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November 15, 2004

The Honorable Magalie R. Salas
Secretary
Federal Energy Regulatory Commission
888 First Street, NE
Washington, DC 20426

Re: *California Independent System Operator Corporation*,
Docket No. ER01-313-003

Pacific Gas and Electric Company,
Docket No. ER01-424-003

San Diego Gas & Electric Company v.
California Independent System Operator Corporation,
Docket No. EL03-131-000

Dear Secretary Salas:

In accordance with the Commission's Order On Rehearing And Clarification ("Rehearing Order") dated January 23, 2004 in the above-captioned docket,¹ the California Independent System Operator Corporation ("ISO") submits this compliance refund report informing the Commission of the manner in which the ISO will calculate the refunds and surcharges due customers as ordered by the Commission in the orders in this docket. These consolidated dockets concern the Grid Management Charges ("GMC") collected by the ISO during the period January 1, 2001 through December 31, 2003 (the "Adjustment Period").

In the initial May 2, 2003 Order,² the Commission determined that the ISO "had budgeted \$1,834,267 too much for incentive compensation,"³ and that "the ISO should refund

¹ *California Independent System Operator Corporation*, 106 FERC ¶ 61,032 (2004) ("Rehearing Order").

² *California Independent System Operator Corporation*, 103 FERC ¶61,114 (2003) ("Initial Order").

³ *Id.* at P. 9.

the amount in question.”⁴ In the Rehearing Order, the Commission stated that “certain behind the meter generators should be subject to an exception from the use of CAGL [control area gross load] for the billing of CAS charges,” and “generators which are not modeled by the ISO in its regular performance of transmission planning and operation should be exempted from the CAGL charge.”⁵ This compliance filing explains the manner in which the ISO intends to implement the adjustments required by the Initial and Rehearing Orders, and the manner in which the ISO will calculate and provide the refunds and collect the surcharges.

I. 2001 Rate Adjustment Due to Disallowance of Incentive Compensation

In the Initial Order, the Commission ordered that the \$1,834,267 in incentive compensation mistakenly budgeted for 2001 be refunded to the ISO’s customers. Because the GMC was unbundled in 2001, this amount must be allocated to each rate category, which effectively reduces the revenue requirement collected through each of the unbundled charges. The impact of the reductions on individual Scheduling Coordinators depends on the extent to which each Scheduling Coordinator paid each of the unbundled charges during 2001.⁶

In 2001, incentive compensation was allocated to cost centers in the same proportion that salaries were allocated to costs centers. The allocation of salaries to cost centers is shown in Table 1, below.

	CAS	CONG	MO	Total
Salaries	\$33,813,893	\$5,174,563	\$24,427,644	\$63,416,100
Percentage of total	53%	8%	39%	

The ISO used the same allocations to allocate the disallowed incentive compensation to each of the three unbundled charges, as shown in Table 2, below.

⁴ *Id.* at P. 11.

⁵ Rehearing Order at P. 9, 11.

⁶ Throughout the Adjustment Period, the GMC comprised three unbundled GMC charges: the charge for Control Area Services (“CAS”), collected on the basis of Scheduling Coordinators’ control area gross load (CAGL), Congestion Management (“CONG”), collected on the basis of the net scheduled intra-zonal load; and Market Operations (“MO”), collected on the basis of a Scheduling Coordinator’s purchases and sales of ancillary services.

Table 2: Allocation of Incentive Compensation Rate Categories 2001 GMC				
	CAS	CONG	MO	Total
Incentive compensation	\$978,044	\$149,671	\$706,553	\$1,834,267
Percentage of total	53%	8%	39%	
Sums may not equal totals due to rounding.				

The portion of the disallowed incentive compensation allocated to each unbundled GMC charge is then subtracted from the filed revenue requirements for that charge, and then divided by the relevant billing determinant to yield adjusted GMC rates for 2001. The results are shown in Table 3, below.

Table 3: Calculation of Filed and Adjusted Rates 2001 GMC				
	CAS	CONG	MO	Total
Revenue Requirement	\$ 108,446,000	\$19,527,000	\$97,334,000	\$225,307,000
Billing Determinant	267,289,000	87,535,600	102,394,000	
Filed Rate	\$0.406	\$0.223	\$ 0.951	
Reduction in Revenue Requirement	\$978,044	\$149,671	\$706,553	\$1,834,267
Adjusted Revenue Requirement	\$107,467,956	\$19,377,329	\$96,627,447	\$223,472,733
Billing Determinant	267,289,000	87,535,600	102,394,000	
Adjusted Rate	\$0.402	\$ 0.221	\$0.944	
Sums may not equal totals due to rounding.				

II. Determination of Behind the Meter Standby Load Refunds for Control Area Services (CAS) for 2001-2003

In the Rehearing Order, the Commission concluded that “generators which are not modeled by the ISO in its regular performance of transmission planning and operation should be exempted from the CAGL charge,” and directed the ISO to provide appropriate refunds. The exemption of loads associated with generators meeting the Commission’s description

(“unmodeled generator loads”) has two effects on the CAS charge during 2001 through 2003.⁷ First, Scheduling Coordinators whose CAS obligation was based in part on unmodeled generator loads are due refunds for a portion of the CAS charges they paid. Second, the elimination of the unmodeled generator loads from the denominator used to calculate the CAS rate increases that rate and thereby increases the CAS charge payable by Scheduling Coordinators with respect to all other control area gross load.

The first step in determining the impacts of this directive on CAS charges during the Adjustment Period therefore is to determine the amount of “behind the meter” standby generator load that was estimated and assessed the CAS charge. The ISO estimated this load in ER01-313-000 and it was presented to the Commission in Exhibit ISO-13. Based on information provided by the investor-owned utilities (“IOUs”) in CPUC filings, the ISO estimated for each IOU the amount of contract capacity under standby contracts. The contract capacity was adjusted by the “full service load factor” to arrive at the “average demand” over the year. The ISO then calculated the annual energy “behind the meter” by multiplying the average demand by the number of hours in a year. The annual energy was divided by twelve to yield the monthly amount of “behind the meter” standby load that was assessed CAS to each of the three IOUs. The amount of “behind the meter” standby load assessed CAS monthly for the years 2001-2003 is shown in the Table 4, below.

Table 4: Estimated Behind the Meter Standby Generator Load (MWh)			
	2001	2002	2003
PG&E	2,154,225	2,154,225	2,154,225
SCE	3,248,996	3,248,996	3,248,996
SDG&E	460,157	460,157	460,157
Total MWh	5,863,378	5,863,378	5,863,378

In order to adjust the CAS charge to exclude unmodeled generator loads, it is necessary to determine the portions of the total behind-the-meter standby generator load that are associated with generators not modeled by the ISO in its planning and operation. The ISO enlisted the assistance of the IOUs to calculate these amounts, because, while the ISO has information concerning the generators that it models in its planning and operation, it lacks data concerning

⁷ The CAS is the only one of the three unbundled GMC charges in effect during this period that was paid on the basis of Scheduling Coordinators’ CAGL. Accordingly, compliance with the Commission’s directive affects only the CAS charges collected during the Adjustment Period.

the behind-the-meter standby load associated with generators that it does not model. Accordingly, the ISO provided generator database information to each of the three IOUs so that they could determine the amount of load associated with generation that was under standby contract, but not modeled in these databases. The three IOUs provided the information shown in Table 5, below:

Table 5: Comparison of Standby Load MW assessed, MW Modeled/Not Modeled				
Utility	MW assessed	MW not modeled	% of total not modeled	% of total modeled
PG&E	612.6	502.5	82.03%	17.97%
SCE	631.8	362.8	57.52%	42.48%
SDG&E	103.0	58.2	56.48%	43.52%
Sources: MW assessed from Exhibit ISO-13 in E01-313-000 MW modeled/not modeled from individual utility				

To exclude the unmodeled generator load from the application of the CAS, the ISO then multiplied the percentage of total MW modeled (the last column of Table 5) times the MWh assessed (as presented in Table 4), to obtain the MWh associated with behind the meter standby load that *is* modeled by the ISO. The results are shown in Table 6, below.

Table 6: Adjusted Behind the Meter Standby Load (MWh)			
	2001	2002	2003
PG&E	387,153	387,153	387,153
SCE	1,380,174	1,380,174	1,380,174
SDG&E	200,260	200,260	200,260
Total MWh	1,967,587	1,967,587	1,967,587

The ISO then identified the amount by which the previously used levels of behind the meter load had to be reduced, to account for the subtraction of unmodeled generator loads. To do so, the ISO subtracted the adjusted behind the meter standby load (as presented in Table 6) from the estimated behind the meter load (as presented in Table 4). The reductions in behind the meter standby load are then presented in Table 7, below.

Table 7: Reductions in Behind the Meter Standby Load (MWh)			
	2001	2002	2003
PG&E	1,767,071	1,767,071	1,767,071
SCE	1,868,823	1,868,823	1,868,823
SDG&E	259,896	259,896	259,896
Total MWh	3,895,790	3,895,790	3,895,790

The applicable CAS rates for the Adjustment Period were calculated from the CAS revenue requirement (adjusted for the \$1.8 million reduction in incentive compensation in 2001) and the forecast MWh of control area gross load, as presented in Table 8, below.

Table 8: Calculation of Control Area Services Rate 2001-2003			
	2001	2002	2003
CAS revenue requirement	\$107,467,956	\$136,307,000	\$137,857,000
Forecast Control Area Gross Load (including estimated behind the meter load)	267,289,000	246,487,000	242,386,000
CAS rate	\$0.402	\$0.553	\$0.569
Source: Annual rate filing and GMC Settlement for 2002. The 2001 CAS revenue requirement includes an adjustment for the disallowance of \$1.8 million in incentive compensation for 2001.			

As explained above, because the volume of control area gross load will no longer include all of the behind the meter load that the ISO used in its initial calculations, the applicable CAS rates for the Adjustment Period will be higher than the ISO originally billed to its customers. The calculation of the CAS rate using the lower forecast control area gross load is presented in Table 9.

Table 9: Calculation of Control Area Services Rate Using Adjusted Forecasted Control Area Gross Load 2001-2003			
	2001	2002	2003
CAS revenue requirement	\$107,467,956	\$136,307,000	\$137,857,000
Forecast Control Area Gross Load (including adjusted estimate of behind the meter load)	263,393,210	242,591,210	238,490,210
Adjusted CAS rate	\$0.4080	\$0.5619	\$0.5780

The ISO billed CAS charges to Scheduling Coordinators using estimated load from Table 4 and the applicable rate from Table 8. Adjusted CAS charges will be calculated using the estimated load from Table 6 and the applicable adjusted rate from Table 9. The refund amount would be the difference between the actual billed and adjusted CAS charges (together with interest calculated in accordance with the Commission's regulations). These calculations (without interest) are shown for each IOU in Tables 10 – 12.

Table 10: PG&E Billed and Adjusted CAS Charge with Refund Amount On Behind the Meter Standby Load			
	2001	2002	2003
Billed			
MWh	2,154,225	2,154,225	2,154,225
Rate	\$0.402	\$0.553	\$0.569
Total amount	\$866,142	\$1,191,286	\$1,225,754
Adjusted			
MWh	387,153	387,153	387,153
Rate	\$0.4080	\$0.5619	\$0.5780
Total amount	\$157,964	\$217,533	\$223,790
Refund amount	\$708,178	\$973,753	\$1,001,964
Sums may not equal totals due to rounding.			

Table 11: SCE Billed and Adjusted CAS Charge with Refund Amount On Behind the Meter Standby Load			
	2001	2002	2003
Billed			
MWh	3,248,996	3,248,996	3,248,996
Rate	\$0.402	\$0.553	\$ 0.569
Total amount	\$1,306,313	\$1,796,695	\$1,848,679
Adjusted			
MWh	1,380,174	1,380,174	1,380,174
Rate	\$0.4080	\$0.5619	\$0.5780
Total amount	\$563,129	\$775,491	\$797,796
Refund amount	\$743,183	\$1,021,204	\$1,050,883
Sums may not equal totals due to rounding.			

Table 12: SDG&E Billed and Adjusted CAS Charge with Refund Amount On Behind the Meter Standby Load			
	2001	2002	2003
Billed			
MWh	460,157	460,157	460,157
Rate	\$0.402	\$0.553	\$0.569
Total amount	\$185,014	\$254,467	\$261,829
Adjusted			
MWh	200,260	200,260	200,260
Rate	\$0.4080	\$0.5619	\$0.5780
Total amount	\$81,709	\$112,522	\$115,758
Refund amount	\$103,305	\$141,945	\$146,071
Sums may not equal totals due to rounding.			

In order to reflect the higher CAS charge resulting from the Rehearing Order and to recover from all customers the amount of the refunds due the IOUs from the exclusion of unmodeled generator loads from the CAS charge, every Scheduling Coordinator will be billed a surcharge. The surcharge amounts to be billed to control area gross load (excluding unmodeled generator loads) are the sum of the refund amounts for each utility by year (including interest), as presented in Table 13.

Table 13: Refund Amounts by Utility and CAS Rate Surcharge by year			
	2001	2002	2003
PG&E	\$708,178	\$ 973,753	\$ 1,001,964
SCE	\$743,183	\$1,021,204	\$1,050,883
SDG&E	\$103,305	\$141,945	\$146,071
Total	\$1,554,666	\$2,136,901	\$2,198,917
CAS Rate Surcharge per MWh	\$0.0059	\$0.0089	\$0.0090
Sums may not equal totals due to rounding.			

III. Implementation of Refunds and Surcharges

To minimize the administrative burden and expense associated with adjusting the 2001 through 2003 GMC charges to implement the Commission's directives, the ISO proposes to reflect refunds and surcharges, calculated as described above, in the first Settlement Statements, following Commission approval of the ISO's proposed calculation method, in which the adjustments can practicably be reflected. The ISO will calculate the refunds and surcharges described above for each Scheduling Coordinator, and incorporate the appropriate refund or surcharge, and applicable interest as required per 18 C.F.R. § 35.19a (2004).

* * *

One original and fourteen copies of this compliance report are enclosed for the Commission's use. Two additional copies have been included to be date/time stamped and returned to our messenger. Thank you for your assistance with this matter.

Sincerely,



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Counsel to the
 California Independent System
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CERTIFICATE OF SERVICE

I hereby certify that I have this day served a copy of this document upon all parties listed on the official service list compiled by the Secretary in the above-captioned proceedings, in accordance with the requirements of Rule 2010 of the Commission's Rules of Practice and Procedure (18 C.F.R. § 385.2010).

Dated this 15th day of November in the year 2004 at Folsom in the State of California.

Stephen A.S. Morrison by R. Morrison
Stephen A.S. Morrison