

FEDERAL ENERGY REGULATORY COMMISSION
WASHINGTON, D.C. 20426

California Independent System Operator
Corporation
Docket No. ER03-942-000

August 7, 2003

Swidler Berlin Shereff Friedman, LLP
3000 K Street, NW
Suite 300
Washington, DC 20007

Attention: David B. Rubin, Counsel for
The California Independent System Operator Corporation

Reference: Amendment No. 53

Dear Mr. Rubin:

On June 10, 2003, the California Independent System Operator Corporation (ISO) filed proposed Amendment No. 53 to its Tariff. This amendment modifies the Tariff and the Settlement and Billing Protocol (SABP) with respect to market payments. In particular, the proposed provisions would revise the manner in which payments of defaulted receivables are disbursed to ISO creditors. The proposal is intended to provide a mechanism to reflect distribution from the bankruptcy estate of an ISO debtor and the discharge of debt owed by an ISO debtor pursuant to bankruptcy law. Please be advised that your submittal is deficient.

Portions of your submissions are incomplete. These portions are deficient either because they lack complete explanations or clarity. In order for your filing to be considered for acceptance the ISO must complete or provide explanations regarding the discussion points below.

1) For payments of default amounts owed for months during which no ISO debtor is in bankruptcy, the ISO proposes new Section 11.16.2 to the Tariff which provides that the collection of defaulted receivables, excluding default interest, will be distributed to ISO creditors pro rata for the month of default. Please provide an analysis exhibiting the impact of these provisions on market participants. Please include specific examples demonstrating that non-discriminatory treatment will result from these proposed allocations throughout all time periods and for all participants to which these provisions

apply. The submission must submit supporting data, work papers, and other supporting documents necessary to understand the underlying calculations, accounting methods and the processes the ISO will use to implement the proposed allocation methodologies. Additionally, please identify the time periods associated with each calculation, when applicable. The submission should explain and demonstrate what impact the California refund proceeding will have on the proposed allocation process. Your submission should fully explain how these provisions apply when a party is fully discharged from a bankruptcy. Finally, please demonstrate how the proposed allocation methodologies in Section 11.16.2 and 11.16.3 represent an improvement to the Tariff.

2) The ISO indicates that the existing Tariff and Protocols do not contemplate a situation in which the ISO receives a payment from an ISO debtor who defaulted in a month in which all ISO creditors have already been paid the full amount that they were owed by the ISO market. It explains that this situation exists with respect to several trade months due to the impact of the re-settlement of energy exchange transactions, the carrying forward of offsets, and the disbursement of interest collected from the CDWR related to the payment for the net short positions of PG&E and SCE. Please provide information regarding the “situations” in which an ISO debtor has outstanding obligations for a month in which the ISO creditors have been fully satisfied, and fully explain the circumstances in which the proposed Tariff provisions would be triggered. The filing must explain how these “situations” arise and provide specific examples. Please explain and provide examples of the procedures used to adjust the applicable accounts for months in which these “situations” have already occurred.

3) The ISO proposes new Section 11.16.3 to the Tariff which provides that all ISO creditor balances will be combined for the purpose of calculating the pro rata distribution of default collections when (1) there is at least one ISO debtor in bankruptcy proceedings in which no final distribution has been made and (2) the default receivable is from a trade month for which all ISO creditors have been paid. Section 11.16.3 is applicable to collection of defaulted receivables by means of netting against ISO creditor balances and contains a provision for processing funds related to the past due trade month that amount to less than \$5,000. Please provide an analysis exhibiting the impact of these provisions on market participants. Please include specific examples demonstrating that non-discriminatory treatment will result from these proposed allocations throughout all time periods and for all participants to which these provisions apply. Please submit supporting data, work papers, and other supporting documents necessary to understand the underlying calculations, accounting methods and the processes the ISO will use to implement the proposed allocation methodologies. Additionally, please identify the time periods associated with each calculation, when applicable. Your submission should explain and demonstrate through the necessary analyses, what impact, if any, the

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California refund proceeding will have on the proposed allocation process. The submission should demonstrate how these provisions apply when a party is fully discharged from a bankruptcy. Finally, the submission must demonstrate how the proposed allocation methodologies in Section 11.16.2 and 11.16.3 represent an improvement to the Tariff.

4) Proposed new Section 11.16.4 to the Tariff contains a provision for the disbursement of excess funds. The provision states that excess funds will be distributed to the ISO creditors with the oldest unpaid receivables unless the conditions described in Section 11.16.3 exist, in which case the proceeds will be distributed pro rata as described in Section 11.16.3. The ISO states that the funds collected for charges that are payable in the future are set aside and that any remaining funds after all ISO creditors have been paid are distributed to the ISO market. Please clarify the meaning of excess funds and (1) provide examples of excess funds (2) state where excess funds can originate (3) state which accounts they may flow through (3) provide examples of the process by which they may flow through the various accounts (4) explain why the ISO should have the discretion to distribute or retain these funds.

5) Please clarify when or how the ISO intends to distribute payment to market participants that are not scheduling coordinators or participating transmission owners as contemplated in the ISO's definition of "ISO Creditor".

6) Please provide a timeline for the actual distributions of payments to market participants. The filing does not describe the process, or the amount of time allotted for each step of the process, by which payments will be processed and distributed beginning with the date of receipt until actual disbursement.

7) Please define the following terms: (1) defaulted receivables (2) economic distributions (3) bankruptcy charge (4) default collections (5) full and final distributions. The filing should provide examples of each term and a description of the circumstances surrounding each transaction.

The information requested in this letter will constitute an amendment to your filing. A notice of amendment to your filing will be issued upon receipt of your response. Accordingly, you are directed to submit a form of notice of amendment to the filing, pursuant to Section 35.8 of the Commission's Regulations.

This Delegated Letter Order is issued pursuant to 18 C.F.R. § 375.307 and is interlocutory. This order is not subject to rehearing, pursuant to 18 C.F.R. § 385.713, and a response to this order must be filed within thirty (30) days of the date of this letter.

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Failure to respond to this order within the specified time period may result in a further order rejecting your filing. Pending receipt of the above information, a filing date will not be assigned to your submittal. Please submit seven copies of your response to this deficiency letter. Six copies of your response should be sent to:

Federal Energy Regulatory Commission
Office of the Secretary
888 First Street, N.E.
Washington, D.C. 20426

Additionally, please provide a courtesy copy to Travis McGee, Room 7P-04.

Sincerely,

John T. Carlson
Acting Director
Division of Tariffs and Market
Development - West

cc: All Parties