

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

San Diego Gas & Electric Company,)	
Complainant,)	
)	Docket Nos. EL00-95-000, <i>et al.</i>
)	
v.)	
)	
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)	Docket Nos. EL00-98-000, <i>et al.</i>
Independent System Operator and the)	
California Power Exchange)	

**RESPONSE OF THE CALIFORNIA INDEPENDENT SYSTEM OPERATOR TO
CALIFORNIA PARTIES' MOTION FOR PROCEDURES FOLLOWING REMAND IN
*BONNEVILLE POWER ADMINISTRATION, et al. v. FERC***

Pursuant to Rule 213 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.213 (2007), the California Independent System Operator Corporation ("CAISO") hereby submits the following answer to the California Parties' Motion for Procedures Following Remand in *Bonneville Power Administration v. FERC*, as filed with the Commission in the above-captioned docket on April 2, 2007.

The CAISO takes no position on the substantive merits of the California Parties' requests. Rather, the CAISO's concern at this stage is focused on what actions, if any, the Commission might require the CAISO to take as a result of the Ninth Circuit's

decision in *Bonneville Power Administration v. FERC*.¹ The CAISO believes that there are numerous ways in which the Commission could implement the decision by ordering the CAISO and parties to calculate the refund positions of parties in the CAISO markets without including the governmental entities, as explained in more detail below.

However, the Commission and parties should understand that the most onerous of these options, a full CAISO settlements system rerun, would take a great deal of time and consume an undue amount of resources in light of the CAISO's other priorities, and for these reasons, the CAISO requests that the Commission avoid adopting such approach.

I. ANSWER

In their motion, the California Parties request that the Commission adopt four procedures with respect to the BPA remand: (1) Ensure the CAISO and California PX ("PX") complete their calculations of refunds using the MMCP methodology including transactions entered into by governmental entities; (2) order governmental entities that wish to make a cost filing as an offset to refunds to do so within five business days of the Commission's ruling on these requests; (3) require the CAISO and PX to continue to retain the collateral of all market participants, including governmental entities; and (4) defer treatment of any shortfall or allocation issues that may arise as a result of implementation of the *BPA* decision.

¹ 422 F.3d 908 (9th Cir. 2005) ("*BPA*")

The CAISO takes no position as to the merits of these four requests.² The CAISO's concerns relate to the burden that will be imposed on the ISO by whatever methodology the Commission ultimately adopts to implement the *BPA* decision. Even if the Commission were to grant the California Parties' requests, particularly the first request, which would involve the CAISO and PX completing their current refund calculations regardless of the *BPA* decision, the Commission will, presumably, at some point need to determine how to implement the court's finding in *BPA* that the Commission can not require governmental entities to pay refunds.

Such implementation will almost certainly involve further calculations by the CAISO and PX. It is the nature of these calculations that concerns the CAISO. The CAISO has had preliminary internal discussions concerning this issue, and believes, based on these discussions, that there are a range of options for "backing out" refund calculations relating to governmental entities. The most time-intensive of the possibilities would be to re-do all of the settlement rerun and financial adjustment calculations that the CAISO and PX have done over the past four years. However, the CAISO is strongly opposed to this approach, and would request that the Commission not adopt such a solution.

A complete settlement rerun and re-calculation of the various refund offsets would severely delay this proceeding, which has gone on for nearly six years already. The CAISO estimates that, ignoring resource constraints, such a recalculation would take no less than ten to eighteen months. And this estimate assumes that CAISO staff with the training needed to perform the settlement functions involved in a full

² With respect to the third request, however, the CAISO notes that it retains no collateral relating to governmental entities.

settlements rerun would be fully available. This will not be the case, however, for some time, because of the CAISO's intensive efforts to finish the design and implement MRTU. Potentially, the CAISO would be able to complete a full rerun on this shorter schedule after MRTU is implemented and successfully operating.³ If, however, the Commission were to order a full settlement rerun today, the CAISO believes that it could take over two years to complete, because the resources necessary for this project will not be available until after implementation of MRTU, which is appropriately the CAISO's top priority at this time.

As the CAISO has learned from experience, a full settlements rerun is an extremely resource intensive process, in terms of time, manpower, and money. The process involves numerous steps, and requires over 1000 hours of machine time to complete the automated calculations alone. After this process is completed, the CAISO would then have to begin the manual work necessary in order to finalize the data for each day during the Refund Period for publishing and presentation. Manual processes vary by day, with seven to twenty-five processes being required for each day in order to finalize the data for that day. There are also a number of special issues that require manual intervention and attention, such as the CERS split for January 2001 and proper accounting for Energy Exchange transactions. The CAISO estimates that these manual processes would consume approximately six to nine months of work on the part of five to eight CAISO settlements staff persons. Moreover, all of this new data would require the CAISO to establish new dispute windows and provide for multiple iterations of data review, which require further re-pushes and recalculations. Once all this has been

³ It should be noted, however, that in some respects it will be *more* difficult to complete a full settlements rerun after the implementation of MRTU because the software that the CAISO used during

completed, the CAISO would then have to recalculate all of the various offsets, including fuel costs, emissions and cost recovery filings, again, with associated review periods and data corrections. Also, interest will have to be recalculated on all of the relevant pieces.

As noted above, there are a number of other methodological options that the Commission could adopt in order to implement the *BPA* decision, whenever the Commission determines that such implementation should be undertaken. One such option would involve a simplified “financial” clearing, in which the total amount of refunds that otherwise would have been collected from governmental entities would be reflected by way of a pro-rata reduction to refund recipients based on their overall share of CAISO load during the Refund Period. This is not the only option outside of a full settlements rerun, and the CAISO is providing it as an illustration, not a preferred alternative. As noted above, the CAISO’s discussions on this matter have been internal and preliminary in nature. The CAISO believes that the best approach, going forward, would be for the various interested parties to discuss these options in order to attempt to identify one or more options that would be acceptable to the various parties, as well as feasible to implement, and to then present such option or options to the Commission for approval.

Such discussions could commence with a Commission-sponsored technical conference, at which time the parties could present and discuss *BPA* implementation options, and begin to get a sense of which potential options appear most promising. Although the CAISO does not believe that such a technical conference is necessary in order to move forward on this issue, the CAISO believes that it would lead to more

the Refund Period will have been replaced. This is particularly the case with respect to invoicing.

productive and focused discussions. If the Commission agrees, the CAISO would suggest scheduling such a technical conference at a time convenient to all the interested parties.

II. CONCLUSION

The ISO requests that the Commission accept the foregoing answer, and refrain from adopting any procedures that require the CAISO to undertake a full settlement re-run and re-calculation of refund offsets in order to implement the *BPA* decision.

Respectfully submitted,

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Dated: April 17, 2007

