January 4, 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-____-000
Amendment No. 36 to the ISO Tariff, Temporary Exemption from Creditworthiness Requirement for Certain Classes of Scheduling Coordinators

Dear Secretary Boergers:

Pursuant to Section 205 of the Federal Power Act ("FPA"), 16 U.S.C. § 824d, and Sections 35.11 and 35.13 of the Commission's regulations, 18 C.F.R. §§ 35.11, 35.13, the California Independent System Operator Corporation ("ISO")[1] respectfully submits for filing six copies of an amendment ("Amendment No. 36") to the ISO Tariff. Amendment No. 36 would modify the ISO Tariff to provide on a day-to-day basis a temporary grace period following a downgrade in the credit-rating of certain Scheduling Coordinators during which period such Scheduling Coordinators could continue to schedule transactions and participate in the ISO's markets without providing one of specified forms of security. The grace period would apply to Scheduling Coordinators that are Original Participating Transmission Owners or schedule on behalf of an Original Participating Transmission Owner. The grace period will extend no longer than to March 3, 2001. The ISO intends to terminate the grace period as soon as it can act on guidance from the Commission regarding the creditworthiness issues

[1] Capitalized terms not otherwise defined herein are defined in the Master Definitions Supplement, ISO Tariff Appendix A, as filed August 15, 1997, and subsequently revised.

raised by recent events. The ISO requests that the Commission waive notice requirements and allow an effective date of January 4, 2001. Because of the conditions that give rise to this filing, the ISO is implementing Amendment No. 36 in accordance with these proposed effective dates, without waiting for Commission action.

I. NEED FOR AMENDMENT

The Commission is well aware of the conditions in the California electricity markets that threaten reliability and result in exceedingly high prices. In its November 1st and December 15th Orders,[2] the Commission took dramatic steps to remedy those conditions. Nonetheless, the combination of high wholesale prices and capped retail rates has placed severe stress on California investor-owned Utility Distribution Companies ("UDCs"). As a result, today, the ISO anticipates that credit-rating agencies will imminently reduce the credit rating of Southern California Edison Company ("Edison") and Pacific Gas and Electric Company ("PG&E"). See Attachment A, article appearing on CBS.MarketWatch.com.

Under Section 2.2.3.2 of the ISO Tariff, a Scheduling Coordinator must maintain an Approved Credit Rating or provide the ISO with specified forms of security. Section 2.2.3.2 further provides, "A Scheduling Coordinator, UDC, or MSS which does not maintain an Approved Credit rating shall be subject to the limitations on trading set out in Section 2.2.7.3." The latter section provides:

> Following the date on which a Scheduling Coordinator commences trading, the Scheduling Coordinator shall not be entitled to submit a Schedule to the ISO and the ISO shall reject any Schedule submitted, if at the time of submission, the Scheduling Coordinator's ISO Security Amount is exceeded by the Scheduling Coordinator's estimated aggregate liability. . . .

The Approved Credit Rating is defined in the ISO Tariff as including (1) for the Grid Management Charge, short term taxable commercial paper debt ratings of A1 from Standard and Poor's Corporation and P1 from Moody's Investors Service; and (2) for other charges, A2 from Standard and Poor's Corporation and and P2 from Moody's Investors Service. Following the anticipated downgrades, Edison and PG&E will be below this level. Therefore, Section 2.2.7.3 will preclude Edison and PG&E, absent the posting of security sufficient

---

[2] *San Diego Gas & Electric Co. v. Sellers of Energy and Ancillary Services Into Markets Operated by the California Independent System Operator and the California Power Exchange, et al.*, 93 FERC ¶ 61,121; 93 FERC ¶ 61,294 (2000).

to cover those entities' full liability to the ISO, from scheduling transactions with the ISO. Inasmuch as the credit ratings of the California Power Exchange are dependent upon the credit ratings of the UDCs, the California Power Exchange has informed the ISO that its credit rating will inevitably and imminently be similarly downgraded. The ability to schedule transactions of the California Power Exchange – which is liable to the ISO in an amount in excess of one billion dollars and which lacks any independent source of funds with which to post security to cover that liability – will therefore also be precluded.

Because service to the majority of consumers in California is dependent upon the ability of the investor-owned UDCs to schedule transactions on their own or through the California Power Exchange, imposition of the trading limitations included in Section 2.2.7.3 would have a devastating impact on California electric consumers. Under these circumstances, a relaxation of the creditworthiness requirements of the ISO Tariff would seem to be necessary in order to ensure continued electricity service to Californians.

The creditworthiness provisions of the ISO Tariff were the product of intensive negotiations. They were intended to provide Market Participants with the financial security that they consider necessary in order to operate in California markets. These requirements that Scheduling Coordinators provide security were deemed necessary because the ISO is not itself the purchaser of electricity in the ISO's markets and even if it were, as a non-profit public benefit corporation, it lacks the authority and the funds to provide such security itself. Under current circumstances, however, these requirements for security could be expected to cripple the ability of one or more of the UDCs to serve their customers – which could mean the great majority of California consumers could not be served.

The ISO therefore asks the Commission, in its Order on this proposed Amendment, to provide the ISO with guidance regarding the resolution of this conflict. Until it receives such guidance, in order to ensure the continued functioning of the California markets, the ISO proposes to allow a day-by-day grace period for the affected UDCs and the California Power Exchange prior to the imposition of trading limitations.

II. AMENDMENT NO. 36

Amendment No. 36 amends Section 2.2.3.2 of the ISO Tariff to provide a temporary exemption from trading limitations for the investor-owned UDCs, which are the Original Participating Transmission Owners, and for their Scheduling Coordinator, which is currently the California Power Exchange. The exemption would extend on a day to day basis if the ISO posts notice of the exemption on the ISO Home Page one hour prior to the deadline for initial submittal of Day-Ahead schedules for the Trading Day. The exemption will extend no longer than to March 3, 2001. The ISO intends to terminate the exemption as soon as it can act on guidance from the Commission, unless that guidance directs continuation of the exemption.

III. REQUESTED EFFECTIVE DATE, REQUEST FOR WAIVER OF 60 DAY PRIOR NOTICE REQUIREMENT, AND REQUEST FOR EXPEDITED CONSIDERATION

The ISO respectfully requests, pursuant to Section 35.11 of the Commission's regulations, 18 C.F.R. § 35.11, that the Commission accept Amendment No. 36 for filing and permit it to become effective on January 4, 2001. For the reasons described above, the ISO believes that immediate implementation of these provisions is necessary so that the investor-owned UDCs can continue to schedule service to their customers.

Consistent with this request, the ISO feels it must, pending Commission action on Amendment No. 36, immediately implement the procedures contained therein. As the ISO noted in its transmittal letter for Amendment No. 33, immediate implementation without prior Commission action is not taken lightly. Nevertheless, the grave circumstances at issue leave the ISO with no alternative. Immediate implementation of the proposed amendment cannot be avoided if the reliability of service to customers is to be ensured.

IV. SERVICE

The ISO has served this filing on Public Utilities Commission of the State of California, the California Energy Commission, the California Electricity Oversight Board, and all parties with effective Scheduling Coordinator Service Agreements under the ISO Tariff.

V. NOTICES

Communications regarding this filing should be addressed to the following individuals, whose names should be placed on the official service list established by the Secretary with respect to this submittal:

Charles F. Robinson
General Counsel
Roger E. Smith
Senior Regulatory Counsel
The California Independent System
Operator Corporation
151 Blue Ravine Road
Folsom, California 95630
Tele: (916) 608-7135
Fax: (916) 608-7296

Edward Berlin
Kenneth G. Jaffe
J. Philip Jordan
Michael E. Ward
Swidler Berlin Shereff Friedman, LLP
3000 K Street, N.W. 20007
Washington, D.C.
Tel: (202) 424-7500
Fax: (202) 424-7643

VI. SUPPORTING DOCUMENTS

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

Attachment A	Article from CBS.MarketWatch.com
Attachment B	Revised Tariff Sheets
Attachment C	Black-lined Tariff provisions
Attachment D	Notice of this filing, suitable for publication in the Federal Register (also provided in electronic format).

An additional copy of this filing is enclosed to be stamped with the date and time of filing and returned 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

Edward Berlin
Kenneth G. Jaffe
J. Philip Jordan
Michael E. Ward

Swidler Berlin Shereff Friedman, LLP

Counsel for
The California Independent System Operator Corporation