

March 1, 2001

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. ER01-889-\_\_\_\_  
Compliance Filing**

Dear Secretary Boergers:

The California Independent System Operator Corporation ("ISO")<sup>1</sup> respectfully submits an original and fourteen copies of this filing in compliance with the Commission's February 14, 2001 "Order Addressing Creditworthiness Tariff Provisions Proposed by the California Independent System Operator and California Power Exchange" in the above-captioned dockets, 94 FERC ¶ 61,132 (2001) ("February 14 Order").

## **I. BACKGROUND**

In late December and early January it became apparent to the ISO and others that for various reasons the financial well-being of Southern California Edison Company ("Edison") and Pacific Gas and Electric Company ("PG&E") was deteriorating rapidly. A downgrade in the credit rating of those companies, and of the California Power Exchange ("PX"), which depended on Edison and PG&E for the majority of its revenues, was inevitable. Under Section 2.2.3.2 of the ISO Tariff, however, such a downgrade would make those entities subject to

---

<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.

the prohibition on scheduling transactions that is specified in Section 2.2.7.3 of the ISO Tariff, unless the entity in question first posted a specified level of financial security.<sup>2</sup> If such security were not posted, their loads would have to be served through real-time Imbalance Energy. As of January 5, 2001, such security for the PX, as Scheduling Coordinator for Edison and PG&E, would have exceeded \$2.25 billion, an amount far in excess of the amount that the PX alone, or with the support of both Edison and PG&E, could have provided.

On January 5, 2001, the ISO, fearing that the inability of Edison and PG&E to schedule with the ISO would seriously threaten the reliability of the ISO Controlled Grid, filed with the Commission proposed Amendment No. 36 to the ISO Tariff. In that filing, the ISO proposed to waive, on a day-to-day basis to continue no longer than March 3, 2001, the restrictions on the ISO's ability to receive forward schedules from Scheduling Coordinators that are temporarily unable to satisfy the creditworthiness provisions of its Tariff in order to allow Edison and PG&E to continue to schedule with the ISO. Specifically, Amendment No. 36 proposed modifying Section 2.2.3.2 of the ISO Tariff to provide on a day-to-day basis a temporary grace period following a downgrade in the credit rating of Scheduling Coordinators that are Original Participating Owners, or schedule on behalf of an Original Participating Transmission Owner, during which period such Scheduling Coordinators could continue to schedule transactions without providing one of the specified forms of security. Recognizing the potentially conflicting interests of Generators and consumers regarding the waiver of scheduling restrictions, the ISO asked the Commission for guidance regarding the appropriate mechanism for ensuring continued service to California consumers until the creditworthiness issues are resolved.

On January 5, 2001, following the credit downgrades of Edison and PG&E, the ISO posted notice on the ISO Home Page that the scheduling limitations would not apply to Scheduling Coordinators for Original Participating Transmission Owners for the following Trading Day. The ISO has posted such a notice for each subsequent Trading Day to date.

Numerous intervenors submitted comments, protests, and other variously styled pleadings in response to the ISO's Amendment No. 36 filing. In its

---

<sup>2</sup> Section 2.2.3.2 provides in relevant part that a Scheduling Coordinator, Utility Distribution Company, or Metered Subsystem that does not maintain an Approved Credit Rating "shall be subject to the limitations on trading set out in Section 2.2.7.3" of the ISO Tariff. Under Section 2.2.7.3, the only limitations on trading concern the inability of such entities to have their schedules accepted by the ISO.

February 14 Order, the Commission conditionally accepted Amendment No. 36, subject to clarification and guidance. In particular, the Commission accepted Amendment No. 36 insofar as it allowed scheduling the loads of Edison and PG&E against their own generation and generation under contract to these entities, but rejected it insofar as it allowed scheduling of those loads against generation owned by third parties and bid into the ISO or PX markets. In response to the ISO's request for guidance going forward, the Commission stated that the relaxation on the scheduling restrictions with regard to third parties would be acceptable if combined with appropriate support from creditworthy counterparties. The Commission ordered the ISO to file modifications to the ISO Tariff in compliance with the February 14 Order within 15 days. 94 FERC, slip op. at 1, 13-14. The ISO hereby submits changes to the ISO Tariff in compliance with the Commission's directives.

## **II. TARIFF MODIFICATION**

Consistent with the Commission's guidance on addressing the creditworthiness issues on a going-forward basis, the filing revises Section 2.2.3.2 to limit the temporary waiver of the scheduling limitation under Section 2.2.7.3. Under the revised Section 2.2.3.2, the ISO may accept schedules to serve the Load of a Utility Distribution Company ("UDC") that no longer meets the creditworthiness requirements of the Tariff if the Load is to be served from one of three types of resources: (1) a resource that the UDC owns; (2) a resource that the UDC has under contract to serve its Load; and (3) a resource from which another entity has purchased Energy or with regard to which another entity has provided assurance of payment for Energy on behalf of the UDC, if that entity has an Approved Credit Rating or has posted security pursuant to Section 2.2.7.3.

Because the Order's guidance was provided on a going-forward basis, Section 2.2.3.2 is also revised to eliminate the March 3, 2001, expiration of the waiver and to eliminate the requirement for daily notice. To the extent that the Commission does not believe these matters are appropriate for the compliance filing, the ISO requests that the Commission deem these provisions a filing pursuant to Section 205 of the Federal Power Act, 16 U.S.C. § 824d, and also requests waiver of the sixty-day notice requirement, pursuant to Section 35.3 of the Commission's regulations, 18 C.F.R. § 35.3, to permit the compliance filing to become effective one day after the date of filing.

Attachment A contains the revised ISO Tariff sheets necessary to implement the changes outlined above.

### III. SUPPORTING DOCUMENTS

The following documents, in addition to this letter, support this filing:

- |              |  |
|--------------|--|
| Attachment A | Revised Tariff Sheets;   |
| Attachment B | Black-line comparison of Revised Tariff Sheets with the current Tariff provisions;                           |
| Attachment C | Notice of filing, suitable for publication in the Federal Register (also provided in electronic format); and |
| Attachment D | Certificate of Service.  |

Two additional copies of this filing are enclosed. Please stamp these with the time and date of filing and return them to our messenger. If there are any questions concerning this filing, please contact the undersigned.

Respectfully submitted,

Charles F. Robinson  
General Counsel  
Roger E. Smith  
Senior Regulatory Counsel  
California Independent System  
Operator Corporation  
151 Blue Ravine Road  
Folsom, California 95630

---

Edward Berlin  
Kenneth G. Jaffe  
Sean A. Atkins  
Bradley R. Miliauskas  
Michael Kunselman  
Swidler Berlin Shereff Friedman, LLP  
3000 K Street, N.W., Suite 300  
Washington, D.C. 20007

**Counsel for  
the California Independent System  
Operator Corporation**