

Supplemental Market Notice re Credit Issues
May 25, 2001

On April 13, 2001, the ISO sent out a Market Notice explaining how the ISO will comply with FERC's April 6, 2001 order, 95 FERC ¶ 61,024, on creditworthiness. In that Market Notice, the ISO was authorized to make the following statement on behalf of the California Department of Water Resources (CDWR):

To the extent (and only to the extent) that a purchase is not otherwise paid by any party or payable by another party meeting the credit standards set forth in the ISO Tariff (another "Qualified Party"), CDWR will assume financial responsibility for all purchases by the ISO in its ancillary services and imbalance energy markets based on bids or other offers determined to be reasonable. Such determination of reasonableness will be made by CDWR on a case by case basis and communicated to the ISO. All bids into the ancillary services and imbalance energy markets will be deemed to be contingent on the acceptance of financial responsibility by CDWR, to the extent not paid or payable by another Qualified Party. Unless a supplier is otherwise notified, any bid accepted by the ISO will be deemed to have the financial support of another Qualified Party or CDWR as specified in this notice. In addition to the foregoing, CDWR will assume financial responsibility for all purchases resulting from the issuance by the ISO of emergency dispatch instructions, to the extent not paid or payable by another Qualified Party. Payment for such purchases shall be made according to the rate specified in the ISO Tariff for emergency dispatch instructions. The ISO and/or CDWR reserve the right to rescind or modify the foregoing arrangements at any time and for any reason, including a successful rehearing or appeal from the April 6 order.

Pending rehearing, unless the ISO can provide reasonable assurances that a party meeting the ISO's credit requirements will support a specific transaction, the ISO will not enter into the transaction with respect to any resource. This includes (1) awarding capacity bids in the forward Ancillary Service ("AS") markets and (2) dispatching Imbalance Energy bids in the real time market. Therefore, the ISO will not award AS capacity bids nor will it dispatch Imbalance Energy bids above the prices for which CDWR will agree to provide credit backing. Imbalance Energy bids above the prices for which CDWR has agreed to provide credit backing, though not accepted, shall remain in the "BEEP" stack. Accordingly, in accordance with ISO Tariff §§5.1.3 and 11.2.4, resources will not be subject to Out-Of-Market calls unless the ISO has secured a creditworthy buyer for these unawarded Supplemental Energy Bids. See, e.g., ISO Tariff §§ 5.6.2 and 5.1.3. A separate notice will be issued regarding Reliability Must Run.

Don Fuller

Director, Client Relations

California ISO

Phone: 916-608-7055

E-Mail: dfuller@caiso.com