

June 1, 1998

The Honorable David P. Boergers
Acting Secretary
Federal Energy Regulatory Commission
888 First Street, N.E.
Washington, D.C. 20426

Re: The California Independent System Operator Corporation, Docket
Nos. EC96-19-____ and ER96-1663-____

Dear Secretary Boergers:

Pursuant to Section 205 of the Federal Power Act ("FPA"), 16 U.S.C. § 824d, and various Commission orders listed below, the California Independent System Operator Corporation ("ISO") respectfully submits as a compliance filing the ISO Code of Conduct, the ISO Operating Agreement and Tariff (including the ISO Protocols) ("Compliance Tariff"),¹ the Transmission Control Agreement, certain of the ISO's *pro forma* operating agreements ("*Pro Forma* Agreements")

¹ Capitalized terms not otherwise defined herein are defined in the Master Definitions Supplement, ISO Tariff Appendix A.

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and certain of the ISO's bilateral operating agreements ("Bilateral Agreements") amended to comply with the Commission's order of December 17, 1997.

Included with this submittal are:

- a matrix of the ISO's 60-day compliance obligations addressing the specific Commission directives for changes to the ISO Documents, the ISO Code of Conduct and the *Pro Forma* Agreements;
- ISO Employees Code of Conduct and Governors Code of Conduct (clean and blacklined versions);
- the Compliance Tariff;
- amended Transmission Control Agreement ("TCA") (clean version and blacklined version with Appendices A, B and C);
- certain *Pro Forma* Agreements currently posted by the ISO (clean versions and blacklined versions, without schedules, which show changes required by the Commission's order issued December 17, 1997);
- Amendments to Bilateral Agreements to comply with the Commission's December 17, 1997 order; and
- a form of notice of filing suitable for publication in the Federal Register (hard copy and diskette).

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I. NOTICES

The following individuals should be placed on the Commission's official service list for this submittal:

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II. BACKGROUND

The ISO last submitted the entire ISO Tariff for filing under Section 205 of the FPA on August 15, 1997 ("August 15 Filing"). The ISO Protocols were submitted, for information only, on October 31, 1997 ("October 31 Filing").² Since the ISO's August 15 Filing and October 31 Filing, the Commission has issued numerous orders that enabled the ISO to commence operations on March 31, 1998. The Commission's orders,

² In the December 17 Order, the Commission accepted the ISO Protocols for filing as part of the ISO rate schedules and directed that they be filed under Section 205 within 60 days of the ISO Operations Date. 81 FERC at 62,471.

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collectively, directed the ISO to: (1) make changes to the ISO Bylaws, the ISO Code of Conduct, the ISO Tariff (including the Protocols), the TCA, the *Pro Forma* Agreements and the Bilateral Agreements; and (2) file those changes with the Commission 60 days after the ISO commenced operations. The instant submittal comprises the ISO's filing in compliance with those instructions ("Compliance Filing").

The Compliance Filing is being made pursuant to the following Commission orders:³

- Pacific Gas and Electric Company, et al., 81 FERC ¶ 61,122 (October 30, 1997) ("October 30 Order");
- Pacific Gas and Electric Company et al., 81 FERC ¶ 61,320 (December 17, 1997) ("December 17 Order");
- California Independent System Operator Corporation, 82 FERC ¶ 61,174 (February 25, 1998) (accepting certain Scheduling Coordinator Agreements, Participating Generator Agreements and Responsible Participating Transmission Owner Agreements ("RPTO Agreements"), as modified);
- California Independent System Operator Corporation, 82 FERC ¶ 61,180 (February 25, 1998) (accepting Utility Distribution Company Operating Agreements and Interim Blackstart Agreement, as modified);
- California Independent System Operator Corporation, 82 FERC ¶ 61,252 (March 12, 1998) (accepting certain Meter Service Agreements for ISO Metered Entities, as modified);
- California Independent System Operator Corporation, 82 FERC ¶ 61,312 (March 27, 1998) (accepting ISO Tariff Amendment No. 1 subject to modification and rejecting Amendment Nos. 2 and 3);

³ Because of the large number of Commission orders to which the Compliance Filing responds, the orders are set forth herein.

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- California Independent System Operator Corporation, 82 FERC ¶ 61,325 (March 30, 1998) (accepting certain Meter Service Agreements for ISO Metered Entities, Meter Service Agreements for Scheduling Coordinators and TCA, as modified);
- California Independent System Operator Corporation, 82 FERC ¶ 61,326 (March 30, 1998) (accepting certain Scheduling Coordinator Agreements, Participating Generator Agreements and Utility Distribution Company Operating Agreements, as modified);
- California Independent System Operator Corporation, 82 FERC ¶ 61,327 (March 30, 1998) (accepting ISO Tariff Amendment Nos. 4, 5 and 6, as modified);
- California Independent System Operator Corporation, Docket Nos. ER98-2263-000 and ER98-2264-000 (April 21, 1998) (unpublished letter order accepting a certain Meter Service Agreement for Scheduling Coordinators and Scheduling Coordinator Agreement, as modified);
- California Independent System Operator Corporation, 83 FERC ¶ 61,118 (April 30, 1998) (accepting certain Meter Service Agreements for ISO Metered Entities, as modified); and
- California Independent System Operator Corporation, Docket Nos. EC96-19-023 and ER96-1663-024 (May 28, 1998) (accepting ISO Tariff Amendment No. 7, as modified).

III. THE COMPLIANCE FILING

A. Stakeholder Review.

The ISO is committed to an open and transparent process for filings.

Therefore, the ISO has sought to afford stakeholders ample opportunity to review the essential components of the Compliance Filing prior to this submission. Among the steps taken were:

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- the ISO posted on its web site changes responsive to the October 30 Order and the December 17 Order in a “compliance posting “ of the ISO Tariff, including the Protocols, on December 22, 1997;
- subsequent ISO Tariff amendments and Commission orders prior to the commencement of ISO operations were reflected in an additional posting in April 1998;⁴
- on May 1, 1998, the ISO sent stakeholders a fax notice requesting comments by May 11 on the compliance aspects of the April posting. Only one comment was received. This comment does not involve the ISO’s implementation of a change ordered by the Commission and, therefore, is not addressed in the Compliance Filing. The comment will be considered, however, in the context of the “Clarification Filing” discussed herein; and
- additionally, as compliance modifications were made, the ISO sought to discuss the changes with stakeholders prior to implementation or to make them available for their review prior to this submission.

B. Proposed Procedure for this Filing.

In its December 17 Order, the Commission signaled its intention to use the ISO’s 60-day Compliance Filing to allow stakeholders to pursue issues not previously resolved by the Commission.⁵ Thus, as opposed to a typical compliance filing which is limited to the issue of whether the filing party has implemented the Commission’s compliance instructions, the ISO’s Compliance Filing is intended to serve as the vehicle for parties to litigate issues not resolved in prior Commission orders. The ISO, however, has proposed to

⁴ The main body of the ISO Tariff was posted on April 8, and the Protocols were posted on April 9.

⁵ See December 17 Order, 81 FERC at 62,470-71, 62,476.

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stakeholders an alternative approach. The alternative approach, discussed below, is intended to accomplish the following objectives: (1) to preserve the rights of all parties to pursue issues not resolved by the Commission; (2) to narrow the scope of the compliance proceeding; (3) to close out old, and multiple, docket numbers (i.e., the old "WEPEX" dockets and other dockets); and (4) to create a new and more focused service list.

A key aspect of the alternative approach involves the ISO's plans to shortly make a separate tariff filing proposing certain non-substantive, clarifying changes to the ISO Tariff ("Clarification Filing"). The ISO has proposed to stakeholders that they limit their responses in the instant Compliance Filing, if any, to traditional compliance proceeding issues only -- i.e., whether or not the Compliance Filing correctly implements the changes directed by the Commission.

In return for such forbearance, and to avoid prejudice to any party, the ISO hereby agrees (and will so agree in the Clarification Filing) that for each party, all of their Section 205 rights with respect to issues that they previously raised in the instant dockets (including all sub-dockets) that have not previously been acted upon by the Commission would be preserved for resolution in the

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docket established for the ISO's Clarification Filing.⁶ In order to minimize any burdens that the ISO's proposal may impose on either stakeholders or the Commission, the ISO agrees that the parties' pleadings filed in the instant dockets (including subdockets) may, to the extent that they raise unresolved issues, be addressed in the Clarification Filing proceeding without having to be resubmitted. The ISO will include in the Clarification Filing a matrix of the issues it believes previously have been raised or not resolved by the Commission to assist intervenors in identifying issues. Additionally, the ISO will agree to an extended intervention period for the Clarification Filing, to allow parties adequate time to review their prior pleadings and the matrix to ensure no issue is inadvertently omitted.

C. ISO 60-Day Compliance Matrix

Attachment A hereto, entitled the ISO 60-Day Compliance Matrix ("Compliance Matrix"), is intended to assist the Commission and the parties to this proceeding in reviewing the Compliance Filing. The Compliance Matrix lists, by item number, the specific compliance directives of the Commission, the cite to the particular Commission order, the specific modifications made by the ISO in

⁶ The ISO notes in that regard that the Commission in its October 30 Order deemed denied all issues raised but not expressly addressed in that order. 81 FERC at 61,436. The ISO is not proposing to allow such "deemed denied" issues to be re-raised in the Clarification Filing proceeding. The ISO further notes that the "deemed denied" issues did not include matters relating to the ISO Protocols, which prior to the October 31 Filing had not been submitted.

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response to the particular directive and the specific location in previous postings or the Compliance Filing of the modifications. (All references in this transmittal letter to "Item No. ___" are to the Compliance Matrix.) Additionally, the Compliance Matrix identifies and explains the ISO response to instances in which operational or other factors preclude strict compliance with a particular Commission directive.

Schedule A to the Compliance Matrix lists, by category of contract and then by docket number, all of the Bilateral Agreements being amended as part of the Compliance Filing to comply with the December 17 Order. Schedule B explains in detail the ISO's market surveillance program, established pursuant to Commission directives.

D. Documents In Which Changes Have Been Made

1. Corporate Governance Documents

a. ISO Bylaws

The instant Compliance Filing does not include a copy of the ISO Bylaws. In its March 4, 1998 order, 82 FERC ¶ 61,223, the Commission denied the ISO's request for rehearing of the Commission's governance and Oversight Board determinations. However, the Commission did indicate that, with certain changes, there could be an appropriate role for the Oversight Board. While the ISO has appealed the Commission's ruling, it also is attempting to negotiate

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changes to its governance rules that will establish the appropriate role mentioned by the Commission in its March 4, 1998 order. These changes are highly dependent on satisfying a wide variety of interests -- i.e., legislative, regulatory (including tax authorities) and stakeholder interests. While the ISO is optimistic that its Bylaws can be changed in a manner satisfactory to the Commission and others, it requires more time to work on these issues. Thus, the ISO respectfully requests a 90-day extension of time in which to make a compliance filing that contains a resolution of these issues.

Additionally, the October 30 Order directed the ISO to clarify its Bylaws to incorporate the institutional aspects of its market monitoring plan.⁷ The ISO presumes that the Commission was referring to the proposed creation of the Market Surveillance Unit of the ISO. The ISO Bylaws do not provide any outline of the organizational structure of the ISO except for the Governing Board, Officers and certain standing and advisory Governing Board Committees. The Market Surveillance Unit does not fall under any of those areas. The ISO does not believe, therefore, that any changes to the ISO Bylaws are necessary. The ISO respectfully requests further guidance from the Commission on this directive.

b. ISO Code of Conduct

Items Nos. 5 and 6 of the Compliance Matrix involve the Governors Code of Conduct and the Code of Conduct for ISO employees, respectively. The Compliance Filing includes the revised Employees Code of Conduct and the revised Governors Code of Conduct, each in a clean version and in a blacklined version showing the compliance changes.

2. ISO Tariff

The complete ISO Tariff, including the ISO Protocols, is included in the Compliance Filing. Additionally, the ISO will, contemporaneously herewith, post a blacklined version of the Compliance Tariff on the "Home Page" of the ISO at www.caiso.com, showing all of the compliance changes made pursuant to Commission directives. In the posted blacklined version, the ISO Tariff is blacklined to show compliance changes made since the August 15 Filing. The ISO Protocols are blacklined to show compliance changes made since the October 31 Filing.

3. ISO Operating Agreements

a. Transmission Control Agreement

The TCA has been revised in response to virtually all of the Commission's directives. This document is, however, a bilateral agreement that the ISO may not change unilaterally. The ISO is still negotiating with the signatories and the

⁷ 81 FERC at 61,552.

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stakeholders as to the matter set forth in Item No. 47 of the Compliance Matrix.

The ISO accordingly requests a 90-day extension of time to make a compliance filing, to permit resolution of the issue.

The stakeholder process conducted by the ISO included Bonneville Power Administration, California Department of Water Resources, California Municipal Utilities Association, Cities of Redding and Santa Clara, California and the M-S-R Public Power Agency, Los Angeles Department of Water and Power, Metropolitan Water District of Southern California, Modesto Irrigation District, Northern California Power Agency, Sacramento Municipal Utility District, Transmission Agency of Northern California, Turlock Irrigation District, Western Area Power Administration, Pacific Gas and Electric Company, San Diego Gas & Electric Company and Southern California Edison Company. Additionally, drafts were sent to the City and County of San Francisco, California Manufacturers Association and the California Large Energy Consumers Association.

The Compliance Filing includes the revised TCA and a blacklined version showing the compliance changes. Appendices D and E are not included with the blacklined version, because no compliance changes were required for those Appendices.

b. *Pro Forma Agreements*

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The Compliance Filing includes *Pro Forma* Agreements for: (1) Meter Service Agreement for ISO Metered Entities; (2) Meter Service Agreement for Scheduling Coordinators; (3) Participating Generator Agreement; (4) Scheduling Coordinator Agreement (Appendix B to the ISO Tariff); and (5) Utility Distribution Company Operating Agreement. The ISO may unilaterally change these, which are standard offers, but changes to the executed agreements requires mutual consent. For each *Pro Forma* Agreement, a clean copy of the posted version, which is the version currently used for the ISO's Bilateral Agreements, and a blacklined version, showing the changes required by the December 17 Order, is included. The blacklined versions do not include schedules, to which no compliance changes were required, and the blacklined version of the Scheduling Coordinator Agreement is part of the blacklined posting of the Compliance Tariff.⁸

The ISO's remaining types of operating agreements are individually negotiated bilateral contracts for which a pro forma agreement is neither practical nor appropriate. Additionally, the *pro forma* Existing Operator Agreement, previously accepted by the Commission,⁹ is not in use by the ISO,

⁸ The ISO notes, however, that as part of its Clarification Filing, it plans to delete the *pro forma* Scheduling Coordinator Agreement as an appendix to the ISO Tariff and resubmit it, if necessary, as a separate *pro forma* Agreement.

⁹ December 17 Order, 81 FERC at 62,471.

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as the functions immediately required to be covered are now addressed in the negotiated RPTO Agreements. Accordingly, the ISO is not filing the *pro forma* Existing Operator Agreement at this time.

The ISO notes that additional changes to the *Pro Forma* Agreements are expected as a result of the ongoing hearing proceedings ordered by the Commission in respect of many of the ISO's executed operating agreements. Settlement discussions are currently being conducted in those proceedings used, and the ISO hopes to enter into settlements shortly.

c. Amendments to Bilateral Agreements

Finally, the compliance filing includes the *pro forma* Amendment No. 1

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for each of the Bilateral Agreements already on file with the Commission. This form reflects changes required in each agreement to comply with the December 17 Order. Schedule A to the Compliance Matrix, as noted above, lists all of the amended agreements. Blacklined versions of the amendments are included in the posted blacklined version of the Compliance Filing. The ISO notes that the changes reflected in the Amendments No. 1 are generally the same types of changes that are shown in the blacklined versions of the *Pro Forma* Agreements included in the Compliance Filing. However, in some instances, the changes vary based on the language in the executed agreements.

IV. WAIVERS

Given the already-voluminous size of the Compliance Filing, the ISO respectfully requests a waiver of the requirement in Section 35.10 of the Commission's regulations, 18 C.F.R § 35.10 (1997), that a blacklined version of the Compliance Tariff be filed with the Commission and served upon the parties to this proceeding. As noted above, a blacklined version of the Compliance Tariff is being posted on the ISO's "Home Page." The ISO respectfully submits that waiver is appropriate given: (1) the extensive stakeholder involvement in the development of, and prior opportunity to review, most of the components of the Compliance Filing, as discussed above; and (2) the accessibility of a blackline version for those desiring one. In addition, the ISO will, upon request, provide a

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hard copy of the blacklined tariff for any party requesting it from ISO Counsel.

The ISO also respectfully requests extensions of time to complete certain compliance tasks relating to the ISO Bylaws and the TCA, as discussed more fully above.

V. CONCLUSION

Wherefore, for the foregoing reasons, the California Independent System Operator Corporation respectfully submits the Compliance Filing and requests that the Commission grant the waivers and extensions of time requested herein.

Respectfully submitted,

N. Beth Emery
**Vice President
and General Counsel for
The California Independent
System Operator Corporation**

CERTIFICATE OF SERVICE

I hereby certify I that have this day served the foregoing submittal upon each person designated on the official service list compiled by the Secretary in Docket Nos. EC96-19-003 and ER96-1663-003, in accordance with the requirements of Rule 2010 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.2010 (1997).

Dated at Washington, D.C., this 1st day of June, 1998.

Harry Dupre

NOTICE SUITABLE FOR PUBLICATION IN THE FEDERAL REGISTER

UNITED STATES OF AMERICA BEFORE THE FEDERAL ENERGY REGULATORY COMMISSION

California Independent System Operator)
Corporation

Docket Nos. EC96-19-____
ER96-1663-____

Notice of Filing

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On June 1, 1998, the California Independent System Operator Corporation (ISO), tendered for filing a compliance filing, which includes the ISO Operating Agreement and Tariff (including the ISO Protocols), ISO Code of Conduct, the Transmission Control Agreement, certain of the ISO's *pro forma* operating agreements and certain amendments to the ISO's bilateral operating agreements.

The ISO states that this filing has been served on all parties listed on the official service list in the above-referenced dockets, including the California Public Utilities Commission.

Any person desiring to be heard to protest said filing should file a motion to intervene or protest with the Federal Energy Regulatory Commission, 888 First Street, N.E., Washington, D.C. 20426, in accordance with Rules 211 or 214 of the Commission's Rules of Practice and Procedure (18 C.F.R. §§ 385.211, 385.214). All such motions or protests should be filed on or before []. Protests filed with the Commission will be considered by it in determining the appropriate action to be taken but will not serve to make the protestants parties to the proceeding. Any person wishing to become a party must file a motion to intervene. Copies of this filing are on file with the Commission and are available for public inspection.