



March 22, 2002

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

**Re: San Diego Gas & Electric Company  
Docket Nos. EL00-95-058, et al.**

**Investigation of Practices of the California Independent System Operator and the  
California Power Exchange  
Docket Nos. EL00-98-050**

Dear Secretary Salas:

The California Independent System Operator Corporation ("ISO") respectfully submits six copies of the Compliance Report in the above-captioned dockets. I would appreciate your stamping the additional copies with the date filed and returning them to the messenger.

Thank you for your assistance in this matter.

Respectfully submitted,

Margaret A. Rostker  
Counsel for the California Independent  
System Operator Corporation  
151 Blue Ravine Road  
Folsom, CA 95630  
(916) 608-7147

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

**San Diego Gas & Electric Company,                                    ) Docket Nos. EL00-95-058,  
  *et al.*    ) *et al.***

**Investigation of Practices of the    ) Docket No. EL00-98-050  
California Independent System    )  
Operator Corporation and the   )  
California Power Exchange   )**

**Compliance Report of the  
California Independent System Operator Corporation**

**I. Background**

On January 25, 2002, the California Independent System Operator Corporation (“ISO”)<sup>1</sup> submitted a compliance filing (“January 25 Compliance Filing”) in response to the Federal Energy Regulatory Commission (“Commission”) December 19, 2001 orders in the above-referenced dockets.<sup>2</sup> In the January 25 Compliance Filing, the ISO indicated, among other things, that it would file, in eight weeks, a compliance report on implementation of a process for reimbursement of Minimum Load Costs; recalculation of the mitigated market clearing prices based upon a required re-calculation whenever operating reserves drop below seven percent and use of the proxy price only (rather than use of the lower of the proxy price or the actual bid of the marginal thermal unit;

---

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

<sup>2</sup> *San Diego Gas & Electric Company v. Sellers of Energy and Ancillary Services, et al.*, 97 FERC ¶ 61,275(2001) (“December 19 Rehearing Order”); *San Diego Gas & Electric Company v.*

and; application of a ten percent credit risk adder to the mitigated market clearing price and Ancillary Services price. The instant filing is the eight-week compliance report.

On March 7, 2002, the Commission issued its “Order on Motion To Suspend Implementation of Compliance Filing”<sup>3</sup> in the above-referenced dockets in response to a motion filed by Mirant California, LLC, Reliant Energy Power Generation, Inc. and Williams Energy Marketing & Trading Company requesting that the Commission delay the ISO’s re-run of its past market prices.<sup>4</sup> In its March 7 Order the Commission directed the ISO “to suspend its re-run of past market clearing prices as proposed in its January 25 compliance filing until such time that the Commission issues a further order on the compliance filing.” March 7 Order, slip op. at 3. By this instant filing the ISO submits to the Commission information on the ISO’s compliance with the March 7 Order.

## **II. Compliance Report**

### **A. Provisions Implemented**

#### **1. Marketers and Out-Of-Control-Area Bids Limited To \$0/MWh**

As required in the December 19 Orders, the ISO has implemented a system to assure that all out-of-control-area resources not otherwise eligible to set the mitigated market clearing price (“MMCP”) as well as bids from all marketers are inserted into the ISO BEEP stack at a price of \$0/MWh.

---

*Sellers of Energy and Ancillary Services, et al.*, 97 FERC ¶ 61,293 (2001) (“December 19 Compliance Order”) (collectively, “December 19 Orders”).

<sup>3</sup> 98 FERC ¶ 61,254 (2002) (“March 7 Order”).

2. Winter Season Pricing

The ISO has implemented the new winter season MMCP of \$108.00/MWh.

3. Elimination of the Underscheduling Penalty

The ISO removed the penalty on generators for underscheduling Loads.

4. Elimination of Failure To Respond To Dispatch Penalty

The ISO has removed the penalty for a generator's failure to respond to a Dispatch instruction issued during a reserve deficiency period.

5. Ancillary Services Price Set At Time Of Transaction

The ISO has implemented the requirement that the limit on Ancillary Services prices shall be set by that relevant MMCP in place at the time of the transaction for such services, as opposed to such a price that in place at the time of delivery of such services.

6. Hydroelectric Generation Units Can Not Set MMCP

The ISO implemented the requirement that hydroelectric generating units are not eligible to set the MMCP at any time.

7. Prospective Payment of Minimum Load Costs

The ISO continues to develop software for reimbursement of Minimum Load Costs, while recognizing that the ISO already has proposed a change to its initially proposed procedure as filed in the January 25 Compliance Filing. Specifically, in its March 4 Answer to Protests, the ISO proposed that only if bids are accepted should generating units be at risk of loss of Minimum Load Costs

---

<sup>4</sup> Duke Energy North America, LLC and Duke Energy Trading and Marketing, LLC filed a joint motion and Dynegy, Inc. filed an answer in support of the motion.

during their respective Waiver Denial Period. Thus, while making prudent, low-cost and basic adjustments to software, the ISO is awaiting Commission final action on the proposed implementation of the requirement to reimburse generators for operation of Minimum Load in compliance with the must-offer obligation.

8. Retroactive Reimbursement of Minimum Load Costs

The ISO is completing its development of a method for retroactively reimbursing generators who incurred Minimum Load Costs for running in compliance with the must-offer obligation. The ISO process for retroactive reimbursement, effective May 29, 2001, of necessity will vary from the prospective reimbursement of such costs because generators did not know the terms for reimbursement in the past and thus had no opportunity to assure their compliance with any such terms.

9. Reimbursement of Emissions and Start-Up Fuel Costs

The ISO is completing its development of methods for reimbursements of costs for emissions fees and start-up fuel costs as incurred by generators running in compliance with the must-offer obligation.

**B. Provisions Stayed By March 7 Order**

1. Retroactive Recalculation of MMCP

As directed, the ISO has suspended work on compliance with the December 19 Orders direction to recalculate MMCP whenever operating reserves drop below seven percent.

## 2. Proxy Price To Calculate MMCP

Given the suspension of retroactive recalculation of MMCP, the ISO also necessarily has delayed implementation of the requirement that only the proxy price of the marginal thermal unit will be used to calculate the MMCP, effective for mitigated reserve deficiency periods beginning on May 29, 2001, and for mitigated non-reserve deficiency periods, effective on June 21, 2001.

## 3. Ten Percent Credit Adder To Ancillary Services Prices

Given the suspension of retroactive recalculation of MMCP, the ISO also necessarily has delayed implementation of the requirement to add to Ancillary Services prices a ten percent mark-up reflecting credit risk, effective June 21, 2001.

## 4. Cost Justification of Bids Above MMCP

Given the suspension of retroactive recalculation of MMCP, the ISO also necessarily has delayed implementation of identification of all bids that were above the MMCP and were accepted by the ISO for Dispatch.

### **III. Summary**

The ISO requests that the Commission consider the ISO's compliance plans contained herein and immediately advise the ISO of any necessary modifications to the ISO's plans for implementation of the Commission's orders.

Respectfully submitted,

---

Charles F. Robinson  
Margaret A. Rostker  
Counsel for the California Independent  
System Operator Corporation  
151 Blue Ravine Road  
Folsom, California 95630  
Tel: (916) 608-7147

Dated: March 22, 2002

## **CERTIFICATE OF SERVICE**

I hereby certify that I have this day served the Compliance Report of the California Independent System Operator Corporation upon each person designated on the official service list compiled by the Secretary in the above-captioned dockets.

Dated at Folsom, California, on this 22nd day of March, 2002.

---

Margaret A. Rostker  
Counsel for The California Independent  
System Operator Corporation  
151 Blue Ravine Road  
Folsom, CA 95630