

NOTICE TO MARKET PARTICIPANTS

This is a preliminary report concerning the Stage 2 System Emergency that was declared on May 22, 2000. The report is based on an internal review of the incident by the ISO and sets forth the ISO's preliminary findings and conclusions. The ISO expects to issue a final report in approximately two weeks.

At approximately 1142 hours on May 22, ISO dispatchers issued a Stage 2 Emergency Notice under Procedure No. E-508 of the ISO Electrical Emergency Plan, and directed the Utility Distribution Companies ("UDCs") to curtail 1040 MW of interruptible load by 1230 hours. The decision to curtail load was based on a number of factors, including a shortfall in the forward market, by approximately 7400 MW, of energy required to meet original peak load projections, increases over the previous several hours in forecasted peak load, declines (by approx. 5000 MW) over the previous several hours in supplemental energy and imbalance energy bids, and the complete exhaustion of all available supplemental energy generation resources in the 1100 hour. The data available as of 1142 hours indicated that energy would fall below minimum operating reserve requirements by 1230 hours.

At approximately 1205 hours, ISO dispatchers projected, based on data then available, that minimum operating reserve requirements would not be compromised until approximately 1400 hours. Accordingly, ISO dispatchers issued an additional communiqué re-affirming the issuance of the Stage 2 Emergency Notice (signaling an imminent decline in operating reserves below 5%) but deferring until further notice the directive to curtail interruptible load. The UDCs were advised to remain on alert to begin curtailment of load at approximately 1400 hours. Ultimately, operating reserves did approach the 5% threshold, and a directive was issued to curtail interruptible load at 1405 hours. ISO dispatchers later reduced the Stage 2 Emergency Notice to a Stage 1 emergency at 1637 hours, following a change in weather and other system conditions.

Subsequent investigation has revealed that, during the period between 1115 hours (when the supplement energy market closed for the following hour) and 1142 hours, ISO real-time schedulers made numerous purchases of small quantities (50 to 100 MW blocks) of energy for the following hours. These purchases totaled approximately 3500 MW of supplemental and out of market energy. (All purchases were made at or below the current ISO price cap of \$750.) As of 1142 hours, most, but not all, of these purchases had been entered into the ISO's automated systems. Approximately 1500MW of purchases remained to be entered. As of 1205 hours, when the decision was made to defer the curtailment of load, the remaining purchases had been entered into the system.

Based on the foregoing, the ISO has concluded preliminarily that the decision to commence, then to defer, curtailment of interruptible load was based on a "data lag" -- a lag between the time when critical decisions were made and when all relevant data had been recorded by the system. The ISO has further concluded preliminarily that ISO dispatchers and real-time schedulers acted diligently in recording information to the ISO systems. The ISO by no means intends to minimize the disruption and inconvenience caused to the UDCs and to their customers, and sincerely regrets that such disruption

occurred. However, the circumstances surrounding the issuance of the Stage 2 Emergency Notice were highly dynamic and fast-changing. ISO dispatchers were compelled to act upon information that was available to them at the time, in order to meet the ISO's seminal mandate to ensure system reliability. The decisions made reflected the dynamism of the environment. The ISO believes that its dispatchers acted prudently, based on available data, and properly followed all applicable tariff provisions, protocols and procedures.

The ISO is taking action to reduce the risk of a recurrence of the forgoing events. The ISO is exploring means of automating some of its data input functions. In the meantime, the ISO intends to supplement the resources available for manual input of data on days when peak load is projected to be high.

The ISO intends to issue a final report regarding the May 22 Stage 2 Emergency Notice in approximately 2 weeks, when additional information required for its completion becomes available. In the meantime, all inquiries concerning this incident should be directed to Don Fuller, ISO Director of Client Relations, (916) 351-4445 (dfuller@caiso.com).