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December 6, 2002

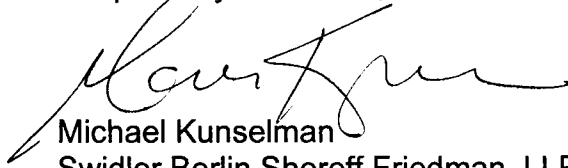
The Honorable Magalie Ramon Salas  
Secretary  
Federal Energy Regulatory Commission  
888 First Street, N.E.  
Washington, D.C. 20426

**Re: San Diego Gas & Electric Co., et al.  
Docket Nos. EL00-95-045, et al.**

Dear Secretary Salas:

Enclosed is an original and fourteen copies of the Response Of The California Independent System Operator Corporation To Williams' Motion For Partial Dismissal. Also enclosed is an extra copy of the filing to be time/date stamped and returned to us by the messenger. Thank you for your assistance.

Respectfully submitted,



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Counsel for the California  
Independent System Operator Corporation

Enclosures

cc: Service List

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

<b>San Diego Gas &amp; Electric Company,</b>	)	
<b>Complainant,</b>	)	
	)	<b>Docket No. EL00-95-045</b>
	)	
v.	)	
	)	
<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. EL00-98-042</b>
<b>Independent System Operator and the</b>	)	
<b>California Power Exchange</b>	)	

**RESPONSE OF THE CALIFORNIA INDEPENDENT SYSTEM OPERATOR  
CORPORATION TO WILLIAMS' MOTION FOR PARTIAL DISMISSAL**

Pursuant to Rule 213 of the Federal Energy Regulatory Commission's ("FERC" or "Commission") Rules of Practice and Procedure, 18 C.F.R. § 385.213 (2002), and the Commission's December 4, 2002 "Notice Shortening Answer Period," the California Independent System Operator Corporation ("ISO") respectfully submits this answer in response to the "Motion for Partial Dismissal, Request for Expedited Consideration, and Request to Shorten Time Period for Answers" ("Motion to Dismiss") filed by Williams Energy Marketing & Trading Company ("Williams") on November 25, 2002.

## I. INTRODUCTION

In its Motion to Dismiss, Williams explains that it has reached a “global settlement” with the state of California, which is intended to resolve a number of pending disputes, including the amount of refunds due from Williams in the context of the refund proceedings in the present Dockets (“Refund Proceeding”). Based on this settlement, Williams requests that the Commission dismiss it from the Refund Proceeding “to the extent that those proceedings direct refunds for electric power sold by Williams to the ‘California State Releasing Parties,’” which consist of the Governor of California, the California Department of Water Resources (“CDWR”), the California Public Utilities Commission, the California Electricity Oversight Board, and the Attorney General of California. Motion to Dismiss at 5. Specifically, Williams requests that the Commission direct the ISO and PX to “remove from their compliance filing, to be filed after the Commission issues its order on refunds, those amounts to be refunded by Williams for power sold to the California State Releasing Parties” and states that this should be done prior to netting amounts that Williams is owed for power sold during the Refund Period. *Id.* at 7. Williams also states that its Motion to Dismiss only seeks release with regard to obligations owing the California State Releasing Parties, and does not seek dismissal with respect to any claims that “non-settling entities may have in the California refund proceedings, such as the Investor Owned Utilities (“IOU”)” or impact “other items that may be owed or in dispute, such as invoicing disputes and ISO Charge type 485 penalties.” *Id.* at 6-7.

## II. DISCUSSION

At the outset, the ISO commends the efforts of Williams and the State of California in reaching this settlement, and the ISO's concerns, as articulated in this response, should not be read as suggesting that this settlement is somehow flawed in concept. Indeed, as Williams notes in its Motion to Dismiss, the Commission has consistently encouraged the informal resolution of these disputes, and the ISO wholeheartedly endorses that approach. The ISO's concerns focus on the manner of implementation of this settlement, specifically Williams' request that the Commission direct the ISO to remove from its compliance filing on the Commission's refund order "those amounts to be refunded by Williams for power sold to the California State Releasing Parties." As explained below, this request cannot be accomplished through the ISO's settlement and billing process, and might adversely affect other parties if it was to be adopted.

In his Prepared Direct Testimony on behalf of the ISO, submitted in the proceeding before Presiding Judge Birchman, Mr. Spence Gerber, then Director of Settlements at the ISO, explained the basic manner in which the ISO markets operate and are settled, and what this means in terms of calculating refunds as well as "what suppliers are owed by the ISO, Investor Owned Utilities, and the State of California," 96 FERC ¶ 61,120 (2001) at 61,520, or "who owes what to whom." Analogizing the ISO markets to a "swap meet," Mr. Gerber explained that the ISO does not match individual buyers to individual sellers, with the consequence that the sale of any specific amount of energy in the ISO markets cannot be expressed in terms of an obligation of a discrete

buyer to pay a discrete seller. Exh. ISO-24 at 21:9-22:6, 38:12-19. Therefore, in performing its calculations as instructed by the Commission in the proceeding before Presiding Judge Birchman, the ISO did not state refund obligations in terms of bilateral obligations between sellers (such as Williams) and purchasers (such as CDWR). Instead, the ISO's refund calculations show only how refunds impact the position of each seller and purchaser vis-a-vis the ISO market. For instance, in the case of a seller, such as Williams, if the price charged by the seller for energy sold into the ISO markets during a certain interval exceeded the mitigated market clearing price, the payment to that seller for that transaction was reduced appropriately. The ISO's settlement system accounted for this mitigation by proportionally reducing the price paid by *all* purchasers of energy during that interval.

Therefore, given that the ISO does not calculate obligations between specific buyers and sellers, Williams' request that the Commission direct the ISO to "remove from its compliance filing . . . those amounts to be refunded by Williams for power sold to the California State Releasing Parties," is not feasible in a rerun of the ISO's settlement system. This is not to say, however, that bilateral obligations between Williams and CDWR could not be determined. It would, however, necessarily entail a process outside, or in addition to, the ISO's settlement and billing mechanisms as set forth in the ISO Tariff. The ISO believes that there does exist a process that would allow the State and Williams to realize the goals of their settlement without the necessity of requiring the ISO to remove some amounts owed by Williams and owed to CDWR in the compliance settlement rerun process. The process is as follows. First, the ISO would, in accordance with the Commission's refund order, rerun its settlements system

to determine refund obligations with respect to the ISO markets. Based on the results, the ISO would then invoice Market Participants taking into account their current cash positions, as if no settlements had been reached between any parties. Next, bilateral obligations would be determined between CDWR and Williams (and any other settling parties) by applying the methodology adopted by the Commission (or, in absence of a Commission mandate, whatever methodology that the State and Williams agree to). And, while the ISO's settlement rerun process will not directly evince these bilateral obligations, the rerun data does contain transaction-level information that could be used to implement the chosen methodology. Once the bilateral obligations between the State and Williams are determined, these obligations can be compared to the results of the ISO's rerun and invoicing process to "true up" the results consistent with the amount that Williams agreed to pay the State under the settlement.

An example of this process may prove helpful. First, assume that as a result of its compliance settlement rerun, the ISO determines that Williams owes a total of \$200 million in refunds to the ISO market as a whole, and CDWR is owed a total of \$500 million in refunds from the ISO market as a whole. For purposes of this example, also assume that Williams has been paid in full for all of its sales, and that CDWR is current in its market obligations as well. Williams and CDWR would then be invoiced by the ISO to reflect the amount of refunds owed or owing. Next, assume that as a result of applying a bilateral obligation methodology, it is determined that Williams is liable for 20% of the refunds owed to CDWR, resulting in an obligation to CDWR by Williams in the amount of \$100 million. Based on this figure, CDWR and Williams would then conduct a "true up" between themselves to reflect the results of their settlement. In this

example the State would return to Williams the \$100 million that it received through the ISO's compliance settlement rerun and invoicing process.

The key feature of this process is that the bilateral obligations between CDWR and Williams are determined outside of the ISO's settlement and invoicing process. The virtue of this approach is twofold. First, it satisfies the goals of the settlement between Williams and the State. Second, it avoids any potential adverse impacts that the settlement might have on other parties were the ISO to attempt to rerun its settlement system in a manner that somehow "walled off" amounts relating to Williams and CDWR. Finally, this process would allow the ISO to conduct the compliance settlement rerun and invoicing process in a manner more consistent with the settlement and billing mechanisms set forth in its Tariff.

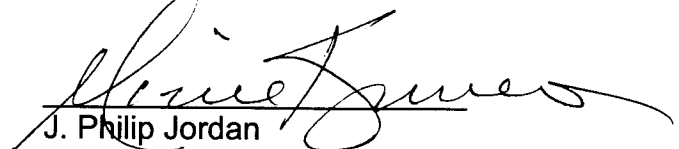
### III. CONCLUSION

To reiterate, the ISO fully supports the concept of the settlement between Williams and the State. However, for these reasons set forth above, the ISO would respectfully request that the Commission decline to order the ISO to remove any amounts relating to refunds owed by Williams and/or refunds owed to the State from its compliance settlement rerun. Instead, the ISO would urge the Commission to recommend that Williams and the State adopt the process discussed herein, which the ISO believes will fully accomplish the goals of that settlement while avoiding any unintended impacts on other parties.

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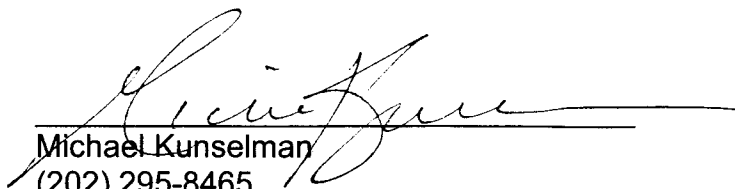
Dated: December 6, 2002



## CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon each person designated on the official service list compiled by the Secretary in the above-captioned dockets.

Dated at Washington, D.C. on this 6<sup>th</sup> day of December, 2002.

  
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