

ALSTON & BIRD LLP

601 Pennsylvania Avenue, N.W.
North Building, 10th Floor
Washington, DC 20004-2601

202-756-3300
Fax: 202-756-3333

Michael Kunselman

Direct Dial: 202-756-3395

Email: Michael.Kunselman@alston.com

September 12, 2005

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 Twentieth 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)

**TWENTIETH 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 twentieth regular monthly status report.¹

¹ The Commission's Order at paragraph 21 states, "The CAISO is hereby directed 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 settlement and billing process for calculating refunds, as discussed in the body of this order." 106 FERC ¶ 61,099 (2004).

I. BACKGROUND²

In the February 3 Order,³ the Commission directed the ISO⁴ "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 constitutes the twentieth such report required by that Commission Order. 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.

II. CURRENT STATUS OF RE-RUN ACTIVITY

The FERC refund re-run settlement statement publishing process has been completed. The next step is the financial adjustment phase, in which the

² 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.

³ The context of the February 3 Order is detailed in the ISO's previous nineteen status reports, most recently filed in the above-captioned dockets on August 10, 2005.

⁴ Capitalized terms not otherwise defined herein shall have the meanings set forth in the Master Definitions Supplement, Appendix A to the ISO Tariff.

ISO will make adjustments to its refund re-run settlement data to account for fuel cost allowance offsets, emissions offsets, cost-based recovery offsets, and interest on amounts unpaid and refunds. Several recent developments may affect the ISO's re-run activities.

A. FUEL COST ALLOWANCE DATA

First, on August 30, 2005, consistent with the Commission's notice issued on July 28, 2005,⁵ the ISO received fuel cost data from a number of entities claiming fuel cost offsets. The ISO also received, on this date, copies of the audit reports prepared by Ernst & Young for each of the entities that it audited. With respect to these data and the associated reports, two issues are worth mentioning. First, a review of these reports indicates that Ernst & Young has not approved the fuel cost claims of several entities.⁶ Specifically, Ernst & Young details a number of potential "exceptions" from the Commission's fuel cost methodology. Ernst & Young notes that it will attempt to resolve these exceptions with the applicable claimants over a 30 day period beginning on August 30, 2005. However, given that a number of these potential exceptions appear to be theoretical in nature such that any correction might require significant modification or supplementation to the applicable claims, the ISO is not entirely confident that these issues can be resolved in 30 days.

In addition, in one of the reports, Ernst & Young states that in order to resolve a possible exception, the claimant would be providing work papers to the

⁵ "Notice of Extension of Time," issued in Docket Nos. EL00-95-098, *et al.* (July 28, 2005).

⁶ Out of the ten reports provided by Ernst & Young, six include exceptions which Ernst & Young states may cause these claims to be deficient under the Commission's orders in this proceeding.

ISO so that the ISO can “undertake appropriate validation” of the claimant’s fuel cost data. The ISO’s understanding, based on the Commission’s orders in this proceeding, has always been that the ISO’s role in this process is limited to allocating those fuel cost claims that are certified as having been prepared consistent with the Commission’s methodology. The ISO has never anticipated that it would be tasked with resolving questions as to whether particular claims were prepared in a manner consistent with the Commission’s methodology, or validating claimants’ fuel cost data. Indeed, the ISO submits that assuming such a role would be directly at odds with the Commission’s orders addressing fuel cost issues, in which the Commission stated that it is the *auditor’s* responsibility to “review and verify that the source data used in fuel cost calculations are correct and comprehensive, and that the calculations performed to determine a fuel cost allowance claim conform to the Commission’s directive.” 107 FERC ¶ 61,160 (2004) at P 74. If Ernst & Young cannot resolve these potential exceptions, then it is appropriately before the Commission, not the ISO, to determine whether or not the applicable claims were prepared in accordance with the Commission’s fuel cost methodology.

The ISO is still in the process of reviewing the Ernst & Young reports and the fuel cost claims, and attempting to determine the scope and potential impact of the possible exceptions noted by Ernst & Young. The ISO anticipates that it will be in a position to provide more detailed and definitive information to the Commission on this issue in the next several days, and will file a separate report doing so.

B. EMISSIONS OFFSETS

Second, in the Findings of Fact in the Refund proceeding⁷ and again in the Commission's Order of March 26, 2003,⁸ 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.⁹ Also, in the Commission's October 16, 2003 order, the Commission clarified that emissions offsets would be recoverable only for mitigated intervals. The ISO again wishes to inform the Commission that it will need the approved emissions amounts promptly in order to complete the financial adjustments phase of the rerun process. A number of filings have been made with the Commission in recent months raising emissions issues. The Commission has yet to act on these pleadings.

C. COST-BASED RECOVERY FILINGS

Third, in the previous status report, the ISO noted that the Commission's November 15, 2005 date for approving any cost-based recovery filings could potentially result in a delay to the ISO's current refund schedule, but that the ISO could not be certain until the Commission ruled on a methodology for allocating

⁷ Certification of Proposed Findings on California Refund Liability, Issued December 12, 2002, PP 729-760.

⁸ 102 FERC ¶ 61,317 (2003) item BB.

⁹ 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 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.

any approved cost-based offsets. The ISO notes that there are a number of pleadings currently before the Commission which address the issue of extending the deadlines relating to the cost-based recovery filings. Any delay in the Commission's ultimate ruling on both the cost-recovery filings themselves, and a methodology for allocating those filings, will necessarily require an extension of the ISO's schedule for completing the financial adjustment phase.

D. STATUS OF ADR CLAIMS

Finally, 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. The prior reports also noted the following claims posted on the ADR page of the ISO website (<http://www.caiso.com/clientserv/adr/>): "SMUD Dispute Matter", "California Department of Water Resources 7/20/04", "San Diego Gas & Electric Matter 7/6/01." In addition, the ISO also noted that it would inform the Commission and the Market Participants, in a subsequent status report, if and when these disputes are resolved, and the financial impact on Scheduling Coordinators of resolving these disputes.

The ISO wishes to report that the parties have reached settlement on the "San Diego Gas & Electric Matter 7/6/01," and the ISO is currently performing related settlements adjustments. The ISO has been providing information on

these adjustments to affected Scheduling Coordinators on their daily preliminary settlement statements. The ISO will provide additional details on this matter in its next monthly status report.

The ISO continues to suspend conference calls with Market Participants on the status of re-run activity until after the final receipt of all audited fuel cost information, anticipated on November 1, 2005, or until any issues surface that suggest the need for additional calls.

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

Attachment A to this status report contains the ISO's current estimate of the final completion date for the FERC refund re-run phase of the project. As noted above, the preparatory re-run was completed July 16, 2004, and the FERC refund re-run statement production phase was completed February 15, 2005. The attached schedule is the same schedule as provided in the ISO's last status report. However, as described above, recent developments concerning fuel cost allowance claims and the cost-based recovery filings could potentially require an extension of this schedule, depending on how these issues are resolved.

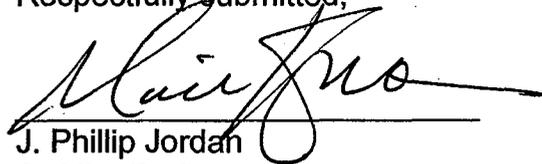
Note that the compliance filing after the refund re-run will include adjustments for fuel price, emissions and interest, and cost-recovery filings, but will not include adjustments for the various global settlements.

IV. CONCLUSION

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

Charles F. Robinson
Anthony J. Ivancovich
The California Independent System
Operator Corporation
151 Blue Ravine Road
Folsom, CA 95630
Telephone: (916) 608-7049

Respectfully submitted,



J. Phillip Jordan
Swidler Berlin LLP
3000 K Street, N.W., Suite 300
Washington, DC 20007
Tel: (202) 424-7500

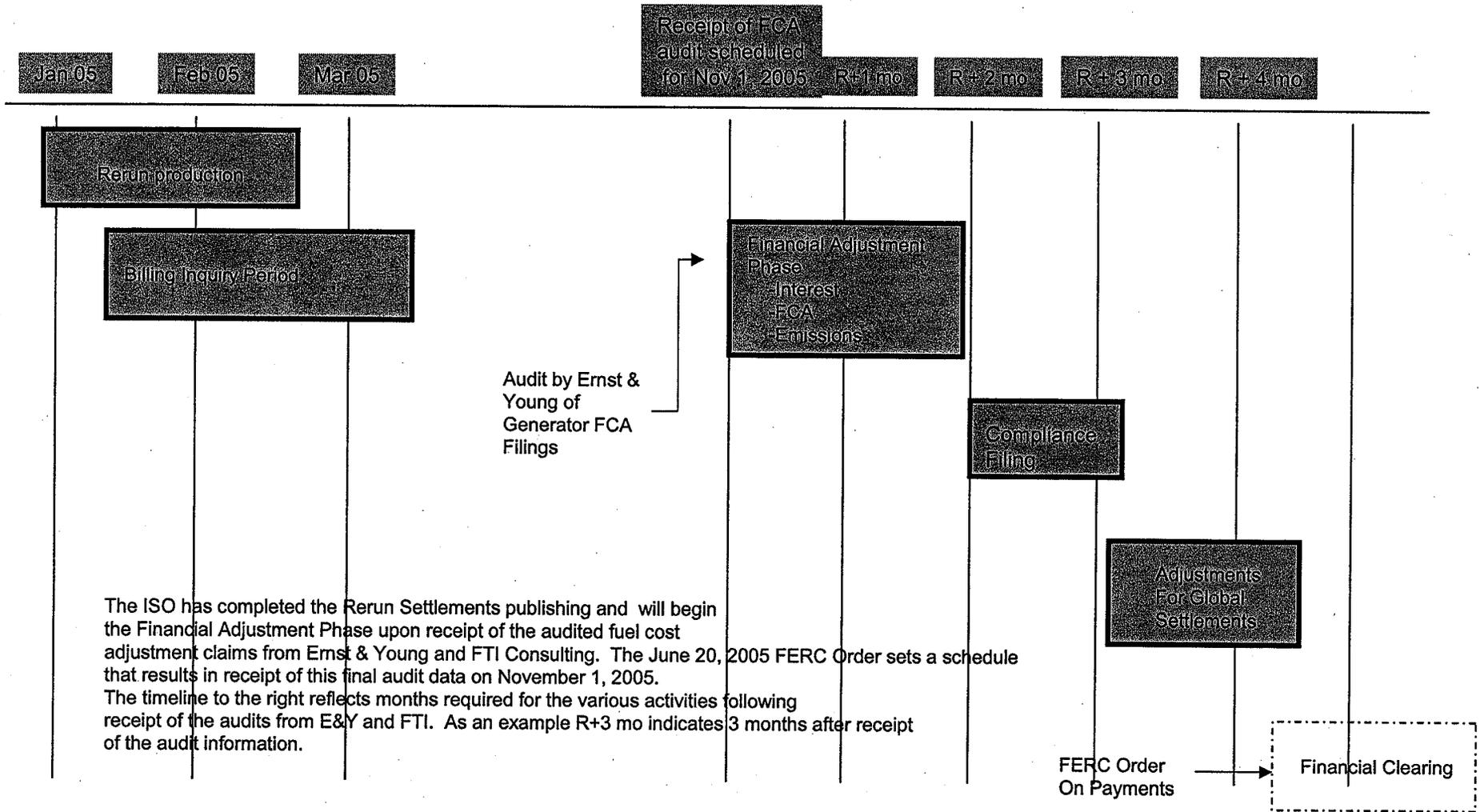
Michael Kunselman
Alston & Bird LLP
601 Pennsylvania Ave., N.W.
North Building, 10th Floor
Washington, DC 20004
Tel: (202) 756-3300

Dated: September 12, 2005

ATTACHMENT A

ISO Refund Rerun Project

August 10, 2005



ATTACHMENT A – RE-RUN SCHEDULE

September 12, 2005

Key assumptions/comments to support the schedule (Updated for the refund re-run)

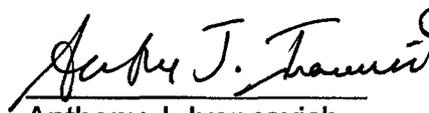
The ISO envisions the following additional phases of the refund project

- o *Financial adjustment phase - scheduled for approximately 6-8 weeks following receipt of the fuel cost allowances following audit by Ernst and Young and FTI Consulting. The ISO will submit its compliance filing 2-4 weeks after the completion of the financial adjustment phase.*
- o *Adjustment for global settlements - the ISO will make adjustments to invoices based on written instructions from the settling parties. These adjustments will affect the owed and owing of the settling parties only and will not affect non-settling parties.*

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 12th day of September, 2005.


Anthony J. Ivancovich MNE