

ATTACHMENT G

Memorandum

To: ISO Board of Governors
From: Donald L. Fuller, Director Client Relations
CC: ISO Board Assistants, ISO Officers
Date: June 21, 2001
Re: Summer 2001 Preparedness Update

This is a Project Status Update and does not require Board action at this time.

EXECUTIVE SUMMARY

The ISO continues to promote and lead aggressive activities on several projects to maximize resources available to California this summer. These projects encompass demand program design and promotion, development of new generating resources, and support of crucial utility transmission projects.

ISO Demand Programs:

ISO has developed the Demand Relief Program (DRP) and the Discretionary Load Curtailment Program (DLCP) in order to provide real time and day-ahead Demand reduction. Creditworthiness issues are hampering the success of these two programs. Because of concerns raised by ISO Demand Program participants, the ISO sought interim financial backing for the two Demand programs from CERS. CERS has indicated that they will not fund these programs as designed, but may be willing to fund a modified version of the DRP. The ISO has notified DRP participants that they may continue on the existing DRP design on the pay-when-paid provisions of the ISO market. Participants will also be given the opportunity to shift to the new DRP program when available.

The future of the DLCP is uncertain because of financing and also development of a new demand-bidding program.

In response to state directives to develop a price-sensitive demand program, the ISO suggested a new program that is a variation of the DLCP. It would allow loads the ability to compete with generators. On May 30, the ISO provided a draft of the new program that would allow participants to bid curtailment in one of several price tiers. The Governor has issued an Executive Order (D-39-01) on June 9, 2001, directing the ISO and CERS to further develop this program. One objective of the Executive Order was to consolidate existing programs. The ISO is investigating the impact of the Order on DLCP and its financing.

Utility Interruptible Programs:

Directly related to the ISO demand programs are the utility interruptible programs. An update on the new interruptible programs and ISO concerns are discussed below.

Peaking Resources:

To maximize generating resources, the ISO initiated the Summer Reliability Generation Program in 2000 to provide critical peaking resources. The status of that program is outlined below.

Action Plan Update:

Attachment 1 to this memo provides Update #10 to the ISO Action Plan to Accelerate Generation, Transmission, and Demand Response in California, submitted to the Governor's Office August 10, 2000.

DEMAND RELIEF PROGRAM:

On May 8, 2001, the ISO Governing Board approved a resolution increasing the authorized participation level of the program to 1000 MW. That resolution also allows for the optional use of the Demand Relief Program (DRP) (compensated at the performance rate of \$500/MWhr) during May and October and during any month in which a load has reached its committed 24-hour curtailment level.

In response to concerns over backing by a creditworthy party, the ISO approached the California Department of Water Resources (CDWR/CERS) to provide financial backing for the DRP. CERS indicated last week that they would **not** provide financial backing for the DRP as it is presently designed, but will likely support a modification to the design. The ISO advised the successful bidders that:

- They may continue with the existing design under the original pay-when-paid provisions of the ISO market
- The ISO allowed Load aggregators to terminate their Demand Relief Agreements if they provided written notice to the ISO by June 13, 2001. If the ISO did not receive notice of termination from the Load aggregator by June 13, the ISO will dispatch the Loads in accordance with the terms of the existing DRA.

A summary of the total participation in the DRP program will be presented at the Board Meeting.

As mentioned above, CDWR/CERS has indicated that they may support a modified Demand Relief Program. The ISO continues to work with CDWR/CERS to develop the details of this program. The existing Demand Relief Program participants will be given the option of converting to the new program by terminating their Agreements and signing a new agreement.

DISCRETIONARY LOAD CURTAILMENT PROGRAM:

The ISO Discretionary Load Curtailment Program (DLCP) was designed to attract significant voluntary curtailments before we enter emergency conditions. This program provides an energy-only payment (currently set at \$350) and gives loads the control they require to feel comfortable participating in the program. Approximately 40 MWs have been offered into the ISO's DLCP program.

Like the Demand Relief Program, the Discretionary Load Curtailment Program is subject to creditworthy issues. Although preliminary discussions were held with CDWR/CERS, the future of the DLCP is uncertain. On June 9, Governor Gray Davis issued Executive Order D-39-01 that directed the ISO and the Department of Water Resources to implement voluntary, emergency load curtailment programs for commercial, industrial and other large customers of electric corporations for summer 2001 and summer 2002. As stated in the Executive Order, one of its goals is to consolidate overlapping and inconsistent load curtailment programs currently authorized by the ISO, PUC, and IOUs.

In consideration of the Executive Order, the ISO is reviewing whether the Discretionary Load Curtailment Program can be implemented. If the program is terminated, the 40 MW enrolled in the program could be lost because they will have difficulty with the interval-metering requirement of the California Demand Bidding Program, a newly proposed program explained below.

NEW PRICE RESPONSIVE DEMAND PROGRAM

At a meeting in the state offices on May 14, the ISO and utilities were challenged with providing a more price-responsive demand program that would compete with generator bids. Although the ISO Participating (A/S) Load Program was intended to do this, 10-minute dispatch procedures are difficult for loads to implement. On May 30, the ISO distributed to the Utilities, Public Utilities Commission, CDWR and the Governor's Office, a draft program description that outlined the elements of a new price-responsive demand program. The new program, tentatively called the California Demand Bid Program, would allow loads to bid Curtailment in a tiered pricing network.

On June 8, the ISO met with representatives of the IOUs, PUC, CDWR and the Governor's Office to identify issues that could impact the implementation of the Demand Bid Program. Key implementation issues include assured funding of the program incentives and administrative costs, changes to PUC decisions to allow IOU aggregation, the need to have the program in place by July 15, and the need to reduce customer confusion relative to the available programs. Representatives from the Governor's office will prepare a revised program description for further comment. The final document will serve as the outline and action plan for the development of this program. Governor Davis' Executive Order D-39-01 will help accelerate development and implementation of this program.

CPUC/INTERRUPTIBLE PROGRAMS

Based on inputs received from the three utilities during a meeting hosted by the CEC on June 7, 2001, the ISO has verified its projection for interruptibles available for the summer to 546 MW. This is a reduction of approximately 1000 MW from participation levels during summer 2000.

SUMMER RELIABILITY GENERATION PROJECT

The original contracted amount for the Summer Reliability Generation Program was 30 projects, which are now owned by 10 generation developers for a total of 1,324.1 MW. The California Energy Resources Scheduling (CERS) has relieved the ISO of 7 contracts with 2 developers and continues to negotiate with others. The ISO has been told that 3 developers with 7 projects will revert to the existing Summer Reliability Agreement with the ISO. The CERS has indicated they are close to having all the contracts needed for summer. Additionally, the ISO continues to make developers aware that the ISO's ability to make the payments is dependent upon the ISO's ability to collect those moneys from the market - an ability called into question by recent defaults on payments to the ISO. This contract uncertainty could negatively impact the unit in-service dates. The latest monthly projection of operational dates is as follows:

	CERS	Still Negotiating	ISO	Totals
by June 15 th	0	0	122.6	122.6 MW
by July 1 st	0	0	0	0 MW
by August 1 st	252	18	44	314 MW
by September 1 st	0	237	48.6	285.6 MW
by October 1 st	45	49	0	94 MW
by November 1 st	0	196	0	196 MW
by December 1 st	0	0	0	0 MW
by January 1, 2002	0	98	0	98 MW
Subtotal	297	598	215.2	1110.2 MW
On Hold/Cancelled	0	0	213.9	213.9 MW
Totals	297	598	429.1	1324.1 MW

CAISO has been working closely with Developers, in some cases granting temporary exemptions to required telemetry during their testing phase. This has assisted with the project timeline when communication circuits or metering equipment deliveries are delayed. Actual in-service dates are becoming more consistent as the projects progress through necessary permitting, siting, etc., with the assistance of many organizations including CAISO.

As of June 13, 2001, the ISO's first unit attained Commercial Operation for a total of 48.6 MW. Additionally, 2 units with a potential of providing 74 MW are currently being tested.

ACTION PLAN UPDATE

Attachment 1 to this memo provides Update #10 to the ISO Action Plan to Accelerate Generation, Transmission, and Demand Response in California, dated August 10, 2000. In addition to this monthly update we are sending weekly updates to the Electricity Oversight Board to assist them in broader communication activities within the state. Also the EOB is invited to attend the weekly Summer 2001 Preparedness Steering Committee meetings.

Attachment 1

CALIFORNIA ISO ACTION PLAN TO ACCELERATE GENERATION, TRANSMISSION, AND DEMAND RESPONSE IN CALIFORNIA

Update #10

June 21, 2001

The following is an incremental update of progress made since the last Action Plan report on May 18th.

Demand Response

The Governor issued Executive Order D-39-01 authorizing the California Department of Water Resources and the California ISO to implement voluntary, emergency load curtailment programs for commercial, industrial or other large businesses. The ISO will work jointly with CDWR to implement these programs for Summer 2001 and Summer 2002.

The ISO met with members of the Governor's Office, the PUC, and the three IOUs to develop an action plan for the implementation of a price-responsive demand program that will meet the requirements of the executive order. Finalization of the action plan is expected by June 15, 2001. This program, as initially envisioned, would replace the ISO's DLCP and IOU's Voluntary Demand Relief Program. The ISO is presently investigating the impact of the Order on the DLCP and its financing.

The ISO will work with CDWR to develop the details of implementing a separate real-time demand relief program. This program, which will be financed by CDWR, will be offered to new participants in lieu of the ISO's existing Demand Relief Program (DRP). The ISO will operate its DRP for those participants who have already signed Demand Relief Agreements. Unlike the CDWR funded program, the ISO DRP will operate on a pay-when-paid basis. This program will begin operation as early as June 13, 2001.

Generation

NOTE: The generation summary included in this report is based on the best information available to the ISO. The data reported here is based, in part, on input from the project developers. These developers have signed SRA contracts. The ISO will meter and monitor these units individually to monitor conformance with these SRA Agreements. Accordingly, the attached data may reflect separate data for each of the generating units located at a specific project location in order to be consistent with the SRA Agreements. Project, rather than generating unit will aggregate generation data if a revised SRA Agreement is executed.

SUMMARY OF PLANNED GENERATION									
	Jan-01	Jun-01	Jul-01	Aug-01	Sep-01	Oct-01	Nov-01	Dec-01	2002
NP15		81.6	1040.0	115.4	191.6	0.0	147.0	0.0	2409.3
SP15	2.4	74.0	0.0	1066.0	693.0	94.0	49.0	0.0	2001.0
Qf		80.0							
Inc	2.4	235.6	1040.0	1181.4	884.6	94.0	196.0	0.0	4410.3
Cum	2.4	238.0	1278.0	2459.4	3344.0	3438.0	3634.0	3634.0	8044.3

- Madera Biomass (26 MW) tested on June 1st and was able to meet its incentive guideline after a verbal approval from a PG&E representative at the site. However the ISO has not received a letter from PG&E verifying that Madera has met all interconnection requirements. The project cannot be dispatched for commercial use without the letter.
- Chowchilla II (48.6 MW) and Harbor Co Gen (30 MW) are still in test mode and should be commercial by June 15, 2001. Wellhead Fresno (18 MW) is scheduled for July 1, 2001 Testing. Larkspur 1 & 2 (43 MW each) Generation Checklists are progressing. These units should have a test date by June 13, 2001. Ramco Escondido (44 MW) appears to be on schedule.
- Testing for Los Medanos (540MW) and Sutter (500MW) are tracking to schedule for commercial operation in early July.

Transmission

The ISO is working with members of the EOB to support the creation of a tracking mechanism for Summer 2001 and Summer 2002 transmission projects.

Progress on several ongoing projects is summarized below

- **Lakewood Area 115kV Transmission Reinforcement:** This project became operational on June 1.
- **Tesla 500/230kV Transformer Bank:** The new Tesla 500/230 kV bank was placed in service on June 10. Early on June 11, one phase of the transformer failed due to an internal fault that partially ruptured the tank and spilled some oil. No cause of the failure has yet been determined. The plan is to wire-in the spare phase from the other Tesla bank to get this transformer back in service.
- **Re-rate Newark 230/115 kV Banks 7, 9 & 11:** This project became operational on June 10.
- **Ravenswood-Ames Capacity Upgrade:** This project became operational on June 3.
- **Metcalf 500kV Shunt Capacitor Bank:** This project became operational on June 3.