UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Curt Hébert, Jr., Chairman;
William L. Massey, and Linda Breathitt.

California Independent System Operator Corporation	Docket No. ER01-889-000
California Power Exchange Corporation	Docket No. ER01-902-000
San Diego Gas & Electric Company, Complainant, v. Sellers of Energy and Ancillary Services Into Markets Operated by the California Independent System Operator and the California Power Exchange, Respondents, et al.	Docket No. EL00-95-006 Docket No. EL00-98-006 Docket No. EL00-104-002 Docket No. EL00-107-003 Docket No. EL01-1-003

ORDER ADDRESSING CREDITWORTHINESS TARIFF PROVISIONS
PROPOSED BY THE CALIFORNIA INDEPENDENT SYSTEM OPERATOR AND
CALIFORNIA POWER EXCHANGE

(Issued February 14, 2001)

In this order, we conditionally accept proposed Amendment No. 36 to the tariff of the California Independent System Operator Corporation (ISO) for filing to become effective January 4, 2001, subject to clarification and guidance provided below. We reject proposed Amendment No. 22 to the tariff of the California Power Exchange Corporation (PX). Also, we act on various requests for clarification on creditworthiness issues.

California energy markets are in state of great turmoil. The proposed amendments and clarifications are intended to address the sinking credit ratings of Pacific Gas and Electric Company (PG&E) and Southern California Edison Company (SoCal Edison) and relax the creditworthiness standards of the ISO and PX tariffs. We accept the amendments to the extent they allow PG&E and SoCal Edison to continue to schedule transactions from generation and over transmission they own to serve their own load. We deny the amendments to the extent they allow PG&E and SoCal Edison to continue to schedule transactions from third-party suppliers without adequate assurance of payment. We clarify that PG&E and SoCal Edison may continue to schedule third-party transactions if they obtain financial backing from creditworthy counterparties. These actions, in the aggregate, should help in maintaining the reliability of system operations and in encouraging the entry of lower-cost supply into California markets.

I. Background

Docket No. ER01-889-000

On January 4, 2001, acting on reports that Standard & Poor's Corporation (S&P) and Moody's Investors Service (Moody's) were on the verge of reducing the credit ratings of Pacific Gas and Electric Company (PG&E) and Southern California Edison Company (SoCal Edison), the ISO filed Amendment No. 36 to revise the Approved Credit Rating requirements of its tariff. [1] PG&E and SoCal Edison are California investor-owned utility distribution companies (UDCs) that schedule their transmission service through the ISO. The ISO states that a reduction in the credit ratings of SoCal Edison and PG&E would result in these entities no longer meeting the creditworthiness requirements of the ISO tariff and would preclude SoCal Edison and PG&E from scheduling transactions with the ISO, absent the posting of security sufficient to cover those entities' full liability to the ISO. The ISO argues that the reliability of the California electric grid will be threatened if UDCs are no longer eligible to schedule transactions, even transactions that involve use of their own transmission facilities and their own generation.

Proposed Amendment No. 36 gives the ISO temporary authority to waive the requirement that UDCs without an Approved Credit Rating post security. Until March 3, 2001, the ISO proposes to grant such a waiver if the UDC (or its Scheduling Coordinator): (1) had an Approved Credit Rating on January 3, 2001; and (2) was an Original Participating Transmission Owner or a Scheduling Coordinator for an Original Participating Transmission Owner.

The ISO announced in its filing that it was implementing Amendment No. 36 immediately, and it requests waiver of notice requirements and approval of the Amendment effective January 4, 2001. The ISO states that it was necessary to take this immediate action in order to ensure that the UDCs could continue to serve their electric consumers.

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[1] Except for federal and state agencies, the ISO tariff ties a party's Approved Credit Rating to the rating it receives from S&P, Moody's, or other credit rating agencies. See ISO tariff, Appendix A, "Master Definitions Supplement," and Sections 2.2.3.2 and 2.2.7.3.

The ISO notes the conflict between imposing appropriate credit requirements to maintain the financial security of transactions and maintaining the reliability of the California grid. The ISO asks for further Commission guidance regarding the appropriate resolution of this conflict. The ISO states that until such guidance is received, in order to ensure the continued functioning of the California markets, the ISO proposes to publish a day-by-day grace period for the affected UDCs prior to the imposition of trading limits.

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On January 5, 2001, the PX filed an amendment to its creditworthiness requirements. Under the existing PX tariff, PG&E and SoCal Edison must maintain short-term credit ratings of A-1 from S&P or P-1 from Moody's to obtain unsecured credit. [2] Under the PX's proposed Amendment No. 22, PG&E and SoCal Edison could continue trading without posting collateral if their ratings fell below A-1 and P-1 but remained above "junk" status; however, the PX could use settled outstanding amounts due in one market as collateral in another market. If PG&E's and SoCal Edison's ratings fell to junk status, they would have to post 100 percent collateral. However, Amendment No. 22 would also give new power to the PX's Governing Board to waive the tariff's collateral requirements.

Amendment No. 22 would also make changes in the creditworthiness provisions of the PX tariff to reflect the order the Commission issued on December 15, 2000 to remedy dysfunctions in California's wholesale bulk power markets (December 15 Order).[3] To obtain unsecured credit under the existing PX tariff, the UDCs not only must maintain ratings of A-1 or P-1, they also must remain mandated full-requirement customers of the PX who receive all exchange, scheduling, settlement, and clearing services from the PX. The December 15 order released the UDCs from the obligation to obtain all services through the PX. [4] Accordingly, Amendment No. 22 would revise the creditworthiness standards for the UDCs to require simply that the UDC originally was a mandated, full-requirement customer and that it continues to receive at least some exchange, scheduling, settlement, and clearing services from the PX.

The PX announced in its filing that it was implementing Amendment No. 22 immediately, and it requests waiver of notice requirements and approval of the Amendment effective January 5, 2001.

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[2] See PX tariff, Schedule 2.

[3] San Diego Gas & Electric Company, et al., 93 FERC ¶ 61,294 (2000), reh'g pending.

[4] See id. at 62,001.

Docket No. EL00-95-006, et al.

On December 22, 2000, Dynegy filed a motion for clarification of the December 15 Order. The issues raised by Dynegy relating to creditworthiness are discussed below.

First, Dynegy states that the Commission should maintain a policy of allowing the principles of generally applicable commercial law--including principles related to creditworthiness--to govern the commercial aspects of jurisdictional services. Dynegy argues that, in keeping with those principles, the Commission should ensure that generators are not required to sell to buyers who admit they are on the verge of bankruptcy, unless commercially reasonable assurances of payment are provided. Dynegy points out that the existing ISO tariff does provide some such assurance through its requirement that utilities with less than Approved Credit Ratings post collateral. Dynegy, which filed its motion before the ISO filed Amendment No. 36, urges the Commission not to relax these creditworthiness provisions of the ISO tariff.

Second, Dynegy argues that in light of the financial insecurity of the UDCs, the Commission should provide the following additional protections for suppliers: (1) shorten the ISO's payment calendar to include a 30-day rather than a 75-day payment lag; and (2) require the ISO to offset amounts owing against amounts owed.

Third, Dynegy seeks clarification that the ISO tariff penalties for failure to comply with emergency dispatch instructions do not apply when purchasers fail to meet the tariff creditworthiness requirements.

Finally, Dynegy's motion raises issues involving, e.g., the applicability of the federal preemption doctrine. This order addresses only the creditworthiness aspects of Dynegy's motion, and we will address the other aspects of its motion in a future order.

Other Matters

On December 14, 2001, the Secretary of the Department of Energy, acting under section 202(c) of the Federal Power Act, [5] ordered that certain suppliers provide electricity to California utility companies when the ISO certifies that there is inadequate electrical supply. [6] Subsequent orders extended this requirement to February 7, 2001 (orders collectively referred to as the DOE Order). [7]

On January 17, 2001, the Governor of California issued an emergency proclamation giving the California Department of Water Resources (DWR) authority to enter into arrangements to purchase power in order to mitigate the effects of electrical shortages in the state. [8] DWR began purchasing under this authority the next day. On January 19, 2001, the Governor signed a bill appropriating $400 million (DWR Appropriation) from the General Fund for DWR's purchases for sale to SoCal Edison and PG&E. [9]

On January 16, 2001, Moody's and S&P lowered the credit and debt ratings of SoCal Edison to junk or "near junk" status. On January 16 and 17, 2001, these rating services downgraded PG&E's credit and debt ratings to junk status. On January 16, 2001, SoCal Edison filed a Form 8-K with the Securities and Exchange Commission (SEC), disclosing that it would suspend indefinitely certain obligations including a $215 million payment to the PX and $151 million payment due to the Qualifying Facilities (QFs). On January 21, 2001, the PX suspended the trading rights of SoCal Edison and PG&E. On February 1, 2001, PG&E filed an SEC Form 8-K stating its intention to default on payments of over $1 billion due to QFs and the PX.

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[5] 16 U.S.C. 824a(c) (1994).

[6] DOE Order Pursuant to Section 202(c) of the Federal Power Act (Dec. 14, 2000).

[7] Amended Order Pursuant to Section 202(c) of the Federal Power Act (Dep't Energy Dec. 20, 2000); Amendment No. 2 to December 14, 2000, Order Pursuant to Section 202(c) of the Federal Power Act (Dep't Energy Dec. 27, 2000); Amendment No. 3 to December 14, 2000, Order Pursuant to Section 202(c) of the Federal Power Act (Dep't Energy Jan. 5, 2001); Order Pursuant to Section 202(c) of the Federal Power Act (Dep't Energy Jan. 11, 2001); Amended Order Pursuant to Section 202(c) of the Federal Power Act (Dep't Energy Jan. 17, 2001); and Amendment No. 2 to January 11, 2001, Order Pursuant to Section 202(c) of the Federal Power Act (Dep't Energy Jan. 23, 2001).

[8] Proclamation, Cal. Gov. (Jan. 17, 2001).

[9] S.B. 7, 2001-2002 Legis., 1st Ex. Sess. (Cal.) (to be codified at CAL. WATER CODE § 200).

II. Notices, Interventions, and Responses

Docket No. ER01-889-000

Notice of the ISO's filing was published in the Federal Register, [10] with comments, protests, and motions to intervene due on or before January 25, 2001.

Timely unopposed motions to intervene were filed by: El Paso Merchant Energy LP (El Paso); Reliant Energy Power Generation, Inc. and Reliant Energy Services, Inc. (Reliant); PG&E; Williams Energy Marketing & Trading Company (Williams); Duke Energy North America, LLC and Duke Energy Trading and Marketing, LLC (Duke); the PX; the Turlock Irrigation District; the City of Vernon, California (Vernon); the Modesto Irrigation District; the Sacramento Municipal Utility District (SMUD); Mirant California, LLC (Mirant); the Northern California Power Agency (NCPA); the Cities of Redding, Santa Clara, and Palo Alto, California, and the M-S-R Public Power Agency (Cities/M-S-R); SoCal Edison; the California Electricity Oversight Board (Board); Tucson Electric Power Company (Tucson Electric); San Diego Gas & Electric Company (SDG&E); and Dynegy. The Public Utilities Commission of the State of California (California Commission) and the Illinois Commerce Commission filed timely notices of intervention. Puget Sound Energy, Inc. (Puget) filed a motion to intervene four days out of time.

Reliant and Duke included motions for a cease-and-desist order in their filings. Dynegy filed a motion for expedited action.

On January 16, 2001, the ISO filed an answer to Reliant's motion for a cease-and-desist order. On February 9, 2001, the ISO filed an additional answer to the protests.

Docket No. ER01-902-000

Notice of the PX's filing was published in the Federal Register, [11] with comments, protests, and motions to intervene due on or before January 26, 2001.

Timely unopposed motions to intervene were filed by PG&E, SMUD, Vernon, Williams, SDG&E, Reliant, and Duke. Mirant filed a motion to intervene 17 days out of time.

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[10] 66 Fed. Reg. 4,014 (2001).

[11] 66 Fed. Reg. 4,810 (2001).

PG&E included a request for modification of Amendment No. 22 and immediate action in its filing, and later filed a supplement. SDG&E and Reliant included protests in their filings.

The PX filed an answer to the protests on February 9, 2001.

Docket No. EL00-95-006, et al.

The ISO and PG&E filed timely answers to Dynegy's motion. NCPA and Duke filed answers to the motion out of time.

III. Positions of the Parties

Docket No. ER01-889-000

Reliant and Duke argue that the ISO's proposed Amendment No. 36 jeopardizes any prospect of stabilizing California electricity markets. Reliant states that releasing the UDCs from the ISO tariff's credit requirements fundamentally changes the terms on which market participants elected to participate in the ISO markets, including the terms of the Participating Generator Agreements (PGAs), which provides among other things for in-state generators to supply power in emergencies. Reliant suggests that absent assurances of payment, the sellers in the California market will suffer from their own credit problems and that their suppliers will demand credit support or simply stop supplying. Finally, Reliant states that there can be no justification for the sellers to be forced to finance the continuing purchases of electricity by the ISO on behalf of the defaulted UDCs when the UDCs' lenders refuse to extend credit for payment of the supplied electricity.

NCPA, SDG&E, Williams, Mirant, Tucson Electric, Dynegy and Cities/M-S-R protest the proposed amendment citing the need for balanced financial protections to ensure suppliers into the ISO market are paid. Although NCPA does not request rejection of the proposed amendment, it nevertheless protests the discriminatory nature of lowering the UDCs' creditworthiness requirements, arguing that these requirements have had a disproportionately large impact on small entities and that the proposed amendment aggravates this situation.

Dynegy filed a motion for expedited action stating that it does not oppose the implementation of the proposed amendment on a temporary basis through February 7, 2001, because the State of California has provided some short-term credit assurances through the DWR purchases and because the DOE Order expires on that date. Dynegy argues that the Commission should not extend the waiver past February 7, 2001, because such an extension, absent another DOE Order or consent of the suppliers, requires suppliers to accept unreasonable risks.

Although SDG&E states that it has no desire to see rolling blackouts in any part of California as a result of creditworthiness issues, it argues against the proposed amendment. SDG&E argues that the ISO's unilateral action is causing financial harm to California electricity markets and in particular SDG&E's customers. SDG&E speculates that the risk premiums added to the price of power due to default concerns have increased the price SDG&E pays for power in the ISO markets and for bilateral transactions. SDG&E concludes that if the proposed amendment is approved, the Commission should condition its approval to ensure that no market participant will be required to bear losses it could not have anticipated at the time it sold into the ISO markets. In addition, SDG&E contends that any amendment to the ISO tariff should allow SoCal Edison and PG&E to use their own generation and their bilateral contracts to serve their customers' requirements.

Mirant and Tucson Electric generally oppose Amendment No. 36 because it unilaterally imposes great risk on sellers in the market and thereby undercuts the stability of the market at a time when the stability and financial viability of all market participants is critically important. Mirant notes that the DWR Appropriation has restored some of the financial stability to the California markets during its implementation. Mirant states that the Commission should condition acceptance of the proposed amendment by requiring such credit support arrangements, either by using DWR as a purchasing entity or the substitution of an equally creditworthy party. [12] Finally, Mirant contends that the Commission should require that the ISO provide some concrete assurance that suppliers will be paid in full for energy deliveries made between the ISO's unilateral implementation of the proposed amendment and the day that DWR began providing credit support.

The California Commission, the Board, and PG&E fully support the proposed amendment. PG&E argues that the ISO must have the authority to modify its creditworthiness standards in view of the unsettled market conditions in California in order to protect the ability of the UDCs to continue to serve millions of customers.

SoCal Edison supports Amendment No. 36, stating that it is the minimum measure necessary for the UDCs to continue to serve their customers. SoCal Edison argues that failure to relax the ISO tariff creditworthiness standards will have a devastating impact on health and welfare of the State of California. SoCal Edison suggests modifying the proposed amendment to include a provision allowing 30 days for the UDCs to obtain the

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[12] Mirant Motion at 7.

necessary security to meet the requirements of the ISO, and a provision waiving all credit and security requirements with respect to the self-provided load of the UDCs.

The ISO's answer to Reliant's motion for a cease-and-desist order argues that the continued service of tens of millions of California customers outweighs Reliant's concerns. In addition, the ISO states that Reliant has not made a showing of harm nor plausibly explained how the temporary waiver of creditworthiness standards will endanger Reliant over the long run.

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PG&E argues that the PX's proposal does not adequately loosen creditworthiness requirements, because it would still require PG&E to post collateral once its credit rating was downgraded to junk status. PG&E states that it is unable to post collateral; therefore, to prevent disruption of services to millions of customers, the PX should relax its creditworthiness standards consistent with the ISO's proposal.

SDG&E and Reliant argue that the PX's proposal overly weakens creditworthiness requirements, and raise the same basic objections as they do to the ISO's proposed Amendment No. 36.

Docket No. EL00-95-006, et al.

The ISO and PG&E oppose Dynegy's motion. With regard to maintaining the creditworthiness provisions of the tariff, the ISO makes many of the same arguments as in Docket No. ER01-607-001 about the need to relax those standards in order to ensure continued electric service to Californians.

On the question of shortening the ISO's billing lag time and offsetting amounts owing against amounts owed, the ISO argues that it is impractical to shorten its billing lag time because it takes 60 days to obtain and process the meter data on which billings are based and the ISO has no reliable method of developing estimates. The ISO also notes that the current 75-day lag time has the benefit of allowing the UDCs time to work with their creditors and the California Commission to try and prevent default. The ISO further states that it already offsets amounts owing against amounts owed. PG&E argues that neither of Dynegy's proposed changes can be made without either a filing of a tariff amendment by the ISO or a finding by the Commission that the existing tariff provisions are unjust and unreasonable.

IV. Discussion

A. Procedural Matters

In Docket No. ER01-889-000, the notices of intervention by the California Commission and the Illinois Commerce Commission in serve to make them parties, as provided in Rule 214 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.214 (2000). The timely, unopposed intervention motions filed in that same docket make the persons who filed them parties as well. No disruption would result from allowing Puget to intervene at this stage; therefore, we grant its out-of-time motion. As provided in Rule 213 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.213 (2000), we will accept the ISO's January 16 answer to Reliant's motion for a cease-and-desist order and reject the ISO's February 9 answer to the protests.

In Docket No. ER01-902-000, the timely, unopposed interventions of the following persons make them parties: PG&E, SMUD, Vernon, Williams, SDG&E, Reliant, and Duke. No disruption would result from allowing Mirant to intervene at this stage; therefore, we grant its out-of-time motion. We reject the PX's answer.

In Docket No. EL00-95-006, et al., we will accept the answers of NCPA and Duke, although filed one and four days out of time, respectively, as provided in Rule 213(d)(1) of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.213(d)(1) (2000).

B. Self-Scheduling Under Proposed ISO Amendment

The creditworthiness requirements in the ISO tariff apply not only when a UDC is scheduling delivery of power purchased from a third party, but also when a UDC or its Scheduling Coordinator is scheduling its own generation and using its own transmission resources that are now controlled by the ISO.[13] We commend the ISO for striving to meet its primary obligation, ensuring system reliability, during times of severe electrical supply and financial instability in the California market. The California market situation is evolving with unprecedented speed with major developments unfolding daily. We believe that to the extent Amendment No. 36 allows SoCal Edison and PG&E to continue to deliver their own resources and access their own transmission facilities to serve their load, the Amendment is reasonable and necessary for maintaining the reliability of the ISO grid. We further recognize that without the unilateral implementation of Amendment No. 36, electrical service to California consumers would have suffered, possibly resulting in additional blackouts. Accordingly, we will accept Amendment No. 36 and find good cause to grant a limited waiver of our notice requirements but only to the extent the Amendment

[13]As we noted in the December 15 Order at 61,993, the three UDCs in California own or control, under contract, approximately 25,000 MWs of resources.

applies to SoCal Edison's and PG&E's ability to access their own transmission facilities to deliver their resources to their load.

C. Third-Party Transactions Under Proposed ISO and PX Amendments

Nevertheless we will deny the ISO's and the PX's proposals to relax creditworthiness standards to the extent they affect third-party suppliers. The Commission has long accepted creditworthiness requirements consistent with applicable provisions of commercial law. [14]

The ISO and PX tariffs, in their original forms, were designed to incorporate creditworthiness protections that were consistent with applicable provisions of commercial law. In fact, in the proceeding originally authorizing operation of the ISO and PX, we specifically rejected requests to relax the creditworthiness standards in the ISO tariff, finding the filed standards reasonable and consistent with the open access requirements of Order No. 888. [15]

More recently, the Commission Staff Report on the 1998 price abnormalities in the Midwest noted that the June price spike provided a wake-up call to many market participants on the issue of creditworthiness. The staff study team concluded that "In a competitive market, market participants must take responsibility for inquiring into the creditworthiness of their counterparties to ensure contract performance." [16]

As previously noted, third-party suppliers negotiated over, and agreed to do business with the ISO and PX subject to, tariff provisions that included standard financial protections. We find that by simply lowering the standards for the two largest buyers in these markets, the proposed amendments entail an inappropriate unilateral shifting of unacceptable financial risks to both large and small third-party suppliers. Moreover, we are concerned that a lowering of the financial creditworthiness standard, without some

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[14]See Section 11 of the Pro Forma Open Access Transmission Tariff, Order No. 888, at Appendix D, 61 Fed. Reg. 21,540, FERC Statutes and Regulations ¶ 31,036, at 31, 926 (1996). See also New York State Electric & Gas Corp., 78 FERC ¶ 61,114, at 61,436 (1997) (approving additional creditworthiness provisions demonstrated to conform to standard commercial practices).

[15]See Pacific Gas and Electric Company, et al., 81 FERC ¶ 61,122, at 61,510 (1997).

[16]Staff Report to the Federal Energy Regulatory Commission on the Causes of the Pricing Abnormalities in the Midwest during June 1998, at 4-4 to 4-5 (1998).

assurance of payment for third party sales, would further increase prices paid by consumers. This is because, as SDG&E recognizes, the tariff revisions likely would increase the risk premium added to the price of power due to the exposure of non-payment. Further, the consequences of relaxing creditworthiness standards only for the three large investor-owned UDCs may be disproportionately severe as applied to small municipal customers, such as NCPA and Cities/M-S-R. These small municipal customers both generate and purchase power and will shoulder a burden that is proportionately greater relative to their size.

In summary, we reject the PX's proposed Amendment No. 22. We also reject application of the ISO's proposed Amendment No. 36 beyond the UDCs and their Scheduling Coordinators self-scheduling their own generation and accessing their own transmission facilities.

D. Requests for Further Clarification

With regard to the ISO's request for further guidance, we find that although Amendment No. 36 as currently drafted is unacceptable as applied to third-party transactions, a relaxation of the restrictions on UDCs with less-than Approved Credit Ratings would be acceptable if combined with appropriate support from creditworthy counterparties. Credit-support arrangements, such as the type proposed by Mirant or some comparable credit backing by a state agency or specific state bond issued for the purpose of backing the power purchases of the UDCs, are necessary to ensure adequate assurance of payment for third-party suppliers. DWR has served as a creditworthy counterparty with the backing of state appropriations, keeping the California market functioning through much of January. Such financial backing for that portion of the power that is not self-supplied by the UDCs would provide immediate financial stability to the market.

We deny Dynegy's additional requests for clarification. With regard to 75-day payment lag in the ISO market, we point out that the PX was a trading floor that relied on instantaneous transaction data to calculate billing, whereas the ISO must collect meter data to perform its billing function. Given these facts, we find that a 75-day lag is appropriate for the ISO. With regard to netting amounts owing against amounts owed, such a provision is already incorporated in the ISO tariff. [17] Finally, the penalty provision for which Dynegy seeks clarification was added to the ISO tariff by Amendment No. 33, which we accepted on an emergency basis on December 8, 2000, in California Independent System Operator Corporation, 93 FERC ¶ 61,239 (2000) (December 8 order). Dynegy and others have filed

[17] See ISO tariff, Section 11.9.

requests for rehearing of that order, and we will address the arguments Dynegy has raised in the instant proceeding in our order on the rehearing requests of the December 8 order.

Therefore, we direct the ISO to submit a compliance filing within 15 days of the date of this order to change the provisions of Amendment No. 36 to allow for a waiver of the creditworthiness requirements to allow for self-scheduling of the UDCs' own resources and to incorporate provisions for an acceptable form of a credit support that provides adequate assurances of payment for third-party suppliers, as discussed above.

Under our order, the ISO can continue to accept the UDCs' schedules to supply their load with their own resources, and DWR's authority to purchase on behalf of the UDCs is acceptable. Thus, the unresolved creditworthiness issues relate to the UDCs' residual load that is served through the ISO's imbalance energy market. Under current conditions, there is a bid insufficiency in the ISO's energy imbalance market causing the ISO to issue emergency dispatch instructions in order to meet this residual load and balance the system. By maintaining appropriate creditworthy standards that ensure payment for services by a creditworthy counterparty such as DWR, this order should increase the supply in the energy imbalance market and reduce the need for emergency dispatch instructions.

We understand that the PX has closed its Day-Ahead and Day-Of energy markets. Therefore, revision of the creditworthiness provisions of the PX tariff is no longer an issue. Consequently, we will reject the PX's proposed tariff amendment.

The Commission orders:

(A) The ISO's proposed Amendment No. 36 is hereby accepted in part for filing to become effective on January 4, 2001, subject to modification as discussed in the body of this order.

(B) The ISO is hereby directed to file modifications to the ISO tariff in compliance with this order within 15 days of the date of this order, pursuant to the procedures discussed in the body of this order.

(C) The PX's proposed Amendment No. 22 is hereby rejected.

(D) Dynegy's motion for clarification is hereby granted in part and denied in part, as discussed in the body of this order.

By the Commission.

(S E A L)

David P. Boergers,
Secretary.