

SWIDLER BERLIN SHEREFF FRIEDMAN, LLP

THE WASHINGTON HARBOUR
3000 K STREET, NW, SUITE 300
WASHINGTON, DC 20007-5116
TELEPHONE (202) 424-7500
FACSIMILE (202) 424-7647
WWW.SWIDLAW.COM

MICHAEL KUNSELMAN
DIRECT DIAL: (202) 295-8465
FAX: (202) 424-7643
MNKUNSELMAN@SWIDLAW.COM

NEW YORK OFFICE
THE CHRYSLER BUILDING
405 LEXINGTON AVENUE
NEW YORK, NY 10174
TEL.(212) 973-0111
FAX (212) 891-9598

May 24, 2004

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

**Re: San Diego Gas & Electric Co., et al.
Docket Nos. EL00-95-081, et al.**

Dear Secretary Salas:

Enclosed please find one original and fourteen copies of the Report of the California Independent System Operator Corporation on Emissions Offsets and Fuel Cost Allowance.

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**

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)	
Independent System Operator and the)	Docket Nos. EL00-98-069
California Power Exchange)	EL00-98-062
)	EL00-98-073

**REPORT OF THE CALIFORNIA INDEPENDENT
SYSTEM OPERATOR CORPORATION ON EMISSIONS OFFSETS AND
FUEL COST ALLOWANCE**

Pursuant to the Order on Requests for Rehearing and Clarification of the Federal Energy Regulatory Commission (“Commission” or “FERC”) issued on May 12, 2004, in the above captioned dockets, 107 FERC ¶ 61,165 (2004) (“May 12 Order”), and the Order Addressing Fuel Cost Allowance Issues issued on the same date, 107 FERC ¶ 61,166 (2004) (“Fuel Cost Order”), the California Independent System Operator Corporation (“ISO”) hereby provides this report¹ to the Commission addressing the issues of emissions offsets and the fuel cost allowance (“Report”).

¹ Capitalized terms not otherwise defined herein, are used in the sense given in the Master Definitions Supplement, Appendix A to the ISO Tariff.

I. REPORT

A. Emissions Offsets

In the May 12 Order, the Commission noted that the ISO had stated that it needs emissions costs data to complete the refund calculations, and directed the ISO to provide the Commission within 10 days of the date of the order, a “full explanation of the form and content of the emissions costs data that it needs to complete its calculations.” May 12 Order at P 21; see *also* Ordering Paragraph (C).

In the ISO’s Request for Clarification and/or Rehearing of the Commission’s October 16, 2003 Order on Rehearing, 105 FERC ¶ 61,066 (2003), (“Request for Clarification”), the ISO informed the Commission that it did not have the necessary data to begin the calculations relating to emissions costs for two reasons. First, the Commission, adopting the Presiding Judge’s finding, had ruled that certain suppliers must re-calculate their emissions costs consistent with Commission Staff’s *pro rata* allocation methodology. See 102 FERC ¶ 61,317 (2003) at PP 112-113 (“March 26 Order”).² In addition, the Commission had agreed with California Parties that emissions costs should not be recovered for intervals in which sales were not mitigated, 105 FERC ¶ 61,066 (2003) at P 153 (“October 16 Order”); the ISO understood that this would require all parties to recalculate all emissions costs, including those previously approved by the Commission.

² The Commission approved emissions costs offset figures submitted by Duke, Dynegy and Williams, and required Reliant, LADWP and Pasadena to recalculate their costs consistent with the *pro rata* allocation methodology.

As a preliminary matter, the ISO understands that in order to perform the recalculations necessary to implement the Commission's decision to allow recovery of emissions costs only for mitigated sales, parties will need a final set of MMCPs, along with a list of non-mitigated transactions, consistent with the Commission's previous rulings on these issues.³ The ISO plans to provide the final MMCPs, that will be used in the refund rerun, for review by the parties, during the week of May 31. The ISO will provide a final list of non-mitigated transactions as soon as practicable, after first confirming the transactions on the draft list with each of the parties involved.

Once the parties complete the Commission required recalculations, as detailed above, and the Commission approves those recalculations, the ISO will require only a final emissions cost offset figure from each party, that is, the total amount of emissions costs that the Commission permitted each party to offset for the entire Refund Period. The ISO will then aggregate all of the Commission-approved emissions offsets and allocate this aggregate amount *pro rata* to Market Participants based on Control Area Gross Load during the Refund Period, consistent with the Commission's directive in the March 26 Order.⁴

³ One party, Pasadena, has suggested that the ISO will calculate the proportion of each party's emissions offsets attributable to mitigated transactions. However, the ISO believes that once the parties claiming emissions offsets have the final MMCPs, along with the list of exempt transactions, these parties are fully capable of performing this calculation, and therefore, should be responsible for doing so.

⁴ In the March 26 Order, the Commission concluded that emissions costs during the Refund Period should be allocated using the same mechanism as for the prospective period, that is, these costs should be paid by load-serving entities in proportion to ISO "Gross Control Area load." 102 FERC ¶ 61,317 at PP 120, 122. The term "Gross Control Area load" in the order corresponds to "Control Area Gross Load" as defined in the ISO Tariff.

B. Fuel Cost Allowance Data

In the Fuel Cost Order, the Commission directed suppliers claiming a fuel cost allowance to identify the following in their claim:

- i) Fuel purchases ranked by term from shortest to longest that indicates price, term, date and quantity for each transaction;
- ii) Marginal heat rate by unit (to be the same as that used by the ISO);
- iii) MW-hours by unit sold to the ISO/PX over the applicable interval (to be the same as that used by the ISO);
- iv) Average daily fuel cost per MMBtu, a demonstration of how this calculation was derived based on the fuel supply stack, and supporting workpapers; and
- v) Overall fuel cost allowance amount, on a monthly basis, to offset the refund owed by each generator.

The Commission also directed the ISO to inform the Commission within 10 days of issuance of that order whether this format meets the ISO's needs.

The format specified in the May 12 Order, as reiterated above, most likely meets the ISO's needs in performing the calculations required of it relating to the fuel cost allowance. However, the Commission in P 60 of the Fuel Cost Order directed the ISO to devise a method for assigning recovery of the fuel cost allowance "to those that relied on the energy sales spot market to serve load," instead of assigning those costs to Control Area Gross Load as had been the directive in the October 16 Order. The ISO will inform the Commission as soon as it has devised a method responsive to the Commission's new directive, as well as whether that method requires any information from suppliers in addition to that set forth above.

II. CONCLUSION

The ISO respectfully requests that the Commission accept this Report, and find that it satisfies the requirements relating to reporting within 10 days on emissions costs offsets and fuel cost allowance set forth in the May 12 Order and the Fuel Cost Order.

Respectfully submitted,

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

J. Phillip Jordan
Michael Kunselman

Swidler, Berlin, Shereff and Friedman, LLP
3000 K Street, Ste. 300
Washington, D.C. 20007
Telephone: (202) 424-7500

Dated: May 24, 2004

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 24th day of May, 2004.

Gene L. Waas