

May 11, 2001

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

Re: California Independent System Operator Corporation, Docket
No. ER01-889-003

Dear Mr. Boergers:

As directed in the letter order dated April 26, 2001, enclosed for filing are six copies of tariff modifications implementing the conditions specified in the Commission's April 6, 2001 Order in this docket, 95 FERC ¶ 61,024. In filing these modifications, the California Independent System Operator Corporation ("ISO") does not in any way consent to or concede the legality of the April 6th Order. To the contrary, on May 7, 2001, the ISO filed a Request for Rehearing and Motion for Expedited Consideration based, in principal part, on the blatant disregard by the Commission of the notice and hearing procedures required by §206 of the Federal Power Act when the Commission establishes new rates, terms and/or conditions of service. It should be understood, therefore, that the enclosed tariff modifications are filed under protest and with a reservation of all rights to challenge the April 6th order.

With respect to the inquiry in the April 26th letter order relating to the activities of the California Department of Water Resources ("DWR"), please be advised that only one party -- DWR -- has stepped forward to provide the credit support required by the Commission as a condition to meeting the emergency needs of California consumers. DWR, pursuant to the directive of AB 1x, has been endeavoring to arrange, by contract, for the energy not supplied by the investor-owned utilities but required to meet load. DWR has also indicated a willingness to back certain transactions in real-time. However, in discharge of this latter responsibility, and of its fiduciary obligation to conserve the finite financial resources that have been placed at its disposal, DWR has advised that

Honorable David P. Boergers
May 11, 2001
Page 2

it must have access to the ISO control room floor and to a limited amount of nonpublic information. DWR has further advised that these requirements are a necessary condition to its continued provision of credit support.

Absent DWR's willingness to step into this unique financial assurance role, the ISO would have absolutely no ability, in light of the newly imposed credit requirements, to discharge its fundamental reliability responsibility, a responsibility that the Commission has acknowledged is at the core of the ISO's mandate. See *Pacific Gas and Electric Company, et al.*, 81 FERC ¶ 61,122 at 61,467 (1997).

The uniqueness of the role served by DWR and the urgency of the situation facing California consumers dictate that DWR's fulfillment of that role be deemed outside the circumstances covered by the Commission's standards of conduct regulations (18 CFR, Part 37). To the extent that the Commission disagrees, an exemption is warranted in favor of the ISO and DWR with regard to any otherwise applicable restrictions, given the extraordinary crisis facing the State of California, and we request that the Commission grant such an exemption.

The following documents are attached in support of this filing:

- Attachment A: The revised ISO Tariff pages;
- Attachment B: "Blacklined" tariff provisions identifying the changes made by this compliance filing; and
- Attachment C: A Form of Notice suitable for publication in the Federal Register.

Honorable David P. Boergers
May 11, 2001
Page 3

Also enclosed is a 3½ inch diskette containing the notice of filing in WordPerfect format. In addition, an extra copy of the filing is enclosed. We would appreciate you stamping the extra copy with the time and date and returning it to the messenger.

Respectfully submitted,

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