

IMPORTANT MARKET NOTICE AND CONFERENCE CALL

**EMERGENCY ACTION TO
MODIFY REAL-TIME ENERGY MARKETS AND DISPATCH
December 8, 2000**

Today, the ISO filed emergency tariff modifications with FERC which will be implemented today December 8, 2000 beginning with HE 1600, and will apply to Supplemental Energy bids and Ancillary Service bids for that hour. Please distribute this message immediately to all personnel in your organization involved with bidding, scheduling, and operating in the California markets.

There will be a special conference call today at 3:00 PM PST to introduce the filing and answer questions. The call-in Number is:

Domestic: 1-877-381-6004

International: 1-706-634-1160

Please indicate that you are calling in for the **California ISO** conference call and that **Don Fuller** is the leader.

This call-in number is for market participants only. There is a separate call being scheduled for press representatives.

Immediate implementation of this emergency filing is driven by the energy crisis in the West and the untenable situation faced by ISO Operators in recent days. The ISO has experienced critical underscheduling plus a deficiency in real-time energy bids. This has placed the ISO in the position of having to negotiate prices for power in real-time. It has become increasingly difficult to manage these negotiations while at the same time balancing supply and demand in real-time. This is causing significant risk to the ISO's ability to maintain reliable control area operations, and therefore immediate action is necessary.

Based on the threat to reliability that has existed in recent days, the ISO feels that, pending FERC action, it must implement the details of Amendment 33 immediately. This action provides incentives for Market Participants to participate in the markets and facilitates real time operation by allowing ISO to continue to use the real-time markets and Automated Dispatch System. It also allows the ISO to better compete for regional energy. At the same time it provides SCs compensation for verifiable costs in excess of the soft price cap.

The filing contains three key elements:

1. To encourage greater participation by Generators in the ISO markets, Amendment 33 implements an interim price mitigation proposal based on the “soft cap” concept proposed by FERC in its November 1, 2000 order, with the soft cap set at \$250/MWhr for Energy.

(The ISO's Day Ahead and Hour Ahead Ancillary Services markets will not be affected, except that Energy bids higher than \$250/MWh will not be rejected. Instead they will be evaluated in price merit order. Capacity bids will still be limited to \$250/MW (hard cap). To the extent that the ISO issues Dispatch instructions to Scheduling Coordinators for Energy bids priced in excess of the \$250 soft cap, settlement will be as-bid (subject to refund if costs cannot be verified). Scheduling Coordinators will be required to submit cost documentation to the FERC, ISO, and California Electric Oversight Board for all Energy dispatched in excess of the soft cap. FERC will determine the just and reasonableness of the bids above the soft cap.

2. To provide an incentive to Loads to purchase Energy in forward markets, effective Trade Day December 12th, Amendment 33 will allocate certain costs to Scheduling Coordinators who underschedule load or overschedule generation. These costs consist of:

- a. amounts paid by the ISO to purchase Energy from bids above the price cap; and
- b. costs for Energy associated with of out-of-market Dispatch instructions issued due to underscheduling (and not due to local reliability issues)

Allocation of excess energy costs discussed above will be made based on each Scheduling Coordinator's net regional negative uninstructed deviations, beginning with Trade Day December 12, 2000.

3. To address the recent failure of some Participating Generators to respond to ISO Dispatch instructions, Amendment 33 imposes significant penalties. These penalties apply to Participating Generators that fail to respond to ISO Dispatch instructions whether the Resource is in-market or out-of-market and for which the ISO has not been notified of the unit's unavailability. The penalties are:

- a. For Participating Generators that do not respond to ISO Dispatch instructions to avoid or prevent an imminent System Emergency, they will be assessed a penalty for undelivered energy at a rate equal to twice the highest price that the ISO paid for Energy for that hour in which the Participating Generator failed to respond. The above applies to Dispatches that occur in any hour in which an Alert, Warning or Emergency has been declared.
- b. In addition, if during that hour, the ISO was required to curtailed firm Load to manage the System Emergency, the Participating Generator would pay an additional penalty of \$1000/MWH for dispatched Energy that it failed to deliver.

A Generating Unit will not be penalized for failing to comply with a Dispatch instruction if the ISO is provided with advance notice of a de-rate or outage that would limit the Generating Unit's ability to respond to a Dispatch instruction, or if compliance with such Dispatch instruction would cause the Generating Unit to violate state or federal law. If no advance notice is provided, then the presumption will be that a Generating Unit is available and capable of performing, whether or not a bid has been submitted.

If an outage or de-rate occurs in real-time, then a reason code provided with a decline or partial acceptance of an ADS instruction will constitute notice and no penalty will be assessed, subject to the following conditions: (i) if an ADS instruction is declined, then the ISO must be separately notified immediately (within the hour) of the details of the outage including the time at which the Generating Unit is expected to return to full capability; or (ii) if the Scheduling Coordinator or Participating Generator can demonstrate

after-the-fact that the Generating Unit was physically unavailable, and that notice of such unavailability could not have been reasonably provided in real time, then no penalty will be assessed. Penalties for failure to comply with a Dispatch instruction will be subject to the Dispute Resolution provisions of the ISO Tariff.

Additional notes:

Bilateral arrangements made with the ISO prior to this filing won't be altered by these changes.

Market Clearing Prices for Ancillary Services and Imbalance Energy will continue to be calculated and posted up to the \$250 soft cap. BEEP Interval Ex Post Prices used for settling uninstructed deviations will be limited to \$250/MWh. No other changes in settlement of Uninstructed Imbalance Energy are planned.

With these changes, the ISO intends to use its market mechanisms to dispatch energy bids from both internal and external resources that are priced below and when necessary, above the price cap. ISO operators will no longer negotiate prices for resources internal to the ISO Control Area in real time, and will make every effort to minimize the amount of negotiated off-system purchases to the greatest extent possible.

The ISO will continue to rely on the WeNet scheduling system interface with Scheduling Coordinators to receive and evaluate bids. Additionally, the ISO will continue to rely on the Automated Dispatch System (ADS) to issue Dispatch instructions to Scheduling Coordinators in real-time.

The ISO filing at FERC is posted at
