

# SWIDLER BERLIN SHEREFF FRIEDMAN, LLP

THE WASHINGTON HARBOUR  
3000 K STREET, NW, SUITE 300  
WASHINGTON, DC 20007-5116  
TELEPHONE (202) 424-7500  
FACSIMILE (202) 424-7647  
WWW.SWIDLAW.COM

RONALD E. MINSK  
TELEPHONE: (202) 295-8385  
FACSIMILE: (202) 424-7643  
RMINSK@SWIDLAW.COM

NEW YORK OFFICE  
THE CHRYSLER BUILDING  
405 LEXINGTON AVENUE  
NEW YORK, NY 10174  
TELEPHONE (212) 973-0111  
FACSIMILE (212) 891-9598

February 23, 2004

The Honorable Magalie R. Salas  
Secretary  
Federal Energy Regulatory Commission  
888 First Street, NE  
Washington, DC 20426

Re: *California Independent System Operator Corporation*,  
Docket No. ER01-313-003;

*Pacific Gas and Electric Company*,  
Docket No. ER01-424-003;

*San Diego Gas & Electric Company v.*  
*California Independent System Operator Corporation*,  
Docket No. EL03-131-000

Dear Secretary Salas:

In accordance with the Commission's Order On Rehearing And Clarification dated January 23, 2004 in the above-captioned docket,<sup>1</sup> the California Independent System Operator Corporation ("ISO") hereby files its compliance refund report. In addition to the official service list for the above-captioned dockets, the ISO also is sending this report to all ISO Scheduling Coordinators, the California Public Utilities Commission, the California Energy Commission and the California Electricity Oversight Board.

In order to reduce the administrative burden of recalculating customer bills multiple times, and of issuing multiple refunds or surcharges to its customers, the ISO plans to recalculate its GMC customer charges for the time period between January 1, 2001 and December 31, 2003 only once. That calculation, and the customer statements that are prepared based on the calculation, will account for all of the adjustments to the charges ordered by the Commission in its Initial Order<sup>2</sup> and its Rehearing Order and discussed in this report.

---

<sup>1</sup> California Independent System Operator Corporation, 106 FERC ¶ 61,032 (2003) ("Initial Order").

<sup>2</sup> California Independent System Operator Corporation, 103 FERC ¶ 61,114 (2004) ("Rehearing Order").

*Excluding Non-Modeled Generators From CAS:* In its Order on Rehearing, the Commission concluded that the Control Area Services charge should not be applied to generators that are not modeled by the ISO in its regular performance of transmission planning and operation.<sup>3</sup> In order to exclude such generators from the CAS, the ISO is undertaking a multi-stage analysis that requires the assistance of the Participating Transmission Owners (“TOs”) to whose facilities such generators are connected. The first step involves reviewing the ISO’s planning and operations studies conducted between 2001 and 2003 to identify the generators that were modeled in one or more studies. The ISO expects to complete this review and assemble its complete list of generators by March 1 at the latest.

When the list is complete, the ISO will submit it to the Participating TOs. The ISO requires the assistance of the Participating TOs because the ISO has only an aggregate value for the behind-the-meter load served by the generators on each of the IOU’s respective systems, based on data supplied by the jurisdictional Participating TOs to the California Public Utilities Commission. To identify the load served by generators not modeled by the ISO, it is accordingly necessary for the ISO to give the Participating TOs the list of the generators used for studies on their respective systems that the ISO does model, so that each of them can then identify the portion of the total behind-the-meter load on its system that is served by those generators. The remainder constitutes the load served by other generators on each Participating Transmission Owner’s system that, under the Order on Rehearing, are not required to pay the CAS charge.

This excluded load will constitute the portion of the ISO estimated load that was billed to the Participating TOs from 2001-2003, and which should be credited back based on the Order on Rehearing. Upon receipt of the appropriate data, the ISO will credit the entities that were originally billed, and concurrently, calculate adjusted rates billable for other entities in this period (see “Rate Surcharges” paragraph following). Upon receipt of the required information from the Participating TOs, the ISO will calculate adjusted billing amounts and include such adjustments in the next normally scheduled invoice cycle, provided there are a minimum of 10 business days between the date of the receipt of the data from the Participating TOs and that next scheduled preliminary invoice. If less than 10 business days are available, the adjustments will be billed on the subsequent preliminary invoice. With timely provision of the Participating TO data the ISO anticipates that the adjustments could be reflected in a refund report submitted to the Commission by April 1, 2004 and reflected on the invoices issued by the ISO on April 25, 2004.

*Southwest Power Link:* The Order on Rehearing also addressed the ISO’s treatment of the Southwest Power Link (SWPL). The Commission concluded that all transfers on the SWPL should be subject to the GMC, but with regard to administrative charges for line losses San Diego Gas & Electric Company (SDG&E) should not be assessed Market Operations charges to the extent that its estimates on line losses for its SWPL schedules were accurate, and it self-provided the imbalance energy necessary to cover the line losses. Accordingly, SDG&E would be assessed only the administrative costs associated with real-time imbalances.

---

<sup>3</sup> Order on Rehearing at P 20.

To calculate the size of the refund for the line losses, the ISO calculated total deviations for SDG&E's SWPL schedules made up of both the losses on the Hour Ahead Scheduled quantity and any subsequent operational adjustments made after the Hour Ahead time frame. (Operational adjustment values were then excluded from further calculation.) The ISO then identified the hours during 2001 through 2003 with Hour Ahead scheduled load that would offset the losses. When these numbers were compiled, the ISO took the minimum of the losses or load and doubled it. This represented the interval level billable quantity refund. The data was then summarized and the rate in effect for that trade month was applied. The ISO used this formula  $(\text{Min}(\text{Losses or Load}) \times 2)$  because it effectively netted the load against losses in any of the three possible scenarios regardless if the load was accurately, under, or over scheduled. (Load was equal to losses, load was in excess of losses, or losses exceeded load.)

The ISO already has calculated the refund due to SDG&E as \$320,439, and has presented its calculation to SDG&E for review of the data. As noted above, because the ISO plans to recalculate its charges only once, the SWPL refund will be reflected on the statements that the ISO plans when the revised CAS charges discussed above are also to be reflected.

*Incentive Compensation:* In the Commission's initial order in this docket, the Commission directed the ISO to refund to its customers \$1,834,267 that had been budgeted for incentive compensation. The refund will be effectuated by reducing the rates in effect during 2001 by calculating the total volume of power sold through the ISO during 2001, and refunding each customer a percentage of the \$1,834,267 equal to the same percentage that their share of the GMC represented compared to the total GMC levied by the ISO in that year. Once again, as noted above, the refunds related to the incentive compensation will, upon the availability of information necessary to calculate the CAS related refund, be reflected on the statements the ISO plans to issue to its customers.

*Rate Surcharges:* In order for the ISO to recover its approved costs, it will need to impose surcharges on its customers to recover the amount of the refunds due to SDG&E related to SWPL and to other entities for the load served by excluded generators (but not the \$1.8 million in incentive compensation expenses that the Commission disallowed). The Commission's Order on Rehearing acknowledged the possibility that surcharges would be necessary for the ISO to meet its revenue requirements, noting that "all customers had sufficient notice of possible changes to the ISO's rate design and, by definition, possible surcharges."<sup>4</sup>

The ISO will calculate the necessary customer surcharges by adding back to each of the three GMC charges the amount of revenue needed to make up the shortfall caused by the refunds related to that charge. Because the surcharge will be calculated at the same time as the refunds discussed above, they will be netted out as appropriate, resulting in either a net refund or a net surcharge for each customer.

*Final Compliance Report:* The ISO intends to calculate the value of all refunds and surcharges, for the issues noted above, concurrently. The time schedule for these calculations

---

<sup>4</sup>

Order on Rehearing at P 21.

February 23, 2004

Page 4

depends in part upon the availability of data for the CAS adjustment from the Participating TOs. Assuming receipt of this data by March 11, the adjustments would be detailed in a refund report submitted to the Commission by April 1, 2004 and reflected on the invoices issued by the ISO on April 25, 2004 (for trade month February 2004). The ISO will calculate and collect or distribute interest at the FERC rate on the adjustments.

\*

\*

\*

One original and fourteen copies of this compliance report are enclosed for the Commission's use. Two additional copies have been included to be date/time stamped and returned to our messenger. Thank you for your assistance with this matter.

Sincerely,

---

Kenneth G. Jaffe  
Ronald E. Minsk  
Swidler Berlin Shereff Friedman, LLP  
3000 K Street, N.W.  
Washington, DC 20007  
Tel: (202) 424-7500  
Fax: (202) 424-7643

Counsel to the  
California Independent System  
Operator Corporation

## CERTIFICATE OF SERVICE

I hereby certify that I have this day served a copy of this document upon all parties listed on the official service list compiled by the Secretary in the above-captioned proceedings, in accordance with the requirements of Rule 2010 of the Commission's Rules of Practice and Procedure (18 C.F.R. § 385.2010).

Dated this 23<sup>rd</sup> day of February in the year 2004 at Folsom in the State of California.

---

Stephen A.S. Morrison  
(916) 608-7143