



January 10, 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 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

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

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

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

**I. INTRODUCTION**

Pursuant to the Commission's order of December 10, 2004, the California Independent System Operator ("ISO") provides the following comments<sup>1</sup> addressing issues raised by the Commission in that order. The ISO's brief comments will be confined to addressing only one issue, that being item D, Timing of Cost Recovery Filing, found on the final page of the Commission's order.<sup>2</sup>

In addition, the ISO, as always, would like to thank the Commission for this opportunity to provide comments on the specific methodology by which the

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

<sup>2</sup> Order of December 10, 2004, 109 FERC ¶ 61, 264 at page 5.

refunds are to be calculated. In this particular case the Commission has specifically delegated the task of the calculation of the final amounts owed and owing to the ISO. Thus, the ISO has a unique position in the process. In addition, it is vitally important that the ISO is able to carry out the needed calculations with its current Settlements and Finance personnel while at the same time settling and clearing the current ISO Market activity and performing the other functions that are required of it. Methodological proposals that will incrementally tax the human and other resources of the ISO beyond their capacity must be analyzed with these constraints in mind.

## **II. COMMENTS**

The specific issue raised by the Commission states:

### **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?

This proposal is a matter of extreme concern to the ISO as the entity that has been charged with the responsibility for calculating the refund amounts, more formally known as "who owes what to whom", and from an economic perspective. This proposal would be an administrative "nightmare" for the ISO and we believe for the clients of the ISO as well. The concerns fall into 3 categories:

1. At a minimum, this proposal doubles the timeframe for calculations and quality checks associated with the financial adjustment phase and with the global settlement adjustment phase. One complete set of financial calculations would have to be done for the Market Participant/ sellers not

making cost-based rate recovery filings, and then a second set of calculations following the time line that the ISO has previously laid out would have to be performed for the sellers seeking cost-based rate recovery.

2. The ISO would need to modify its software or worse, perform a settlement production re-run. Any payment to an entity requires a cost allocation to the rest of the ISO Market. We have been able to conduct the cost allocation for the fuel cost adjustment outside the settlement system. Hopefully, the software modification would deal with the format of the seller's cost adjustments, otherwise a partial or total settlements re-run could again be required to assess the cost allocation for these additional adjustments.
3. Multiple financial clearings would be greatly complicated by the bankruptcies that are involved during the refund period.

While the proposal is aimed at providing funds to the ISO Market more rapidly, this goal is already being achieved by the release of funds via the global settlements that are being negotiated between the California Parties (which include the largest buyers in the ISO Markets during this time period), and various sellers.

The methodological proposal stated above also is concerning in that it may motivate sellers to file for cost-based rate recovery, even if they stand little chance of successfully demonstrating that they are eligible for cost-based treatment. This is the case because, under the Commission's proposal, any

seller that makes a cost-based rate recovery filing will be in the second group of sellers to have the amount of their refund liability calculated by the ISO and presumably paid by the seller. The ability to hold on to the refund dollars longer constitutes an important economic benefit that may induce some sellers to make cost-based rate filings that otherwise would not.

### III. CONCLUSION

Wherefore, for the reasons stated above the ISO respectfully asks the Commission to accept these comments on discussion item D in its order of December 10, 2004.

Respectfully Submitted,

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Date: January 10, 2005

**CERTIFICATE OF SERVICE**

I hereby certify that I have on this 10th 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