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September 19, 2006

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

**Re: California Independent System Operator Corporation
Docket Nos. ER03-746-000, et al.
San Diego Gas & Electric Co., et al.
Docket Nos. EL00-95-081, et al.
California Independent System Operator Corporation and
California Power Exchange
Docket Nos. EL00-98-069, et al.**

Dear Secretary Salas:

Enclosed please find one original and fourteen copies of the Thirty-first Status Report of the California Independent System Operator Corporation on Re-Run Activity filed in the above-captioned dockets.

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**

California Independent System Operator Corporation	)	Docket No.	ER03-746-000
)		
)		
)		
San Diego Gas & Electric Company, Complainant,)		
)		
)		
v.	)	Docket Nos.	EL00-95-081
	)		EL00-95-074
Sellers of Energy and Ancillary Services Into Markets Operated by the California Independent System Operator and the California Power Exchange, Respondents.	)		EL00-95-086
)		
)		
Investigation of Practices of the California Independent System Operator and the California Power Exchange	)	Docket Nos.	EL00-98-069
	)		EL00-98-062
	)		EL00-98-073

(not consolidated)

**THIRTY-FIRST STATUS REPORT OF THE CALIFORNIA INDEPENDENT
SYSTEM OPERATOR CORPORATION ON
SETTLEMENT RE-RUN ACTIVITY**

Pursuant to the Order Granting Clarification and Granting and Denying Rehearing of the Federal Energy Regulatory Commission ("Commission" or "FERC"), issued on February 3, 2004, in the above-captioned dockets ("February 3 Order"), the California Independent System Operator Corporation ("ISO") hereby provides its thirty-first regular monthly status report.

Every section of this month's report contains new information, except for sections I (Background), II.B (Emissions Offsets) and II.E (Status of ADR Claims).

I. BACKGROUND¹

In the February 3 Order,² the Commission directed the ISO³ “to submit to the Commission on a monthly basis, beginning on February 10, 2004, a report detailing the status of the preparatory adjustment re-runs and the dates that it expects to complete both the preparatory re-runs and the settlements and billing process for calculating refunds.” February 3 Order at P 21. The first such status report was filed with the Commission on February 9, 2004. This filing is the thirty-first such report required by that Commission Order.⁴ While the preparatory and FERC refund re-runs are now complete, the ISO will continue to provide monthly status reports throughout the resettlement and financial phases of the process because the ISO believes that these reports have been a valuable tool for communicating with the Commission and Market Participants, in addition to meeting the Commission-mandated reporting requirement.

¹ In its October 16, 2003 Order on Rehearing, 105 FERC ¶ 61,066 (2003), the Commission ordered the ISO to file within five months of the date of the order the results of the preparatory re-runs along with the appropriate explanations. The ISO considers that this directive has been overtaken by FERC’s later recognition in the Amendment No. 51 proceeding that the ISO could not possibly comply with the deadline in the October 16 Rehearing order, as well as the deadlines in the previous Amendment 51 orders. The ISO is endeavoring to comply, however, with FERC’s directive that the ISO work as fast as practicable, keep the parties well informed, and file monthly status reports. For this reason, in addition to the Amendment No. 51 docket, the ISO is also filing this report in the dockets associated with the California refund proceeding.

² 106 FERC 61,099 (2004). The context of the February 3 Order in prior versions of the ISO’s status report.

³ Capitalized terms not otherwise defined herein shall have the meanings set forth in the Master Definitions Supplement, Appendix A to the ISO Tariff.

⁴ The ISO did not file a monthly status report for last month, August, 2006. The ISO did not file a report for August because there were no material changes in the ISO’s plans from the previous status report. Although the ISO did engage in discussions with several parties during late July and early August concerning various refund issues, none of those discussions had made substantial headway by early to mid August.

II. CURRENT STATUS OF RE-RUN ACTIVITY

The ISO has finished publishing settlement statements reflecting the refund rerun, and has begun the financial adjustment phase, in which the ISO is making adjustments to its refund rerun settlement data to account for fuel cost allowance offsets, emissions offsets, cost-based recovery offsets, and interest on amounts unpaid and refunds. As of the date of this report, the ISO has begun adjustment processing activities associated with the fuel cost and emissions offsets, and has distributed several interest calculations as well.

The ISO completed the first portion of the fuel cost adjustment calculations, which is determination of allocation percentages for each Scheduling Coordinator (as discussed in greater detail below), and distributed those calculations to Scheduling Coordinators for their review on December 22, 2005.⁵ The ISO received comments from several parties on the allocation percentages data. Based on two issues raised in these comments, the ISO performed minor updates to the allocation percentage data. The ISO distributed the revised percentage data for a one-week review period, along with a market notice informing parties of this distribution on June 1, 2006. The ISO received comments from two parties, APX and BPA. Also, based on information provided by the PX, the ISO performed corrections to the fuel cost data associated with ten hours. Finally, the ISO discovered that one small modification to the fuel cost percentage data was required in order to remove the allocation of fuel costs to an ISO SC ID used for internal administrative purposes.

⁵ The calculations were placed on a CD and sent via Federal Express, and were received by Scheduling Coordinators on December 23, 2005.

Also, on January 26, 2005, the Commission issued an order on the cost-based recovery filings made by a number of parties. 114 FERC ¶ 61,070 (2006). Therein, the Commission approved a number of the cost filings, rejected certain cost filings with prejudice, required other parties to make compliance filings to correct errors in their submittals, and deferred ruling on certain cost filings where the filing entity is likely to be a refund recipient. In the January 26 Order, the Commission also required parties to submit updated cost filings to the ISO

On May 12, 2006, the Commission issued an order setting forth an allocation methodology for the offsets associated with the cost filings.⁶ The Commission directed the ISO to allocate these offsets to parties in proportion to the net refunds they are owed. In its last several status reports, the ISO has addressed in detail the methodology it plans to use in order to implement the allocation methodology adopted by the Commission in the May 12 Order. Also, the ISO has entered into discussions with several parties, including the California Parties, the Competitive Supplier Group, and the PX, concerning the issue of how to account for refunds in both the ISO and PX markets in performing the cost-based filing allocation. The ISO plans to work with these and any other interested parties in order to, if possible, develop a methodology to account for refunds in both the ISO and PX markets that all interested parties agree with, and will file this methodology with the Commission as soon as it is developed.

⁶ 115 FERC ¶ 61,171 (2006) ("May 12 Order").

On August 23, 2006, the Commission issued an order addressing disputes filed by parties on December 1, 2005 relating to the ISO and PX rerun data.⁷ In that order, the Commission also addressed the issues raised by Ernst & Young in its fuel cost audit reports.

There is one outstanding issue that precludes the ISO from completing its calculations and, ultimately, its compliance filing. Specifically, the ISO is awaiting a Commission ruling on the following issue:

- The Commission's order on the compliance filings made by several parties pursuant to the January 26 Order (see p. 9).

A. FUEL COST ALLOWANCE DATA

As explained in greater detail in previous status reports, Ernst & Young raised issues with respect to a number of the fuel cost claims that it audited. In response to Ernst & Young raising these issues, the ISO filed with the Commission asking that the Commission clarify that the ISO will not be required to complete the fuel cost allocations or the calculation of interest until the Commission resolves the issues raised by Ernst & Young.

Specifically, the ISO stated that it planned to adopt a two-track approach to allocating the fuel cost allowance offsets, and requested that the Commission clarify that this process is appropriate. Under this two-track approach, the ISO explained that it would first calculate, for each entity that participated in the ISO's markets during the Refund Period (*i.e.*, October 2, 2000 through June 20, 2001), the percentage of the total fuel cost claim amounts to be allocated to these

⁷ 116 FERC ¶ 61,167 (2006) ("August 23 Order").

entities for each hour, consistent with the methodology approved by the Commission for doing so, then distribute those allocation percentages to the parties for their review, and provide a three-week period for parties to dispute the ISO's calculations.⁸ The ISO will then use these validated numbers to calculate the final allocation percentages, as well as the final allocation of actual dollar amounts.

As noted above, on December 22, 2005, the ISO distributed the allocation percentages to parties, and received comments from several parties. Based on two issues raised in comments, the ISO performed minor updates to the allocation percentage data.⁹ The ISO distributed these revised allocation percentages on June 1, 2006 for a one-week review period limited to the changes made to that data set based on the comments that it received. As of the end of that review period, the ISO received comments from APX and BPA. The ISO anticipates resolving the issues raised in these comments soon.

Additionally, as noted above, the ISO received information from the PX that led the ISO to make corrections to the fuel cost allocation percentages for ten hours during the Refund Period. As reported in the previous status report, the ISO will also be performing a minor modification to the fuel cost data in order to remove the assignment of fuel costs to an internal ISO SC ID.

⁸ The ISO subsequently extended this period to four weeks because of the intervening holiday season.

⁹ Specifically, the ISO refined the calculations to include intervals when: (1) total charges for negative deviations were mitigated by less than \$0.01, and (2) when only the Charge Type 407 settlement price was mitigated. The initial calculations did not capture these two scenarios. These changes affected a total of only 16 intervals during the Refund Period, all which occur during the months of October and November of 2000.

In the August 23 Order, the Commission acted on the issues raised by Ernst & Young in its fuel cost audit reports. Therein, the Commission rejected fuel cost claims made by Mirant, Burbank and Redding, but found that the heat rate data used by several claimants outside the ISO Control Area had been sufficiently validated. The Commission also clarified that the ISO should continue to process fuel cost claims submitted by municipal and governmental entities. With this ruling, the ISO will now be able to apply the total approved amount of the fuel cost allowances to the parties based on their respective allocation percentages. The ISO estimates that this will take several weeks. When this process is complete, the ISO will distribute the final allocation data to parties for a one-week review period. The ISO will issue a market notice, with a copy to the email listserv, informing parties when this data is ready for release.

B. EMISSIONS OFFSETS

In the Findings of Fact in the Refund proceeding¹⁰ and again in the Commission's Order of March 26, 2003,¹¹ the Commission found that 3 entities, Duke, Dynegy, and Williams, had supported their requested emissions allowance. Three other entities – Reliant, the City of Pasadena, and the Los Angeles Department of Water and Power ("LADWP") – were ordered to reallocate and recalculate their emissions allowances.¹² Also, in the

¹⁰ Certification of Proposed Findings on California Refund Liability, Issued December 12, 2002, PP 729-760.

¹¹ 102 FERC ¶ 61,317 (2003) item BB.

¹² With respect to Reliant, the Commission, in its March 26 Order, accepted the Presiding Judge's finding that although Reliant would be required to recalculate its emissions on a pro-rata

Commission's October 16, 2003 order, the Commission clarified that emissions offsets would be recoverable only for mitigated intervals.

On September 20, 2005, the Commission issued an order accepting the recalculated emissions claims of Pasadena and LADWP. 112 FERC ¶ 61,323 (2005). The Commission also acknowledged receipt of Reliant's informational filing detailing a pro rata allocation of its emissions costs offset among mitigated and non-mitigated intervals. *Id.* at P 40.

In its most recent status reports, the ISO noted that it had received revised emissions claims for all outstanding entities, and will incorporate these data into the financial adjustment phase.

On April 25, 2006, the ISO distributed data reflecting the allocation percentages for emissions for each party during the refund proceeding. The ISO provided a several week period for party comments on these data, and received none. In the next several days, the ISO expects to circulate a market notice, with a copy to listserv, that contains the approved emissions claim amounts that it will use in its calculations, as well as an explanation of the methodology for determining the resulting refund offsets. As explained in the notice, the ISO intends to use these claim amounts, along with the percentages distributed on April 25, 2006, to determine the final refund offsets associated with approved emissions claims.

basis, Reliant would be permitted to use the California Generators' existing pro rata allocation exhibit, and would not be required to re-file that information.

C. COST-BASED RECOVERY FILINGS

On January 26, 2006, the Commission issued an order on the cost-based recovery filings. Therein, the Commission approved a number of the cost filings, rejected certain cost filings with prejudice, required other parties to make compliance filings to correct errors in their submittals, and deferred ruling on certain cost filings where the filing entity is likely to be a refund recipient. The Commission directed those parties whose filings required modification to submit their modified cost filings directly to the ISO. The Commission also directed the ISO and PX to submit to parties in this proceeding updated settlements data that included the impact of the MMCPs and all manual adjustments. The ISO did so on February 15, 2006.

The ISO has received from parties various modified cost filings, and the ISO posted a list of the filings that it received on the EL00-95 email listserv on March 31, 2006, and information about which filings it intends to process. On April 28, 2006, the ISO filed a response to pleadings filed by Coral and Constellation in the refund dockets in which the ISO clarified that it would not be performing any verification of the modified cost filings that it received, other than to confirm that each filing includes the required signed attestation by a company officer certifying that the filing was prepared in accordance with the Commission's directives in the January 26 Order, which the ISO did upon receipt of the filings in March.

The January 26 Order required five parties (Avista, Portland General, Powerex, Sempra, and TransAlta) to make separate compliance filings with the Commission. Those filings are currently pending before the Commission, and

the ISO requires Commission rulings on those filings before processing cost-recovery offsets associated with those parties.

As also noted above, the Commission issued an order approving an allocation methodology for cost filings on May 12, 2006. Therein, the Commission concluded that offsets from cost filings should be allocated to purchasers based on their net refunds. In its June 2006 status report, the ISO explained the methodology that it intends to adopt in order to implement the Commission's methodology. However, after considering questions posed by several parties, the ISO recognized that certain portions of its methodology discussion in the June 2006 status report should be clarified. Therefore, the ISO made several modifications to its methodology, which it set forth in its July, 2006 status report.

The ISO also recognizes that there is an important issue about how to account for refunds in both the ISO and PX markets when allocating the cost-based filing offsets. Over the past two months, the ISO has had discussions concerning this issue with several parties, including the California Parties, the Competitive Supplier Group, and the PX. The ISO plans to continue to work with these and any other interested parties to develop a methodology in order to allocate cost-filing offsets in a manner that accounts for refunds in both the ISO and PX markets. The ISO's hope is that a methodology can be developed that all interested parties agree with, and the ISO can complete the calculations on that basis.

The ISO estimates that once it develops this methodology and receives an order from the Commission on the cost filing compliance filings made by the five

parties noted above, that it will require three to four business weeks to complete the calculations and distribute the offset data for parties to review. As with other major data distributions, the ISO plans to provide parties a three week period in which to review this data and provide any comments to the ISO. The ISO will issue a market notice, which will be posted on the listserv, when this data is available.

D. INTEREST CALCULATIONS

As noted in previous reports, the ISO has made several distributions of interest data to parties. First, on January 12, 2006, the ISO distributed to parties via the listserv a spreadsheet showing the reversal of all interest amounts originally charged to entities that transacted with the ISO during the Refund Period, along with an explanatory memorandum. Also, on May 1, 2006, the ISO made available to parties a spreadsheet showing the calculation of interest on unpaid invoices during the Refund Period, pursuant to the methodology approved by the Commission. The ISO also posted to listserv on that date a memorandum explaining these calculations. The ISO has performed minor updates to these calculations which it will distribute to parties in the next several days via listserv, along with an explanation of the changes made.

E. STATUS OF ADR CLAIMS

As noted in previous reports, a number of claims that relate to the Refund period are being pursued by various Market Participants in Alternative Dispute Resolution (“ADR”) pursuant to Section 13 of the ISO Tariff. In previous monthly

reports, the ISO noted that charges resulting from three of these disputes, should they be resolved soon, may be “walled off” and charged to the Scheduling Coordinators active in the ISO Market at the time of the activity giving rise to the dispute. Also, in its February 2006 status report, the ISO noted that it was also planning to make an additional adjustment that will impact Refund Period data in order to properly reflect the resolution of a GFN between the ISO and Sempra.

The ISO continues to suspend conference calls with Market Participants on the status of re-run activity until any issues surface that suggest the need for additional calls. The ISO will likely schedule another conference call after it distributes the data from the financial adjustment phase, in order to field questions from Market Participants on that data. The ISO will inform Market Participants when it schedules that call.

F. DECEMBER 1 DISPUTES

On December 1, 2005, pursuant to the Commission’s August 8, 2005 order on cost-based recovery issues,¹³ several entities filed with the Commission pleadings raising actual, or potential, disputes with respect to reruns and offsets. In the August 23 Order, the Commission acted on these disputes, rejecting the majority of them. With respect to the dispute filed by Puget Sound concerning ISO settlement data, the Commission required the ISO and Puget to attempt to resolve the issues raised by Puget, and to file periodic status reports concerning these efforts. The ISO and Puget filed the first of these reports on September 7, 2006.

¹³ 112 FERC ¶ 61,176 (2005) at P 116.

III. ESTIMATED SCHEDULE FOR COMPLETION OF THE REFUND RE-RUN ACTIVITY

Attachment A to this status report contains the ISO's estimate of the time that will be required to complete the financial adjustment phase. As noted above, the preparatory re-run was completed July 16, 2004, the FERC refund re-run statement production phase was completed February 15, 2005, and the ISO is currently processing the financial adjustment phase offsets. The ISO has completed the first step of the two-step fuel cost allowance allocation process, and has distributed the results of these calculations to parties, as noted above. The ISO is now processing emissions offsets, has distributed data on allocation percentages to parties for review, and expects to distribute data on the actual offsets shortly.

The ISO is still not certain how long it will take to complete the financial adjustment phase, because the ISO has not yet received a ruling on the cost-based compliance filings from several parties. Once it receives this ruling, the ISO will be able to complete the cost offset calculations in three to four business weeks. As with the other two offsets, the ISO plans to provide the resulting cost offset data to parties for a three- week review period. Thereafter, the ISO anticipates that it would take approximately four business weeks to complete interest calculations, which includes any necessary calculations based on the PX interest adjustment. The ISO plans to distribute the final interest calculations, including the PX adjustment calculations, for party review after they are completed.

Finally, the ISO also recognizes that this schedule could change as the result of any number of legal challenges to Commission orders, including the recent decisions by the Ninth Circuit Court of Appeals in *BPA v. FERC* concerning the refund liability of non-FERC jurisdictional entities, and *CPUC v. FERC* concerning certain "scope/transactions" issues. However, for reasons set forth in previous status reports, the ISO believes that given the status of these various challenges,¹⁴ there is no basis at this time for the ISO to depart from the schedule directed by the Commission for completing the refund process.

IV. CONCLUSION

The ISO respectfully requests that the Commission accept the ISO's thirty-first refund status report in compliance with the Commission's February 3 Order, referenced above.

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Dated: September 19, 2006

¹⁴ The only decisions that have been rendered concerning the various issues in this proceeding are the *BPA v. FERC* and *CPUC v. FERC* decisions, and the Ninth Circuit has yet to issue the mandates for those decisions.

ATTACHMENT A

TIMELINE FOR COMPLETION OF FINANCIAL ADJUSTMENT PHASE
OF REFUND PROCEEDING
SEPTEMBER 2006

A. Allocation of Fuel Cost Allowance Offsets – 3-4 Weeks

- ISO Makes Final Adjustments to Allocation Percentages, Calculates Actual Dollar Offsets for each Market Participant and Distributes to Market Participants for a 1-Week Review Period.

B. Allocation of Emissions Offsets – 1 Week

- The ISO will calculate the emissions offsets pursuant to the “total Control Area Gross Load” methodology using the allocation percentages already distributed to parties.

C. Allocation of Cost-Recovery Offsets – Estimated 4 Weeks from Necessary Commission Order

- The ISO is awaiting a ruling from the Commission on cost-recovery compliance filings made by five parties pursuant to the January 26 Order.
- ISO expects to coordinate with the PX in calculating allocations.

D. Calculation of Interest – 4 Weeks

- Consists of the ISO’s own calculations, and the sharing of information between the ISO and PX to ensure consistency between the two.
- The calculations for interest cannot commence until all of the allocation steps are completed. Therefore, the time to complete the interest calculations is in addition to all of the previous steps.

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 19th day of September, 2006.


Charity Wilson