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May 16, 2008

The Honorable Kimberly D. Bose
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 Bose:

Enclosed please find one original and fourteen copies of the Forty-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)

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

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The California Independent System Operator Corporation (“ISO”) hereby provides its forty-first status report 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 ISO has revised every section of this status report. Three sections, however, were revised only slightly and do not contain new information: Sections II(B) (Fuel Cost Allowance Data), II(C) (Emissions Offsets) and II(D) (Cost-Based Recovery Filings).

Any comments on this report that are received by June 1 will be considered for incorporation in next month’s status report, scheduled to be filed on or about June 15.

Two parties provided comments in response to the ISO’s fortieth status report, filed on March 18, 2008. On April 2, 2008, the California Parties filed with the Commission comments addressing the fortieth status report, in which they raised issues regarding the procedures for conducting the final steps of the rerun process, the role of the PX in completing the rerun process, and the proper sequencing of adjustments relating to settlements and the BPA remand. On April 16, the ISO filed a response to the California Parties.¹ Powerex requested that the ISO include in its list of “open issues” the issues of whether the ISO should treat emissions offsets in the same manner as fuel cost offsets with respect to cost recovery filings. The ISO has agreed to do so.

¹ The California Power Exchange (“PX”) also filed a response to the California Parties’ comments on April 30. On May 15, the California Parties filed an answer to the PX’s April 30 response.

I. BACKGROUND ABOUT THESE STATUS REPORTS²

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. While the preparatory and FERC refund re-runs are now complete, the ISO will continue to provide status reports throughout this 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. This filing is the forty-first such report.

II. CURRENT STATUS OF RE-RUN ACTIVITY

The ISO finished publishing settlement statements reflecting the refund rerun and adjustments thereto in February of 2007, and is about to complete 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.

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

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

financial adjustment phase. This most recent phase required the ISO to make 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 finished processing offsets, has distributed several interest calculations, and is in the process of completing its interest calculations for the financial adjustment phase.

Attachment B to this status report contains a list of the major ISO refund calculation distributions and the associated review and comment periods provided to parties by the ISO to date. In some cases, the ISO did not provide any specific closing date for comments, but rather, continued to solicit and consider comments and make appropriate corrections until the data were utilized to make further calculations.

A. OPEN ISSUES RELATING TO THE PREPARATORY RERUN AND REFUND RERUN

As noted in the Commission's October 19 Order on Remand, 121 FERC ¶ 61,067 (2007) ("October 19 Order"), certain ISO ADRs need to be resolved before a distribution can be made in this proceeding. The only three that remain unresolved are one brought by the Southern Cities, which is pending rehearing, and two brought by PG&E related to COTP, which remain in settlement discussions:

10/5/00 Pacific Gas & Electric
Company Matter

This matter remains unresolved. It will affect the prep rerun data before the refund period, with the precise effect to be determined. It will not affect the refund period data or calculations.

10/30/00 Southern Cities Matter FERC Docket No. EL03-54. On March 29, 2007, the Commission vacated an earlier order and reinstated the award of the arbitrator, which is reflected in ISO settlements. See 118 FERC ¶ 61,255. But the March 29 order is pending rehearing. Were the Commission to grant rehearing, additional adjustments would have to be made to ISO Settlements.

6/10/04 Pacific Gas & Electric Company Matter On May 15, 2008, the Commission ruled on the petition for review in FERC Docket No. EL06-10. The ISO intends to implement the award as soon as practicable. It will affect the refund period data during May and June 2001.

More information about these matters is available on the FERC website and at <http://www.caiso.com/clienterv/adr/index.html>.

With respect to these open ADRs, the ISO respectfully requests that the Commission issue its order on the Southern Cities case before the distribution is made in this proceeding, and be prepared to provide relatively prompt rulings on any forthcoming filings that may be necessary to resolve the COTP disputes, so as to minimize any potential disruptions to the refund process going forward.

In addition, there are several open issues regarding the ISO's calculations to date in this proceeding, as well as future adjustments ordered by the Commission. These open issues are listed in Section III.C below. As discussed in that Section, and as noted in the ISO's fortieth status report, the ISO will, in the near future, be filing a pleading with the Commission requesting that the Commission rule on these open issues as soon as possible in order to ensure, to the maximum extent possible, that the ISO's calculations to date as well as those

to be performed in subsequent adjustments appropriately reflect the Commission's mandates in this proceeding.

B. FUEL COST ALLOWANCE OFFSETS - COMPLETE

The ISO completed the offsets for fuel cost in August of 2007. As explained in greater detail in previous status reports, the ISO pursued a two-track approach with respect to calculating fuel cost allowances. First, the ISO calculated, 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 entities for each hour, consistent with the methodology approved by the Commission for doing so. Second, the ISO used these validated numbers to calculate the final allocation percentages, as well as the final allocation of actual dollar amounts.

On December 22, 2005, the ISO distributed the first set of fuel cost allocation percentages to parties, and received comments from several parties. The ISO made several revisions to this data set and distributed the revised allocation percentages for another round of review on June 1, 2006. Since then, the ISO made various further modifications to the fuel cost percentages, most recently to adjust its calculations in order to allocate an additional \$7 million from the fuel cost claim of Los Angeles Department of Water and Power in the ISO markets. This modification was described in detail in the ISO's 38th status report. The ISO circulated the most recent fuel cost data on July 16, and accepted comments on this data through August 8. Finally, in an effort to finalize the fuel cost allowance allocation calculations, the ISO made two additional

adjustments, which it described in the thirty-seventh and thirty-eighth status reports. With these adjustments, the ISO finalized its fuel cost allocation calculations, and provided the data to the PX in order that the PX could complete its own fuel cost calculations. The ISO also used the final fuel cost calculations as an input in the cost-offset calculations.

C. EMISSIONS OFFSETS - COMPLETE

The ISO's work on the emissions offset was completed and uploaded in September of 2006. By way of background, in the Findings of Fact in the Refund proceeding⁵ and again in the Commission's Order of March 26, 2003,⁶ 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.⁷ Also, in the 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.⁸ 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.

⁵ Certification of Proposed Findings on California Refund Liability, Issued December 12, 2002, PP 729-760.

⁶ 102 FERC ¶ 61,317 (2003) item BB.

⁷ 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.

⁸ 112 FERC ¶ 61,323 (2005).

In earlier status reports, the ISO noted that it had received revised emissions claims for all outstanding entities. The ISO has incorporated 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. On September 21, 2006, the ISO circulated the final 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 market notice accompanying that distribution, the ISO used these claim amounts, along with the percentages distributed on April 25, 2006, to determine the final refund offsets associated with approved emissions claims.

D. COST-BASED RECOVERY FILINGS – COMPLETE

The ISO completed work on cost-recovery offsets in January of 2008. The background on cost-recovery offsets is as follows: 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 status report filed July 10, 2006 in these dockets (pages 10-12). In its February 2007 status report, the ISO included a list of the claims that it intends to process.

In previous status reports, the ISO also noted 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. The ISO had discussions concerning this issue with several parties, and based on these conversations, the ISO and PX agreed to a methodology for accounting for net refunds in both the ISO and PX markets, which the ISO set forth in its March 2007 status report. A full explanation of the methodology is included on the CDs that were circulated to parties on April 10, 2007.

The ISO issued updated cost filing allocation data on May 22, 2007. The primary adjustment in this distribution was to properly net the PX position to zero between the ISO and PX markets so that PX participants receiving refunds would be allocated the entire PX portion of the offset.

In its last several status reports, the ISO noted that it would need to update its cost filing allocation calculations in order to account for modifications that it had made to its fuel cost allocation data, as well as changes in the PX's fuel cost allowance allocations resulting from these modifications. The ISO received the necessary data from the PX on November 12, 2007 and made the updated cost-filing allocation calculations available to parties on December 4, 2007. The ISO received comments on these calculations from one party, PG&E. In its comments, PG&E noted that it had recently filed with the Commission, as

part of the California Parties group, a motion for clarification on certain issues that could directly or indirectly affect the cost-filing calculations. PG&E also stated that it had uncovered an inadvertent data error concerning fuel costs in the PX Real-Time market. The PX made the necessary corrections relating to this issue and provided the ISO with updated data. The ISO updated its cost recovery calculations to reflect this correction. Because of the minor nature of this correction, both in scope and financial impact (\$7,003), the ISO did not re-circulate the cost filing allocation data based on this correction. With this minor change, the cost filing allocation process was completed.

E. INTEREST CALCULATIONS – NEARING COMPLETION

To date, the ISO has distributed to parties data concerning four of the five calculations relating to interest. It has 1) backed out interest previously charged for transactions in its markets that occurred during the Refund Period, 2) calculated interest at the FERC rate on unpaid invoices, 3) calculated interest at the FERC rate on preparatory rerun transactions, and 4) calculated interest at the FERC rate on refunds. The history relating to the first three of these calculations has been discussed in detail in the ISO's previous status reports.

The ISO released data regarding interest on refunds on March 23 which is the last interest calculation that the ISO will do as part of the financial adjustment phase. The calculation of interest on refunds is comprised of the adjustments for mitigated market prices, fuel cost allowance offsets, emission offsets and cost based offsets. The interest was calculated through March 31, 2008, the latest date for posted FERC interest rates. The ISO provided parties until April 18,

2008 to review and comment on the calculations. The ISO received comments on the refund interest calculations from several parties. Based on these comments, the ISO has corrected several errors and plans to re-circulate the refund interest data by the end of May, and to provide parties with a two-week period in which to review the updated calculations. The ISO will provide notice to parties via listserv when the updated refund interest calculations are available.

The ISO will also need to perform adjustments to balances in the ISO market to account for any allocation that the ISO receives as a result of a shortfall in the PX markets between interest earned in the PX Settlement Trust Account and the Commission's rate.⁹ However, as explained in the 38th status report, the ISO plans to wait to make these adjustments until after it completes the financial adjustment phase and begins accounting for the impacts of the settlements entered into in this proceeding. The ISO proposes to proceed in this manner because even if it calculates these adjustments during the financial adjustment phase, they will almost certainly have to be re-done when it accounts for settlements in this proceeding. October 19 Order on Remand, 121 FERC ¶ 61,067 (2007) ("October 19 Order").

III. FUTURE CAISO ACTIVITY

As noted in previous status reports, the ISO's intended process for completing the required refund case calculations could change as a result of any number of legal challenges to the Commission's orders (e.g., the Ninth Circuit's

⁹ In its November 23, 2004 "Order on Rehearing" issued in this proceeding, the Commission accepted the ISO's request to allocate any portion of such shortfall assigned to the ISO pro rata to its participants. 109 FERC ¶ 61,218 at P 39 (2004).

decision in CPUC v. FERC concerning certain “scope/transaction” issues). At this point, however, the ISO intends to proceed as follows.

A. REQUEST COMMISSION RULING ON OPEN ISSUES

As noted in Section II.A above, and discussed at length in the ISO’s fortieth status report, there are several open issues relating to the ISO’s calculations to date, as well as the upcoming adjustment necessary to reflect the Commission’s directive to remove refunds associated with non-jurisdictional entities. The ISO plans to present to the Commission a list of all such open issues in this proceeding that must be resolved in order for the ISO to have confidence that its calculations to date have been performed in accordance with the Commission’s mandates, and that it can accurately perform the calculations it has planned for the near future. The ISO will request that the Commission rule on these open issues as soon as practicable.

In the fortieth status report, the ISO included a preliminary list of these issues. The ISO has made two modifications to this list. First, after the filing of the fortieth status report, Powerex requested that the ISO include as an “open issue” the issue of whether the ISO should treat emissions offsets in the same manner as fuel cost offsets with respect to cost recovery filings. The ISO agrees that this qualifies as an “open issue,” and has therefore added it to the list below. Second, on March 25, 2008, the Commission issued an order in this proceeding in which it concluded that the ISO had used the proper clearing price in settling certain transactions entered into with Puget Sound Energy. Therefore, this issue has been removed from the list of “open issues.” Third, on May 8, 2008, PG&E

filed a motion that asks the Commission to direct the ISO to change certain baseline data (the identity of the supplier for certain sales in December 2000). This issue has been added to the list of “open issues.” With these modifications, the “open issues” are as follows:

- Whether it is appropriate for the ISO to include, as part of the refund resettlement process, interest on adjustments made as part of the preparatory rerun.¹⁰
- Whether the ISO should have included in its cost offset calculations updated cost filing data from Constellation Energy based on additional costs incurred by Constellation to maintain collateral with the PX.¹¹
- Whether, for purposes of allocating cost recovery offsets, the ISO and PX should determine “net refunds” based solely on the results of the application of MMCPs, or whether “net refunds” should also include offsets for fuel and emissions costs.¹²

¹⁰ See Thirty-Third Status Report on Re-run Activity, Docket Nos. ER03-746-000, *et al.* (March 16, 2007); Comments of the State Water Contractors and The Metropolitan Water District of Southern California on CAISO's Thirty-Third Status Report re Refund Calculations, Docket Nos. ER03-746-000, *et al.* (April 6, 2007); Comments of the Western Area Power Administration and the Bonneville Power Administration to the California Independent System Operator Corporation's Proposal on Interest on Preparatory Rerun Adjustments, Docket Nos. ER03-746-000, *et al.* (April 19, 2007); Answer of the California Parties, Docket Nos. ER03-746-000, *et al.* (April 23, 2007); Response of California Independent System Operator Corporation to Comments to Proposal to Assess Interest on Certain Preparatory Rerun Adjustments, Docket Nos. ER03-746-000, *et al.* (May 1, 2007); Comments of the City of Santa Clara, California and the City of Redding, California in Response to Comments on CAISO's Proposal on Interest in Preparatory Rerun Adjustment in CAISO's Thirty-Third Status Report re: Refund Calculations, Docket Nos. ER03-746-000, *et al.* (May 1, 2007).

¹¹ See California Parties' Protest to Constellation Energy Commodities Group, Inc.'s Revised Cost Filing Submission to the California Independent System Operator Corporation, Docket Nos. EL00-95-000, *et al.* (November 27, 2006); Constellation Energy Commodities Group's Comments and Request for Rejection of California Parties' Impermissible Protest, Docket Nos. EL00-95-000, *et al.* (December 15, 2006).

¹² See California Parties' Motion for Clarification on Specified Refund Rerun Calculations and Allocations, Docket Nos. EL00-95-000, *et al.* (December 17, 2007); Response of the California Independent System Operator Corporation to California Parties' Motion for Clarification

- Whether the ISO properly included in its cost offset allocation calculations the entire cost recovery claim of Edison Mission Marketing and Trading.¹³
- Whether the ISO properly excluded from the fuel cost offset allocations fuel costs that exceeded a claimant's pre-mitigated amount, as described in Section II.A above.¹⁴
- Whether the ISO should remove from its emissions and fuel cost offset calculations offsets relating to non-jurisdictional entities, and if so, whether it should perform this calculation prior to commencing the settlement adjustment phase.¹⁵
- How the ISO should determine the level of refunds associated with non-jurisdictional entities, as discussed in detail in Section III.B below.
- Which parties qualify as non-jurisdictional entities per the Commission's October 19 Order.
- Whether the ISO should treat the emissions cost allocation amounts attributed to sellers with approved cost recovery offset filings in the same

on Specified Refund Rerun Calculations and Allocations, Docket Nos. EL00-05-000, *et al.* (January 2, 2008).

¹³ See California Parties' Motion for Clarification on Specified Refund Rerun Calculations and Allocations, Docket Nos. EL00-95-000, *et al.* (December 17, 2007); Answer of Edison Mission Marketing & Trading, Inc. to the California Parties' Motion, Docket Nos. EL00-95-000, *et al.* (January 2, 2008).

¹⁴ See Thirty-Eighth Status Report on Re-run Activity, Docket Nos. ER03-746-000, *et al.* (September 7, 2007); Answer to California Independent System Operator Corporation's Status Report of Williams Power Company, Inc., Docket Nos. ER03-746-000, *et al.* (November 27, 2007).

¹⁵ See California Parties' Motion for Clarification on Specified Refund Rerun Calculations and Allocations, Docket Nos. EL00-95-000, *et al.* (December 17, 2007); Response of the California Independent System Operator Corporation to California Parties' Motion for Clarification on Specified Refund Rerun Calculations and Allocations, Docket Nos. EL00-05-000, *et al.* (January 2, 2008); Supplemental Response of the California Independent System Operator Corporation to California Parties' Motion for Clarification on Specified Refund Rerun Calculations and Allocations, Docket Nos. EL00-05-000, *et al.* (January 14, 2008).

manner as fuel cost allocation amounts, such that the allocated emissions cost amounts are included in those sellers' total cost recovery offsets.¹⁶

- Whether the ISO properly declined to substitute the City of Santa Clara in place of PG&E as the supplier for certain sales in December 2000.¹⁷

The ISO plans to make its filing requesting a Commission ruling on these issues within a week of the filing of this report. As explained in the fortieth status report, and clarified in its April 12 response to the California Parties' comments on the fortieth status report, the ISO will include with this filing data showing each party's financial position with respect to the ISO markets during the Refund Period in a manner that reflects all of the ISO's refund calculations to date. The ISO also clarified in its April 12 filing that it does not intend to seek a Commission ruling on the data that it provides in its upcoming filing.

B. IMPLEMENTATION OF BPA DECISION

In the fortieth status report, the ISO explained that once the Commission rules on the "open issues," the ISO intends to perform the necessary adjustments to remove refunds associated with non-jurisdictional entities and allocate that shortfall to net refund recipients, in accordance with the Commission's October 19 Order and a future Commission ruling on the universe of non-jurisdictional entities. In their comments on the fortieth status report, the California Parties expressed concern that this approach may not be workable, and that depending

¹⁶ See Request for Clarification and, In the Alternative, Rehearing of Powerex Corp., filed in Docket Nos. EL00-95-000 and EL00-98-000, *et al.* (June 12, 2006).

¹⁷ See Motion of Pacific Gas and Electric Company for Clarification of Refund Rerun Issue, filed in Docket Nos. EL00-95-000 and EL00-98-000, *et al.* (May 8, 2008).

on the circumstances of particular settlements, the *BPA*¹⁸ and settlements adjustments may instead need to be accomplished in the reverse order, or possibly together, in order to properly reflect the various global settlements. The California Parties suggested that this issue should be further discussed by the ISO, PX, and the parties affected by these calculations. In its response to the California Parties, the ISO agreed that given the complexity of these issues, and the importance of choosing the correct approach early on, that such discussions should be held, and committed to participating fully in such discussions. The ISO also agreed that data detailing these adjustments and providing assurances to both settling and non-settling parties that the adjustments have been implemented in a way that accurately reflects the settlements, while still protecting the rights of non-settling parties, should be provided.

The ISO's proposed methodology for allocating the shortfall associated with refunds that, pursuant to the *BPA* decision, will not be owed by non-public utility entities, however, has not changed. The ISO set forth this methodology in its 39th status report. After refunds and offsets are finally calculated, but before it makes adjustments to account for the approved global settlements, the ISO will issue a credit to each party that the Commission has determined to be a non-public utility. *See id.* at P 57. The credit will equal the amount of the refunds "that otherwise would have been paid" by that party. *Id.* at P 39. This shortfall of refunds will be allocated to parties whose "final net refund position"¹⁹ is positive –

¹⁸ *Bonneville Power Admin. v. FERC*, 422 F.3d 908 (9th Cir. 2005).

¹⁹ The ISO acknowledges that the result of this reading will be that the words "net refunds" will have a slightly different meaning for purposes of the October 19 Order in reference to

i.e., the net refunds and offsets totaled between the ISO and PX markets results in a payment to the party. See *id.* at P 39 (suggesting that “refund recipients [should] share the burden of the shortfall in proportion to their exposure in the CAISO and PX spot markets”). This allocation will reduce the final net refund. *Id.*

In the 39th status report, the ISO also explained that it would not be appropriate to calculate the amount of the credit to a non-public utility based on the components of the refunds that would have been paid, rather than the refunds themselves. The ISO explained that proceeding in this manner would be inconsistent with the focus of the October 19 Order and the *BPA* decision on not requiring non-public utilities to “pay” refunds, would require a great deal of work simply to calculate refunds on the basis of sales only, exclusive of purchases, contrary to the October 19 Order, would be inconsistent with the Commission’s approach to allocating the interest shortfall, and finally, could result in an imbalance in the PX market (and a resulting payment shortfall to all parties) that obviously is not contemplated by the October 19 Order.

Subsequent to the filing of the ISO’s last status report, several parties filed pleadings with the Commission regarding the appropriate basis for determining the level of refunds associated with non-public utility entities. In response to those pleadings, the ISO clarified that its netting approach was not limited to

“implement[ing the] simplified financial clearing,” October 19 Order at P 39, than they do for purposes of the Commission’s Order of May 12, 2006 in reference to “allocat[ing] the cost offset to those buyers who are compensated by the MMCP refund methodology through receiving refunds.” 115 FERC ¶ 61,171, ¶ 28. In the context of this order, the words “net refunds” encompass offsets, where they do not in the context of the latter order. The ISO believes that this difference reflects the fact that “net refunds” is not a term of art that has the same meaning regardless of context, but merely a description of the different calculations and goals in the two orders.

netting within settlement intervals, but would involve netting at a higher, financial level.²⁰ The ISO reiterated that this approach was the most consistent with the October 19 Order, and that restricting netting to within intervals, as advocated by several parties, would involve an unreasonable amount of time and resources for the ISO to undertake.

C. SETTLEMENT ADJUSTMENT PHASE

Although, as indicated above, it is not presently clear whether it will occur prior to, after, or during the *BPA* adjustment process, the ISO will also need to work with the parties to the various global settlements to make appropriate adjustments to the ISO's data in order to properly reflect those settlements. The ISO will provide more details regarding this phase, including the schedule for performing these adjustments and party review periods, in subsequent status reports. After completing all of these calculations, the ISO will make a compliance filing with the Commission that presents the final financial position of each party that participated in its markets during the Refund Period.²¹

²⁰ See *Motion for Leave to File Response and Response of the California Independent System Operator to Answers to California Parties' Motion for Clarification Regarding Issue of Calculating of Non-Jurisdictional Refund Obligations*, Docket Nos. EL00-95, *et al.* (filed December 19, 2007).

²¹ One issue that the ISO is currently considering involves the possible combination of the ISO and PX markets for purposes of the settlement adjustments, *BPA* adjustments, and compliance filing. The ISO intends to discuss this issue with the parties and based on these discussions, will include further information regarding this issue in future status reports.

IV. CONCLUSION

The ISO respectfully requests that the Commission accept the ISO's forty-first refund status report about rerun activity in this docket.

Respectfully submitted,

Handwritten signature of Michael Kunselman in cursive script, followed by a horizontal line.

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Dated: May 16, 2008

ATTACHMENT A

**CURRENT TIMELINE FOR COMPLETION OF
FINANCIAL ADJUSTMENT PHASE OF REFUND PROCEEDING
NOVEMBER 2007**

DATE (ESTIMATED)	ITEMS
End of May 2008	ISO distributes to parties updated interest calculations on refunds
June, 2008 <i>Precise date to be specified in listserv notice</i>	Comments due on updated refund interest calculations

ATTACHMENT B

**TABLE OF MAJOR REFUND CALCULATIONS DISTRIBUTED BY ISO AND
ASSOCIATED REVIEW PERIODS**
(March 2008)

Item	Date Issued	Review Period/Comments Due Date
Preparatory Settlement Rerun Calculations	Published by the ISO on a rolling basis between December 15, 2003 to July 16, 2004	Disputes accepted on a rolling basis between February 17, 2004 to September 11, 2004
Refund Settlement Rerun Calculations	Published by the ISO on a rolling basis between October 25, 2005 to February 17, 2006	Several due dates for disputes, the first being March 2, 2005, the last being March 1, 2006
Preliminary Mitigated Market Clearing Prices	May 28, 2004	No explicit comment period specified
Final Mitigated Market Clearing Prices	July 8, 2004	No explicit comment period specified
List of Transactions Exempt from Mitigation	November 4, 2004	No explicit comment period specified
Fuel Cost Allocation Percentages	December 22, 2005	4 Weeks
Revised Fuel Cost Allocation Percentages	June 1, 2006	June 8, 2006
Second Revised Fuel Cost Allocation Percentages	February 12, 2007	February 26, 2007
Third Revised Fuel Cost Allocation Percentages	March 29, 2007	April 12, 2007
Emissions Allocation Percentages	April 25, 2006	May 23, 2006
Final Approved Emissions Claim Amounts	September 21, 2006	No explicit comment period, as the ISO did not receive any objections to its previous emissions distribution

Cost Recovery Allocation Data	April 10, 2007	May 1, 2007
Reversal of Interest Charged During Refund Period	January 12, 2006	No explicit comment period specified
Interest on Unpaid Invoices	May 1, 2006	No explicit comment period specified
Revised Interest on Unpaid Invoices	September 29, 2006	October 27, 2006
Second Revised Interest on Unpaid Invoices	February 27, 2007	March 15, 2007
Interest on Preparatory Rerun Adjustments Relating to Refund Period Transactions	March 29, 2007	April 19, 2007
Revised Cost Allocation Data	May 22, 2007	June 12, 2007
Fourth Revised Fuel Cost Allocation Percentages	May 22, 2007	June 12, 2007
Fifth Revised Fuel Cost Allocation Percentages	July 16, 2007	August 8, 2007
Interest on Refunds	March 21, 2008	April 18, 2008

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon
the email listserv established by the Commission for this proceeding.

Dated at Washington, DC, on this 16th day of May, 2008.


Michael Kunselman
Michael Kunselman
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