



April 17, 2002

The Honorable Magalie Roman Salas
Secretary
Federal Energy Regulatory Commission
888 First Street, N.E.
Washington, D.C. 20426

**Re: California Independent System
Operator Corporation**

**Docket Nos. ER01-889-000
*et seq.***

**California Independent System
Operator Corporation**

**Docket Nos. ER01-3013-000
*et seq.***

**San Diego Gas & Electric Company,
*et al.***

Docket No. EL00-95-036

Dear Secretary Salas:

The California Independent System Operator Corporation (“ISO”)¹ respectfully submits for filing six copies of this filing in compliance with the Commission’s March 27, 2002 “Order Clarifying the Creditworthiness Requirement, Denying Rehearing and Rejecting in Part Compliance Filings” in the above-captioned dockets, 98 FERC ¶ 61,335 (2002) (“March 27 Order”) (“ISO Compliance Filing”).

This ISO Compliance Filing contains certain documents which are confidential as defined under the ISO Tariff. Enclosed herein is an original and six copies of the ISO Compliance Filing for public distribution and one copy of the ISO Compliance Filing containing the confidential material.

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.

Specifically, Appendices D, F, G and H of the ISO Compliance Filing contain confidential or commercially sensitive data, including copies of invoices from the ISO to the California Department of Water Resources (“CDWR”) and investor-owned utilities, Southern California Edison Company (“SCE”) and Pacific Gas & Electric Company (“PG&E”) (collectively, the “IOUs”). The ISO requests the Commission to accord confidential treatment for these enclosed documents consistent with the ISO Tariff Section 20.3. Therefore, in accordance with 18 C.F.R. § 388.112 (2000), a copy of the ISO Compliance Filing containing the above-described appendices is provided in a sealed envelope labeled “Contains Privileged Information – Do Not Release.”

I. BACKGROUND

In its March 27 Order, the Commission clarified the creditworthiness requirement under the ISO Tariff; accepted and rejected in part the ISO’s compliance filings of March 1, 2001, May 11, 2001, and November 21, 2001; and denied rehearing of the Commission’s order issued on November 7, 2001 (“November 7 Order”).²

As detailed below, the March 27 Order directed the ISO to file further proposed modifications to ISO Tariff Section 2.2.3.2 to ensure that the forms of acceptable security include the Security Amount calculated pursuant to ISO Tariff Section 2.2.7.3; procedures to ensure that the CDWR is afforded the same non-preferential treatment as other Market Participants; and to file invoices and

² 97 FERC ¶ 61,151 (2001).

supporting documentation substantiating the ISO's "net reduction" of the amounts owed by CDWR by the amounts owed to CDWR.

II. ISO TARIFF SECTION 2.2.3.2

In its March 27 Order, the Commission directed the ISO to further modify ISO Tariff Section 2.2.3.2 to include specific text from ISO Tariff Section 2.2.7.3 ensuring that letters of credit, guarantees, surety bonds, payment bond certificates, escrow agreements and certificates of deposit must cover all applicable outstanding and estimated liabilities under Section 2.2.7.3 (additional language to be included is underlined). Included in Appendix A hereto are the proposed modifications to ISO Tariff Section 2.2.3.2.

III. ISO CODE OF CONDUCT

The March 27 Order directed the ISO to file procedures to ensure that CDWR is afforded the same non-preferential treatment as other Market Participants. Since inception the ISO has had a Code of Conduct ensuring non-preferential treatment under the ISO Tariff for similarly situated Market Participants. Specifically, on April 22, 1999, the ISO filed the most recent amendments to the ISO's Employees Code of Conduct and the Code of Conduct for Governors of the California Independent System Operator Corporation, adopted on May 6, 1997, and amended on May 28, 1998 and February 25, 1999, in Docket ER99-____-000 ("collectively, "Codes of Conduct").

Under the Codes of Conduct, ISO officers, employees, and substantially full-time consultants and contractors and Governors are required to act in accordance with the policy of the ISO to offer open-access transmission service

on a non-discriminatory basis and, if there is discretion in the application of any Tariff provision, to apply the Tariff provision in substantially the same manner to the same or similarly situated persons. See Employees Code of Conduct, ¶¶ 6,7; Code of Conduct for Governors, ¶¶ 1,2. Moreover, the Codes of Conduct are distributed to all new ISO officers, employees, and substantially full-time consultants and contractors and Governors and all such persons are required to complete an annual disclosure questionnaire regarding compliance with the applicable Code of Conduct. See Employees Code of Conduct, ¶ 2; Code of Conduct for Governors, ¶ 2.

Included in Appendix B hereto are copies of the Codes of Conduct and the most recent PriceWaterhouseCoopers, LLP “Code of Certification Process Report of Independent Accountants on Applying Agreed-Upon Procedures” dated September 25, 2001. Lastly, the ISO has posted these Codes of Conducts on the ISO Home Page.

IV. CDWR GROSS AND NET INVOICES

The March 27 Order directed the ISO to substantiate its reduction of the gross amount owed by CDWR by the gross amount owed to CDWR by other ISO Market Participants. Specifically, the Commission ordered the ISO to file the “invoices” setting forth (1) the amounts owed by the IOUs to ISO Market Participants and the amounts owed to the IOUs by ISO Market Participants (“IOUs Gross Invoice”), (2) the CDWR “invoice” detailing the amounts owed by CDWR to ISO Market Participants and the amounts owed to CDWR by ISO Market Participants (“CDWR Gross Invoice”) and (2) the final CDWR netted

invoice that reflects the difference between amounts owed to CDWR by ISO Market Participants and amounts owed by CDWR to ISO Market Participants (“CDWR Net Invoice”). The Commission directed the ISO to file a full explanation of the net reductions of the credits and debits on the IOUs and CDWR invoices along with supporting documentation detailing the charge type classifications and an explanation about the inclusion of interest on amounts due.

In response, the ISO is filing, under a request for confidential treatment, the IOUs and CDWR Gross Invoices and the CDWR Net Invoices, which detail charges and credits by ISO Charge Type by month and interest charged on amounts due as well as the total monthly amount either owed to or owed by the IOUs and CDWR.

Set forth in Appendix C is a table describing the ISO Charge Types that are reflected in the invoices provided to ISO Market Participants, including the IOUs and CDWR. Appendix D contains the original CDWR invoices delivered to CDWR on November 20, 2001, in compliance with the Commission’s November 7 Order. Appendix E contains a list of the types of adjustments the ISO subsequently made to the original CDWR invoices (Appendix D) that yield the final CDWR Net Invoices, set forth in Appendix G. Appendix F contains the IOUs and CDWR Gross Invoices, detailing the specific monthly credits and debits by ISO Charge Type for CDWR as a Scheduling Coordinator and for each of the IOUs’ several Scheduling Coordinators. The unpaid amounts of these IOUs Gross Invoices, along with interest specifically calculated for the period of January 17 through July 31, 2001 only, subsequently were invoiced to CDWR,

and are reflected on the CDWR Net Invoices. Appendix G contains the CDWR Net Invoices, detailing the result of netting the amounts detailed in the several gross invoices, including interest on amounts owed for the period of January 17 through July 31, 2001 only. For convenience, Appendix H has a summary work sheet showing the IOUs Gross Invoices by ISO Charge Type and month, the CDWR Gross Invoice by ISO Charge Type and month, and the resulting CDWR Net Invoice.

To help in the Commission's review of the invoices, the ISO notes the following. An ISO Charge Type is a numeric code assigned to a particular activity for which a Scheduling Coordinator is being either charged or credited. There are general categories of ISO Charge Types, including those associated with the purchase and sale of Ancillary Services, Imbalance Energy and Transmission Services. On a monthly basis, for each Scheduling Coordinator, the monthly debits and credits for all Charge Types are summed to produce an invoice reflecting an amount that is either owed to the Scheduling Coordinator by other ISO Market Participants or owed by the Scheduling Coordinator to other ISO Market Participants. The ISO settlement system, as provided for under the ISO Tariff, does not make distinct matches between buyers and sellers on a transaction or ISO Charge Type basis. Instead, on a monthly basis, the debits and credits of a Scheduling Coordinator are netted against each other, and the resulting invoice reflects amounts owed to or by the Scheduling Coordinator. The appended invoices and work sheets show the monthly summing of each Scheduling Coordinator's activities under all ISO Charge Types and the netting of

monthly total debits against monthly total credits to yield the individual monthly invoices.

V. APPENDICES

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

Appendix A: Proposed Tariff Modifications to Section 2.2.3.2

Appendix B: ISO Employees and Governors Codes of Conduct;
PriceWaterHouseCoopers, LLP Code of Certification Report

Appendix C: ISO Charge Type Names

Appendix D: CDWR Invoices, delivered on November 20, 2001

Appendix E: List of Adjustment Types Made To CDWR Invoices of
November 20, 2001

Appendix F: IOUs and CDWR Gross Invoices

Appendix G: CDWR Net Invoices

Appendix H: Work Sheet Summary of Gross and Net Invoices

Please do not hesitate to contact the undersigned with any questions.

Respectfully submitted,

Charles F. Robinson
Margaret A. Rostker
Counsel for the
California Independent System
Operator Corporation
151 Blue Ravine Road
Folsom, California 95630

Dated: April 17, 2002

Enclosures As Stated

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon each person designated on the official service list compiled by the Secretary in the above-captioned dockets.

Dated at Folsom, CA on this 17th day of April, 2002.

Margaret A. Rostker
Counsel for the California Independent
System Operator Corporation
151 Blue Ravine Road
Folsom, CA 95630