives. While those procedures were the same as or similar to those performed in a financial statement audit, we were not engaged to, and did not, perform an audit for the purpose of expressing an opinion on historical financial statements. Accordingly, we do not express such an opinion or any form of assurance on the historical financial statements of Burbank.

We reserve the right to supplement or amend our report upon receipt of additional information.

Very truly yours,
ERNST & YOUNG LLP



Warren Nicholson, Partner

Copy to: California Independent System Operator

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 12th day of April, 2006.


Daniel J. Shonkwiler