

December 30, 1999

The Honorable David P. Boergers
Secretary
Federal Energy Regulatory Commission
888 First Street, N.E.
Washington, D.C. 20426

**Re: California Independent System Operator Corporation,
Docket No. ER99-3158-_____**

**Market Power in the San Diego Basin: Addendum to
Annual Report on Market Issues and Performance**

Dear Secretary Boergers:

Enclosed please find an original and fourteen copies of "Market Power in the San Diego Basin: Addendum to Annual Report on Market Issues and Performance" prepared by the Department of Market Analysis of the California Independent System Operator Corporation ("ISO Addendum").

In the Commission's October 30, 1997 order authorizing the ISO to commence operations, *Pacific Gas and Electric Co., et al.*, 81 FERC ¶ 61,122 (1997) ("October 30 Order"), the Commission accepted the market power mitigation proposal of San Diego Gas & Electric Company ("SDG&E") as adequate to mitigate market power during the transition period. However, the

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Commission noted that in the long term either demand-side bidding or divestiture might serve to mitigate market power in the San Diego Basin. The Commission therefore directed both the ISO and the California Power Exchange ("PX") to "monitor for market power in the San Diego Basin and to present information in their annual reports that would assist in the evaluation of this issue." October 30 Order at 61,546. In a subsequent letter order the Commission accepted the ISO's first Annual Report on Market Issues and Performance (submitted June 4, 1999) and required the ISO, consistent with the October 30 Order, "to submit, by December 31, 1999, a report addressing an evaluation of the market in the San Diego Basin." *California Independent System Operator Corporation*, 88 FERC ¶ 61,284 (1999). The enclosed ISO Addendum is submitted to comply with the Commission's directives.

The ISO Addendum provides a preliminary analysis of market power in electric generation in the San Diego Basin. In addition, the Addendum presents background on regulatory and policy decisions relating to market power, an overview of demand and supply conditions, the methodology used in the Addendum to assess market power, and the implications of issues and trends identified in the Addendum.

Copies of the ISO Addendum are being filed on this day with the California Public Utilities Commission, the California Energy Commission, and the California Electricity Oversight Board. In addition, the ISO is making the

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Addendum available to all California market participants by posting it on the ISO Home Page, www.caiso.com.

A form of notice, in hard copy and electronic form, is included in this filing. Also enclosed is an additional copy of this filing to be date-stamped and returned to the messenger. Thank you for your attention to this matter.

Respectfully submitted,

Kenneth G. Jaffe
David B. Rubin
Bradley R. Miliauskas
Attorneys for the California Independent
System Operator Corporation