

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

San Diego Gas & Electric Company,)	
Complainant,)	
)	
v.)	Docket No. EL00-95-000
)	
Sellers of Energy and Ancillary Services)	
Into Markets Operated by the California)	
Independent System Operator and the)	
California Power Exchange Corporation,)	
Respondents)	
)	
Investigation of Practices of the California)	Docket No. EL00-98-000
Independent System Operator Corporation)	
<u>and the California Power Exchange</u>)	

**REPLY COMMENTS OF THE CALIFORNIA INDEPENDENT
SYSTEM OPERATOR CORPORATION IN RESPONSE
TO THE COMMISSION'S ORDER OF DECEMBER 10, 2004**

I. INTRODUCTION AND SUMMARY

Pursuant to the Commission's order of December 10, 2004, the California Independent System Operator Corporation ("ISO") provides the following reply comments¹ addressing the issues raised by certain of the parties in their initial comments filed in this proceeding on January 10, 2005. The ISO's brief comments in reply will again be confined to addressing only one issue, that being item D, Timing of Cost Recovery Filing, addressed by the commenting parties named below.²

¹ Capitalized terms not otherwise defined herein shall have the meanings set forth in the Master Definitions Supplement, Appendix A to the ISO Tariff.

² Initial comments were filed by the following entities: Arizona Electric Power Cooperative ("AEPCO"), The California Parties ("CalParties"), Edison Mission Marketing and Trading ("EMMT"), El Paso Marketing ("El Paso"), Hafslund Energy Trading, LLC ("Hafslund"), Indicated

As always, the ISO appreciates the opportunity to present its views on the specific methodology that the Commission seeks to utilize to complete the refund re-run processing. In this instance, the ISO is especially concerned about any variation from the course that has been set by the Commission to determine “who owes what to whom.” The ISO, as market operator, has fixed human and budgeted resources available for it to use to complete the re-run project. From an administrative cost perspective, the ISO simply cannot conduct two rounds of financial clearing calculations. This duplicative clearing work, if required, would come at the expense of the absolutely essential settlements and programming work necessary to keep the ISO Controlled Grid and the ISO Market operating on a regular basis.

II. COMMENTS

Once again, the issue raised by the Commission states as follows:

D. Timing of Cost Recovery Filing

What, if any, problems would arise if the Commission were to order refunds first by those sellers not seeking cost-based recovery, instead of waiting to issue refunds until all sellers' cost-based recovery filings have been filed and processed by the Commission?

Initially, it must be understood that there is no real support from any of the commenting parties that the ISO process its financial clearing first for the entities not requesting cost-based rates, and then, sometime later, conduct a separate financial clearing for all of the entities that have requested cost-based treatment.

Sellers (“Sellers”), NEGT Energy Trading-Power, L.P. (“NEGT”), Puget Sound Energy (“Puget”), Sacramento Municipal Utility District (“SMUD”), Turlock Irrigation District (“Turlock”). In addition, the following entities filed initial comments, but expressed no direct opinion on the matter of the timing of cost recovery. They were: Automated Power Exchange (“APX”), Californians for Renewable Energy (“CARE”), City of Anaheim (“Anaheim”), Merril Lynch Capital services Inc. (“Merril Lynch”) and the Nevada Companies.

This result, while reached by all commenters to one extent or another, is arrived at for different reasons by different parties. While the ISO rests its argument against the sequenced financial clearings for the various entities on the increased administrative cost involved and the limited computer and human resources available, other entities are concerned with the potential escrow shortfalls³ that maybe experienced by “later in time” parties. Finally, at least one group, the California Parties, believe that the proposed sequencing and the Portland General approach to cost-based filings could act as an incentive to induce greater cost-based rate filings than was originally anticipated or intended.⁴ Various of the commenting parties state that it is their preference that the refund amounts be determined as expeditiously as possible for all entities involved in the proceeding.⁵ The ISO also believes very strongly that the FERC refund re-run process should be completed, so that Market Participants will know the “who owes what to whom” before cost-based rate filings are considered by the Commission. This allows the ISO to complete its re-run work and return to its role as the market operator full time while the case for cost-based rates is pressed by certain of the Market Participants. This is the most efficient use of time and resources for all involved.

³ See comments of AEPCO at 15 which state the concern that if disbursement of refunds occurs first, cost recovery must still be full and complete. The initial comments of Hafslund at 5 also state this concern. Puget states that it would like to see cost recovery claims incorporated in the existing re-run schedule. Puget at 9 would not object to the two-phased process objected to by the ISO, but neither do they support it. Turlock at 11 also states a concern that sequenced disbursements could leave the “last in time” with inadequate funds to cover costs. El Paso also laments the possible outcome of a sequenced distribution.

⁴ Comments of the Cal Parties at 23. Note also that this was an issue expressed in the initial comments of the ISO. See pages 3-4 of the ISO’s initial comments. SMUD also opposes sequencing refunds at p 12 of their initial comments.

⁵ Comments of Cal Parties at 29. Indicated Generators at 33 also state their belief that refunds should be determined as quickly as possible and preferably within the timeframe that the ISO is making its re-run. EMMT also wants the earliest possible determination of refunds.

III. CONCLUSION

For all of the above reasons, the ISO asks that the Commission continue on the current track for re-run completion and not create a bifurcated process where those requesting cost-based rates would be dealt with later through a separate financial clearing by the ISO.

Respectfully Submitted,

/s/ Gene L. Waas

J. Philip Jordan
Michael Kunselman
Swidler Berlin, LLP
3000 K Street, Ste. 300
Washington, D.C. 20007
Telephone: (202) 424-7500

Counsel for the California Independent System Operator Corporation

Charles F. Robinson
General Counsel
Gene L. Waas
Regulatory Counsel
The California Independent System Operator Corporation
151 Blue Ravine Road
Folsom, CA 95630
Telephone: (916) 608-7049

January 19, 2005



January 19, 2005

BY ELECTRONIC TRANSMISSION

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

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

Dear Secretary Salas:

Enclosed for electronic filing please find Reply Comments of the California Independent System Operator Corporation in Response to the Commission's December 10, 2004 Order in the above-referenced docket.

Thank you for your assistance in this matter.

Very truly yours,

/s/ Gene L. Waas
Gene L. Waas

Counsel for the California Independent System Operator Corporation

Enclosures

cc: All parties of record

CERTIFICATE OF SERVICE

I hereby certify that I have on this 19th day of January 2005, served copies of the foregoing document upon each person designated on the official service list compiled by the Secretary in this proceeding.

/s/ Gene L. Waas

Gene L. Waas