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Mr. Jan Smutney-Jones  
Chairman, ISO Governing Board  
1112 "I" Street, Suite 380  
Sacramento, CA 95814

**Subject:** Price Caps

I am sure it is no surprise that Southern Energy does not support the proposal to lower the current price caps at the ISO. There certainly remains no limit to the number of letters or opinions on this subject, but I still wanted to highlight a few of our concerns.

Of significant relevance is the fact that the ISO Board has already discussed and addressed this issue of summer 2000 price caps at its meeting several months ago. All of the usual issues and debates occurred at the meeting along with an ISO staff recommendation to continue with the \$750 cap. The Board made no finding that the market was not "workably competitive" and determined to maintain the current cap. Also, at that time, we all were aware of the supply and demand conditions for the upcoming summer.

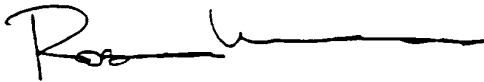
Since the Board decision a number of events have occurred. First, a number of market participants relied on this Board action and made commercial arrangements to buy/sell energy at set prices for the summer months. The prices were established based on a number of parameters including, most importantly, price caps. To administratively change the rules at this point after numerous contracts have been executed would severely damage our faith in the California marketplace. Second, the ISO has implemented a number of market design changes to, as argued by the ISO, improve market operations. These include the Automated Dispatch System, Predispatch of RMR units, Target Price, and (soon) 10-minute dispatch. In short, each market participant assessed its supply/demand situation, given all of the above, and hedged its financial position accordingly.

So, where are we today? Certain parties apparently are not happy with the outcome of their current financial positions and they seek to find a fix through regulatory fiat.

Terry Winter (ISO CEO) reported at the Board meeting last week that he believed the markets are working well and, if anything, the price cap may need to be equivalent to the PX cap of \$2500. Furthermore, neither the ISO nor any other party, has demonstrated that the markets are not "workably competitive". It is no surprise that the electric demand is high this summer and there is insufficient generation supply in California. Though some have argued that the energy shortage indicates the market is not working, the real problem, however, is that very few new generation plants or transmission lines have been constructed in the last ten years. Unfortunately, continued intervention by the ISO in the marketplace will further discourage new plant investments. New plant construction is desperately needed to support the economic growth in California.

Southern Energy believes that the ISO Board should not lower the price cap given the reasons listed above and also iterated in letters from WPTF and IEP. Also, we believe the California marketplace needs some regulatory certainty. Nothing could damage the marketplace more effectively than unforeseeable and drastic actions by the ISO. Lastly, the ISO should focus on the real problem of meeting increased electric demand. We have an immediate and serious problem to face regarding electric reliability for this summer and the next few years! This very real problem is not being addressed or fixed, and is exacerbated, by addressing the cap.

Sincerely,



Rob Lamkin  
Vice President

RL/ab

Cc: ISO Governing Board  
Loretta Lynch, President CPUC  
Michael Kahn, Chairman EOB  
William Keese, Chairman CEC