CALIFORNIA ISO BOARD OF GOVERNORS MEETING
6 JULY 2000

. . . and be aware of, so that was kind of a starting place for you to have something to look at and decide, and very clearly we did not put any price cap in there.

MR. SMUTNY-JONES: Okay. This is what the Chair is proposing that we do barring any recommendations from the rest of the group. I think we should spend twenty minutes, to basically take a recess for twenty minutes and read these—we'll reidentify these documents, read these documents so we are all at least on the same page if we're going to have a discussion about this topic. I think it's worthwhile that we're not reading and thinking and talking at the same time. So what I'd like to do is propose that we would break until 3:30. At that point I will ask for public comment. I know there are a number of people in the audience who wish to address at this time where we sort of had a teach-in, kind of dates me, doesn't it? Uh, what we're going to do is I would like people to restrict their comments to about three minutes. I think the issues out here have been pretty well articulated by folks in the public, so I'm going to ask it's limited to three minutes. If you need more time, I'll try to be flexible, but I think it is important that we try to get this—the business of this Board done by 5:00 o'clock, so that is my intent. Do you have any objection to that approach?

Okay. Terry, which two documents do you want us to read? I know you want us to read them all, but during the next twenty minutes.

MR. FLORIO: Mike Florio checking in here.

MR. SMUTNY-JONES: Okay, so which time zone are you in this time?

MR. FLORIO: I'm actually in Pacific finally.

_______: Okay, the one is Proposed Cap Resolution, and I was just looking quickly through my packet. The other one should be Management Background-- Oh, I have _____ Management Background and Issues for Consideration. They're the two with real heavy black titles on them.

_______: Now, Terry, is this something that we can get on the web page fairly soon?

MR. WINTER: Yes, sir, I'm posting those right now. They should be out there within the next five minutes.

_______: That's great. Stacy, I'll go get on the computer downstairs.

MR. SMUTNY-JONES: Okay. Well, what we're going to do is we'll reconvene at 3:35.

_______: Can we find out where these documents are on the ISO web?

_______: ___________ talking.

_______: Yes, sir, they will be under Public Information, Board of Governors, Documents, Board Items, ________, it says Board of Governors, I believe, ______, and they will be under the Board of Governors Meeting for the 6th of July 2000.

_______: Thank you very much. Thank you.

MR. SMUTNY-JONES: Okay, so I have three Board—I hear Governors Woychik, Florio, and Wiseman on the phone. Is there anyone else?

_______: Got Stacy Kusters in—

MR. SMUTNY-JONES: Stacy Cutters.

_______: In Berlin as well.

MR. SMUTNY-JONES: Okay. All right.

MR. FLORIO: For those of us who don't have ready access to a computer, what—what are these documents?

_______: Can they be faxed to you, Michael?

MR. FLORIO: No.

_______: It's a proposed resolution—

MR. SMUTNY-JONES: We have two documents. One is basically our management background teams and the other is proposed price cap resolution. Yeah.

MR. FLORIO: Okay.

_______: Jan, 3:30 is what—

MR. SMUTNY-JONES: 3:35. Florio, can you get me a number please, and I will have someone call you?

MR. FLORIO: Yes, 415-254-3597.

MR. SMUTNY-JONES: Okay. ________ if you could see that that gets done. All right, let's get reading. We'll be back in twenty minutes.

_______: Thank you.

(Tape blank for a few minutes.)

_______: Hello. Hello.

MR. WINTER: Who just said hello?

_______: Terry, this is Ken Jaffe.

MR. WINTER: Oh, hi, Ken.

MR. JAFFE: I'm sorry. I wasn't sure I was connected to anything.

MR. WINTER: Yeah, you—you are connected, and we're on a remaining fifteen-minute reading break.

MR. JAFFE: Uh, sorry.

_______: Woychik and Florio, is that correct?

_______: And Swanson.

_______: And Carnahan.

_______: And I'm here too, John, Stacy.

MR. McNALLY: Okay, I—I—I'm sorry I keep ignoring you, Stacy. That's—okay.

MS. ROSCOE: I'm going to take it personally pretty soon, though, Jack.

MR. McNALLY: You're in Canada. You can't hurt me. Uh, let's see. ________________ where-- No, you're here. ______________ Swanson just joined us.

_______: And we have John White as well. Is that correct?

_______: Yes.

_______: Okay, and White. Okay.

_______: And Ms. Swanson. Jack?

_______: Is there any other Board member on the phone?

MR. SMUTNY-JONES: So on the phone I have Stacy. We'll lead with her, Carnahan, _____ Swanson, Woychik, Wiseman, White, and Florio. Is that correct?

_______: Yes.

MR. SMUTNY-JONES: Okay, so we do have a quorum then. We will—we will open the meeting up. This meeting was called as a result of—under our special meeting rules. I received letters late last week from four Board members requesting that reconsider the action that we took on the $250 price cap vote at the last Board meeting. I submitted those requests to Mr. Robertson, our General Counsel, who concluded it was not an emergency meeting but a special meeting that was appropriate under these circumstances, and we schedule that as quickly as possible under those rules.

MR. WOYCHIK: Jan, this is Eric. Can you tell us who the four Board members are? I think obviously Marcie is one.

MR. SMUTNY-JONES: Marcie was one, Governor Carnahan, Governor Ferreira, and Governor McNally. Thank you. Am I missing anybody? I don't want to leave anybody out. Okay. So that occurred, and so here we are today. You will note that in your Board packet, and I know that many of you received this individually, Camden Collins has resigned from our Board effective July 4, and I just want to acknowledge the fact that Camden has been a very important part of this Board since inception and brought, I thought, a very good perspective. For one thing, she was one of the few people _________________________ tariff, but she will be—I think that she was an _______________ on this Board. I think she did a great job here, and she will be missed.

With that, I was going to open up the public comment unless there's anything else from management. Okay, if could please line up along the southwest wall over here. As I indicated, I would like you to keep comments to about three minutes if you could. And please identify yourself and your affiliation for the record. Please come on up.

_____: Mr. Chairman.

MR. SMUTNY-JONES: Yes.

_____: A point of order. Do we—do we have a quorum?

MR. SMUTNY-JONES: Yes, we do. We have a quorum. Yes, we do. We have six on there and-- Please, go ahead, sir.

MR. HARRINGTON: Mr. Chairman, members of the Board, good afternoon. My name is Michael Harrington. I'm with CRM Corporation of Compton, California. We're the only old tire recycler in Los Angeles County. Our sixty employees recycle basically three million waste California tires per year and the thirty-five million pounds of crumb rubber that we market throughout the nation. One of our major factors in deciding to locate to California was a combination of incentives offered by the State—job training, tax incentives, but most importantly was the economic development rate EDR offered by Edison. The EDR allowed us to be competitive in the production of a commodity product, crumb rubber, while maintaining a facility in California. We've been on this rate for seven months and now find that this rate not only will not generate any of the projected savings but actually does not cost any more than if we were not subject to the EDR rate at all. Not in our wildest dreams did we think that in qualifying for the EDR rate that it would cost us money, with the high cap becoming the floor. In high demand times you're not only discouraging new manufacturing from coming into the State, but you're also about to drive out several newcomers, including ourselves. If we cannot obtain immediately relief from the serious rate escalation, we will go back to explore the economics of moving to our second-choice location prior to moving here of Atlanta, Georgia. Thank you for your time.

MR. SMUTNY-JONES: Thank you, sir.

MR. SWORD: My name is Todd Sword. I'm the Regional Manager with the South Bay Economic Development Partnership. And I actually work with JRN in attracting to the area. I'd like to thank you for allowing me to speak today on this critical economic development issue. First I'd like to give you a little background about the South Bay. We are represented by fifteen cities, portions of the City of Los Angeles and portions of unincorporated Los Angeles County. We have approximately 932,000 residents. Approximately 30,000 businesses provide about 460,000 jobs. Now, fortunately, we're in that job __________________ greater Los Angeles region. That means other areas are providing us with a work force. Now _________ economy is doing rather well, our job count is still quite low from back in the 1990s when we had over 100,000 extra employees. We were the region that was the hardest hit by the aerospace downturn. Despite that, we still have forty percent of the aerospace workers in our region. So as we struggle to support the remaining aerospace ________________ as well as firms that are transitioning to the new economy industries such as telecommunications, visual entertainment, a leading concern really is the cost of doing business in California. We hear this over and over again, and especially energy costs come up.

So let me give you an example of the power the economic development ___________________ last year. Southern California Edison, with their support, we were actually able to attract companies such as Panasonic DVD to one of our communities which invested over a hundred million dollars in our community as well as their source of very high-paying jobs. So without the support of this economic development power rate, it'll be hard-pressed for us to sustain our economic recover. And this impact is not limited to the South Bay alone. Really, it goes far beyond there, because as I mentioned, we have employees coming from all over the county. So a decline in the employment base will hurt not only local jurisdictions, which many of them rely severely on businesses for a revenue stream (?), but also it will hurt those communities that provide us with workers. And these communities are struggling to stay where they are today. So these are only a few of the reasons that I'm here today to encourage you to support changes necessary to ensure that this economic development rate remains a competitive tool for retaining and attracting companies which provide us with high-paying jobs in the region.

Now economic developers, we really have only a limited number of tools to help companies reduce their costs and remain competitive here or attract new companies to our region. And of these tools there are only two that I know of that actually directly impact the financial bottom line of companies, and that is the State of California tax credits, and there's various types of those, but then also Edison's economic development rate. So, Southern California Edison _________ rate provides a key component to incentive packages that we put together for companies that are making decisions to relocate or remain in Southern California. So essentially any rate increase, after companies believe they're going to receive a decrease, really damages our ability to retain these companies and help them. So this also reduced the credibility of our cities, our civic leadership, and Southern California. Thank you very much.

MS. LYNN: Michelle Lynn, Grid Services. I am here on behalf of the Demand Responsiveness Program. And hopefully we'll make this work, but I have slides that I'm passing out, and I will try and run through them as fast as I can. Oop! There we are. Now, let's see. What we will do is I had made a present-- At the last Board meeting there was a question about self-provision. I'll swing past that. I will at another time thank the staff for quickly turning around the issues I had at the last regular Board meeting. My understanding is it has made change, but I need to bring it up because I have had serious questions from my clients. This is two pieces of the last Board resolution. The first said that the two load programs would be exempted from changes in the price caps, and the second one was that the ISO should buy very little replacement reserves and cap its capacity payments at a hundred dollars. So the two issues we have in the DRP, Demand Response Program, the capacity thing is set, but the agreement says that the B (?) price will determine—the last B interval will determine the energy price. So we need some clarity. Does that mean that for this program you are ________________ at $750? It is important because one of my clients has figured out—one of the customers in, actually the ancillary services program ____________, he breaks even when the—he gets seventy-five cents per kilowatt hour, which comes out to $750, and that doesn't include what problems we may have with the actual real time energy price. So that's a concern we need to—if you're going to keep that in, we need a little clarity. On the ancillary services part, the __________ load is looking at—look the replacement reserve because of technical requirements. The question is if the ISO wants to buy 200 megawatts of replacement reserve and there are 400 megawatts of generation in the stack, what are they going to do with, say 100 megawatts of load at a higher price? _______________ here, but there's some issues that need to be kind of clarified if you forward with that.

What I really want to talk about quickly is what you're doing now will probably facilitate participation of load this year. Without a clear price signal in the real time market, we do not believe we can create a viable program for 2001. This is where we are in our plants. First of all, this year's proof of process. We want to know if it will work. If loads (?) can be set up with the ISO, will the curtailment programs work? Next year we need to have proof of value as in getting customers who want to participate and proof of profit, getting investors to pay, to underwrite the process. The issue if I go out to the marketplace now and at a, say, $250 cap, I'm going to have to persuade a load that in 2002, for instance Edison load is covered until at least 2002, but it could be—based on

1890, it could be sometime inside 2002, not just on January 1, I'm going to try and get people to come into this program on 2001, and I'm going to have to guess what the risk might be going forward. Do you leave the price caps or you leave the price caps high, where we can actually see that I can go to a place that is neutral and say here's what it costs in real time if you are unexposed. Then I can get people to participate because they can run the numbers themselves, and I don't have to say, "Trust me." The same issue with the investor. I expect _______________ will become less competitive as generators get into the grid. I expect that to happen probably five years out. I've got to be able to convince an investor to put money up to get the program jump-started in 2001, so 2002, 2003 they make money, seller off (?), go away. But I need a price signal.

And the last one is—I think load should provide because of generation behind load bar support I've got to wait until you give me a price, any kind of price signal. And so that would be a year after you've put it into market redesign. This _____ the kind of programs I'm looking at next year we're going to try and generate aggregation. We're going to see if we can put some generation behind load to reduce load's vulnerability. I think we can do so ___________ pieces. And the last one I just spoke about.

Now knowing that the question is, well, gee, we have-- The San Diego folks are at risk. I went out and took a twelve-month average for the PX credit. And then went out and got the last fixed tariff. This is the 1996 fixed tariff representing some tariffs earlier than '96, and this is the twelve-month average. It shows that they _______________ above average, non-baseline, they're below, they're right now beating the average from '96. This is just a residential. And for those concerned about San Diego for this year, they are paying back to the residential and small commercial customers in August for over collection of CTC. And according to the website, if a customer has a bill of $50, they will be getting a check in August for $260. I think they'll be protected this summer.

Now, just for completeness, those are Edison's number, same general process, and I will be absolutely truthful. The cents per kilowatt-hour for bills went out in May and June were like 8.6 cents per kilowatt hour, for bills going out in July were 15 cents. That begins to give me a price signal. But if you start dampening it, I'm going to be in trouble. And those are the PG&E ones.

So my recommendation is really price cap. Knowing that's not going to go over real big. I'd like to see the price cap go back to $750, and I think I can get a clearer signal. The third option would be leave it where it is. It's not a particularly good signal, but it's a signal. It's something that I think I can work with. At $250 I'm not going to get much of a signal at all in real time, and real time is where you make the money, because of the forward market options when you base on calling load and real time. Thank you.

MR. SMUTNY-JONES: Thank you.

MR. ACKERMAN: Mr. Chairman, Board of Governors, my name is Gary Ackerman, and I am Executive Director of the twenty-eight-member Western Power Trading Forum. Today the Western Power Trading Forum wishes to make known to you what is or should be by now the obvious--price caps work contrary to your economic reliability interests. Lower price caps increasingly cripple markets, chase away much-needed investments, and place an unnecessary burden on the ISO operators. And a $250 price cap will blow everything out of the water. Power sales will stream outside of the ISO every time the market price in the Northwest or the Southwest exceeds your bid caps. Price caps increase the number of times the ISO operators will face gut-wrenching decisions either to let the market self-correct in the operating hour or force the ISO to intervene, thereby crashing the real time prices. Last Friday in a stunning announcement, the governing board of the New York ISO rejected their management's proposal for a thousand-dollar per megawatt hour price cap and established—are you ready for this?—a higher cap of $1300 per megawatt hour. According to the New York ISO press release, "A higher limit will maintain the attractiveness of the New York for investment and generation and for suppliers that have the option of selling into the regional market." You see, their neighboring ISO, known as PJM for Pennsylvania-Jersey ___________, have a $1000 price cap, and therefore, the New York's $1300 cap keeps New York generation resources from drifting into PJM. Apparently these folks understand something that _________ some people here have failed to grasp. As you lower the price cap, you damage the fledgling Cal PX block forward market and other commercial hedging instruments which are the very mechanisms you seek to ____________. They're the mechanisms which protect consumers that you just heard from in the previous three speakers.

In the last few weeks there has been a sudden increase in the Cal PX block forward volumes for this year and next. Buyers forward (?) demand is growing at an unprecedented level and as the block forward price moves up, more supply becomes available to meet it. But the reasons for a forward hedge suddenly disappear when the price cap falls below the region's market clearing level. Wall Street analyst William Kuzawitz (?) reported this week in GeoInvestor.com, "It defies logic to mandate a reduction in price and expect sufficiency of supply." She added, "This is why California power blackouts and brownouts this summer will become more likely." In my words, as the provider of last resort, the ISO will have no reserve spin into its real time market. On the load side, the firm delivery at the bid cap price is guaranteed by the ISO. Why would a scheduling coordinator knowingly supply energy at a price greater than the cap when the FC knows that the ISO must fill the gap at the imbalance energy price which you will set today with your vote? What's more, the situation gets worse as you lower the cap, let's say, to $250 per megawatt hour. If you lower the cap, you widen the gap. The effect of your price cap decision last week is already apparent. Power started streaming out of the State in search of better prices. Conversely, contracts for electricity to Southern California from neighboring Arizona nearly tripled the day after your last decision. The price spread between Palo Verde and Arizona and SB 15 or Southern California hit a record basis differential of $35 per megawatt hour, with Palo Verde prices higher than the SB 15 prices. One of my members told me yesterday, please thank the ISO governing board for boosting the profits on my Palo Verde portfolio. I'm sure you appreciate his good fortune. In short, California is not a price leader in electricity. It's not a price leader in natural gas. It's not a price leader in any commodity which is traded. Possibly we are the price leaders in residential property values and commercial real estate rent, but then, think about it. People are willing to pay a premium for living here. Do you think they're willing to pay a premium for electrons? The last time we have seen price controls attempt to tame a market was when the Carter administration forced the US federal government to maintain price controls on domestically produced oil. Do you remember the long lines for gasoline in the late 1970s? I do. Let me draw a parallel for you between gasoline rationing and electricity rationing. It looks like this: Shut your eyes tight, and if you like hold your hands over your eyelids, and keep them there for several hours. Maybe that way you'll get the picture. On the surface, one could mistakenly conclude that things look bad. Electricity prices were incredibly high last month. But remember, the average generating cost for electricity in 1996, and I believe this is supported by what Michelle was alluding to earlier, including both fixed and variable costs for utility residential customers, was roughly six cents per kilowatt hour. The average price for 1998 and 1999 for these same customers was a little over three cents per kilowatt-hour. Even with the high prices witnessed this summer, average annual PX prices will probably not exceed four cents, and that with natural gas prices at record levels. The result is a commodity price a full one-third lower than the good old days.

Speaking of the good old days, and looking at the people who voted for the defeat of the $250 price cap proposed last week, it is evident to us that the incumbent utilities are doing it again. They're stifling competition, thwarting development of markets, and trying to draw us back into a command and control environment. It will be interesting at the end of the day today, based on the outcome of your vote, to see how successful they have been.

MR. SMUTNY-JONES: Thank you, Mr. Ackerman. If we could try to discipline our remarks to around three minutes, I'd appreciate that. Thank you.

MR. GREENBERG: Good afternoon, Mr. Chair and ISO Governors. I'll try to keep it very brief. My name is Stephen Greenberg. I'm the Chief Operating Officer for Real Energy, formerly Intergee. We provide energy services to the commercial industry—commercial real estate industry. Those services include ___________ energy resources, commodity services, energy optimization, and environmental enhancement brought together by a web-based control system that provides benefits to the facility and also a marketable product to the grid. Our clients own approximately 250 million square feet of real estate nationwide in major urban areas, over 80 million square feet in California. As a preface, when I say that real energy takes responsibility on the risk for our clients' utility bills, so what I have to say, I say knowing full well that I'm willing to take the risks. We believe that unless and until end users seek price elasticity, demand won't shift. I also believe that unless and until owners of generation can invest in a market that will reward risk, they will be dissuaded to invest in our market. Both of these conditions will exacerbate the current problems that exist during peak demand. We're opposed to blackouts. Our clients are opposed to blackouts. This factor of blackouts going into the evening in downtown San Diego, San Francisco, or Los Angeles is not one that anybody wants to imagine, but I don't have a hard times imaging that rolling blackouts through some glitch, whether human or technical, would not be able to unroll themselves, and we could see just such a situation. We're opposed to price caps. We believe that price caps are making the conditions in California worse.

MR. SMUTNY-JONES: Thank you, sir. Next?

: Good afternoon. My name is Rob Lankton, Vice-President with Southern Energy. Last week we sent a letter to the Board. Most of you have seen it, but I am sending around a hard copy. I'd like that ____________ records please.

I want to make just a couple points this afternoon. First, Southern Energy does not believe that price caps are the real problem. We do not believe that it's the issue that is before you today. Prices, energy prices in California, as you know, are a function of supply, they're a function of demand, and they're a function of bidding by suppliers and load. We think that prices, energy prices are actually a symptom. They're a function of—the prices we're seeing today are a fact and a function of no new generation, no new transmission lines being put in the State for years. So it's a symptom; that is what we believe. So what is the problem? What do we view as the problem?

We think the problem before us, the issue that should be focused on is reliability for this summer. We think that changing the price caps statewide for the whole State does nothing to address this problem, this very real problem that's before us. We think that it's more important that a solution focus on what are we going to do this summer in taking care of serving a load. There is also an issue that San Diego has raised regarding its ratepayers and the exposure its ratepayers have to prices this summer. To the extent that that's a problem, we think that what should be focused on is a strategic and focused fix or to address that specifically, surgically focus on that. We think that a statewide price cap doesn't deal with the narrow issues of what the San Diego ratepayers have, and we think it exacerbates the problem before us for this summer and meeting load. Thank you very much.

MR. SMUTNY-JONES: Thank you. Next.

MR. HOBBS: Good afternoon. By way of introduction, my name is Bill Hobbs. I am President of Williams Energy Marketing and Trading businesses. Williams has made significant investments in the State of California. We currently serve forty percent of the LA Basin power needs and are currently evaluating expansion opportunities in that area, assuming market conditions are right. We also supply a significant amount of natural gas through our Kern River pipeline system in Southern California, and again are evaluating expansion opportunities to bring additional natural gas, assuming market conditions are right. We also supply high tech communications through our fiber optics network, and in California there's a tremendous growth area for that business. We are the second largest ethanol producer and are actively pursuing ways to bring ethanol to the State of California for gasoline blending. And we are discussing expanding our Longhorn petroleum pipeline to bring new supplies of gasoline to the State of California. I bring these items to your attention to demonstrate that Williams has a long-term commitment to the State of California as a corporate citizen. As a corporate citizen, it is our duty to work with the ISO to insure that the reliability of the electric grid stays intact. In this regard California needs new generation, and price caps are definitely a deterrent to new generation. We are further concerned about the comfort that the Board seems to be taking in relying on the ability to purchase outside power out of this State to meet short-term demand needs. It is dangerous to assume that when California needs incremental power your neighbors will not. And at a minimum the ISO will likely be paying higher prices to out-of-state generators than in-state generators are receiving, resulting in discriminatory pricing under the Federal Power Act.

In closing, it is our opinion that less regulation, not more, is what California needs to solve its electric reliability issue by attracting new generation. I ask you to have the courage to stay the course towards deregulation as originally contemplated under AB 1890. Thank you.

MR. SMUTNY-JONES: Thank you.

MR. CONLIN: Yes, I'm Greg Conlin, former Commissioner at the PUC, speaking for myself as a private citizen. And I have some comments I was going to make, but I think I'm going to add a couple to begin with.

I think you need to remember where this thing started. It started in 1993, 1994, when we had 700,000 jobs lost in California. We had companies that were major employers in this State that were angry at the commission to appoint—they were ready to leave this State. Two companies walked away from half-a-billion-dollar projects. That was the straw that broke by back as far as resisting change. If I felt that--if this State was ever going to come out of this economy, that energy was at a hundred and fifty percent of the national average had to be addressed. We did not feel that regulation itself would have the ability to lower the prices in the long run. And I think our natural gas experience, which started in 1984 and went to '94, demonstrated that the price of natural gas dropped from $6 down to $2. Now lo and behold, it's back to $4 today because of market conditions, but I'm just saying that the major customers were not happy. It was a customer-driven process, and that's why we made these dramatic changes. The ISO and the PX cost $300 million. That is a lot of money. That a $22 billion market annually, we felt that that was an investment that needed to be done to create a competitive market so that supply and demand would have a force on prices, and prices would lower in the long run. But today we have no demand response. That is our problem. In our original policy decision on December 20, 1995, half of that decision called for real time meters so that we would have conservation and demand response. That has been lost over the last five years. Today if that order would have been implemented the way it was passed, all the major customers in California would have real time meters, and once the price freeze ends, like it is in San Diego, those customers would figure out what to do. I mean, I talked to one customer this week, and I explained the economics. He said, there's no question in my mind what I would do if the prices got to that level. And, you know, he would reschedule his shifts, he would take the opportunity to reduce his bill by a significant amount by avoiding the peaks. So I think a demand response mechanism needs to be done. I applaud the ISO for what they've done, but I think the amount of energy that's been devoted on price caps should be devoted on how to get demand response in the energy market. Because, you know, I'm not an economist, but I have listened for six years to the best economists in this country, and I believe that a five percent reduction in demand response would take care of the price cap problem. So we need to form some kind of a coalition that focuses solely on demand response, how we get the major customers in the State to address their needs and still be able to shave the peak four to five percent, and, you know, I'm not an expert on what that amount is, but I think that somewhere in that ball park. In Chicago they've developed a program where in that city alone they've got 400 megawatts on a program that they could call _____________ beyond the interruptible customers. So I think it is in the feasibility area, but we've got to spend the time and effort and resources of the government, the ISO, and the private sector together to figure out how to make this work. If we spent as much time on figuring out how to do that rather than whether the price cap should be at $250 or $750, I think we'd make a lot more progress this summer, and I think you've got to remember, five days from now is the fourth anniversary of the first major blackout in California. A month and five days is the second major blackout. August 10, 1995, cost this State at a minimum a billion dollars. _____________ estimated cost fifty to a hundred billion dollars for that six-hour blackout. So when you're talking about an $800 million price bill in one week, you just compare that to the price of a six-hour blackout in this State that's from fifty to a hundred billion dollars, and I think that's what you need to get your reality check on what the opportunity cost of avoiding a blackout is and, and I leave that up to you as—as Board members to figure out what the price needs to be to assure that we won't have a blackout. But if we have a major blackout this summer because the out-of-market prices or the out-of-market, or the out-of-market do not respond, I think the responsibility will fall on this Board. So I think that you need to vote your conscience, and I'm not recommending any price, but I'm just saying you need to avoid a blackout. That is public policy number one. That's why we spent all the money we did to make sure that we would have a fluent market. And demand response is a key that needs to be addressed, and I certainly will volunteer my time to any coalition that wants to ____________________ that going down the pipe. Thank you very much.

MR. SMUTNY-JONES: Thank you very much. Next? Senator Bowen, do you want to address us? I'll tell you what, Frank, if you wouldn't mind, just for a little while. Please, Senator

SENATOR BOWEN: _________________ bad clean-up. I'm used to it.

Senator Deborah Bowen, Chair of the Senate Energy Utilities and Communications Committee. Here basically to draw a little bit bigger picture around what you're—what you're doing. And I want to say that I joined you all remotely for the last meeting, ____________ seven-and-a-half hours with the headset in my ear, and I actually think this is better. You get a better sense of the room.

I actually, to my surprise, probably if I could echo the comments of any one person, it would be Greg Conlin. And the thing that has concerned me the most and concerned me the most about what I heard at the last ISO Board meeting is the lack of a real discussion of demand side management. Both the Senate and the Assembly held hearings earlier in the year about the power system, about the problem that we face because we had a lack of building generation and a lack of transmission, and I think that the participants in those hearings were fairly unanimous in the view that we could not build our way out of this problem, certainly in the short term and probably not in the long term either. There is simply no way to make it economical to build enough power to deal with meeting that peak in a way that's rational. The only way to deal with that is demand side. And we had some extensive discussions about that. Yes, we don't have an effective demand side program in place in this State at this moment. And so I am here to urge you to think about doing something other than what I think is a fairly simplistic solution, price cap, and instead going back to visiting that demand side issue.

Now there are some—I think there are some side boards around what we can do there. And when it comes to real time metering, for example, I think it's unrealistic to make the assumption that we can solve the demand side problem simply by giving every Californian who currently consumes electricity a real time meter. Think about who in the residential community is at home on a hot summer afternoon. For the bulk of those people demographically, I suggest to you without looking at the current census statistics or any numbers, that probably those two largest single groups of people are at home and cannot effectively reduce their demand are senior citizens and parents with kids at home. I think we'll have a revolution in this State if we tell low-income senior citizens and parents with kids at home, sorry, power just costs too much this afternoon. You'll have to turn off your air conditioner. We're going to have to go about it in a smarter way than that, and we're going to have to encourage people, particularly in the business community, to engage in that because it is good for them in the long run and in the short run. So I think we need to be cautious when we're looking at the demand side management.

I also note the irony of having one of the first speakers here be someone from Compton, from the South Bay. I didn't know they were going to be here. But they're here complaining about the same thing that started all of this that started all of this in 1993 and 1994, which is energy prices. And I think all of you need to be very sensitive to the fact that you don't operate here in a vacuum. The California legislature, a different legislature, a more conservative legislature, passed this restructuring. A new legislature is here now. Many of them didn't vote for this bill. ____________________ be restructuring _______________ Prop 9, but they're dealing with the consequences of it. And it's the consequences of what we did in restructuring are that our district offices are flooded with calls from residential customers whose bills are significantly higher than they were before we began ____________. We are going to have a real difficult time making the argument with a straight face ____________________
You have a very difficult task to do here today. You need to balance the real time supply issue. You need to keep the lights on. Blackouts aren't good for anyone. Brownouts aren't good anyone. You need to encourage people to deal with generation in this State, and I think you probably need to do it without a wholesale waiving of environmental rules. I think you will find that again communities that have been supportive of electrical deregulation, if they find that it means all of a sudden they have no say on what happens to that power plant in Redondo Beach or in Moss Landing or in those various places, the political support for the exercise (?) will fall away. But I suggest to you strongly that rather than considering looking at caps, and you go back to what we were talking about earlier this spring, how do we bring down the demand of those peak times? What kind of market structure and payment do we have to develop so that we encourage people to change their usage? How do we begin to educate residential consumers? Because there

are gains to be made on the residential side. I have no doubt that the fact that two percent of electricity in peak times is clothes dryers on a hot summer afternoon. Clothes dryers. This means we have not done a good job of explaining to people the relationship between—

(End of Side A, Tape 1)

(Different speaker)

. . . the problem that you face right now, this summer. But really the __________ problem that's going to be addressed by the Price Cap Resolution which you currently have in front of you which is set to expire later this fall. ________ the issue of the cost of San Diego's customers are having to pay for electricity. Senator Peace and I have had a couple of meditation sessions over the last two weeks, and I find it hard to believe we actually agree one hundred percent on this fact, and that is that the customers of San Diego are paying too much for electricity. They're bleeding, and it's hurting.

All right. In those meditation sessions I also asked Senator Peace, will lowering the price cap to $250 fix the problem, a clear and simple question. And he gave me a clear and simple answer: no, it will not. So the question comes up, why make this move? Why put a Band-Aid when a tourniquet is needed? The simple fact is the customers of San Diego service territory could be paying as low as four cents a kilowatt hour, yet ________________ earlier this year _____________ hedging the price of energy in the forward market. Instead they're paying over four times that much for energy this summer. We may not be able to fully go back and fix what's already been sent out in the June bills. But the point I want to make to the Board is that there solutions, market solutions, which can surgically go in and fix the problems for San Diego's customers for the rest of the summer. Solutions that are already under discussion with Senator Peace's office, with people in San Diego, with market participants such as _________. Those solutions can be off bill by July of this year _________________ fix the problem. I want to make you aware that those discussion are taking place, and the price caps ______________ alternatives. The market wants to be a part of the solution to the problem that's facing San Diego's customers this summer. Those of us that are market participants are prepared to work full-time, even including weekends if necessary, to put those types of solutions in place and to help the customers of San Diego. Thank you.

MR. SMUTNY-JONES: Thank you. Next. Let's have a show of hands of who else plans on speaking.

_____: Mr. Chairman, ________ Braun (?) for the California Municipal Utilities Association. We did not get up to express an opinion last time because we thought that it was going to be a wide-ranging diversity. I did actually benefit from some of the presentations by Mr. Stout and others, but I thought that some others kind of glossed over what I think is the essential equitable issue here.

As ________________ community, I would say that generally speaking we are resource-rich, so folks are selling not only to California markets but elsewhere, and that generally allows them to benefit from some of these prices. But we support lowering the cap. And I think it goes to our general outlook on how what—how the utility industry should be run as we're moving toward total deregulation. We've heard Mr. Stout and others, a host of people talk about all the flaws in the market. They are saying the price caps aren't the problem, the flaws are the problem. There's not been enough investment in generation and transmission. We need more of that. There is an inappropriate hedging mechanism; there's other regulatory barriers. Load has grown beyond the most optimistic projections. There's no demand response. But the conclusion we get from that is, but don't lower the cap. And to me that's a large disconnect. You've got—we're in a transition period. We've got flaws that everyone recognizes, we've got flaws that are going to be there, and they're going to be with us for some time. And yet the argument is that unless you make people feel the pain right now, this business is not going to work. And I've had great doubts that folks are willing to feel that pain in the short term. So I think the question is what do you do during the transition period to provide customers—and we're not just talking about customers in CVA (?). We're talking about people that are buying from the PX; that's a lot of people. Not everybody, but a lot of people. What do you do? And I think you've got to provide them with a modicum of protection during the transition period until we get what seems to be a pretty common list of issues worked out. So as an ________________ community, we definitely support lowering the caps, and we urge the Board to move that direction. Thank you.

MR. SMUTNY-JONES: Thank you. Next.

MR. ANDREAS: Hi, I'm Dirk Andreas, and I kind of wear two hats here. I work for NRG Energy--we own some power plants with Dinagee in California--and I'm also a San Diego ratepayer. And it's been kind of interesting with what's ____________. I had the opportunity to talk to some of my neighbors about what's going on in California. And we all got our bills on Monday, so it was interesting discussion. And I think I'd agree with what other people have said here right now that there is a considerable concern in San Diego right now about the price of electric. This is on everybody's—the top of their agenda. It's in the papers. It's on the radio, and it's on TV. And I think that this group should look over that fact as we look at the fixes here. When we talk about the $250 cap, what I fall back on is any contract. Usually you talk about price, and then you talk about the terms and conditions. I know in the negotiations I've always done, I always negotiate the P's and C's first, and then I figure out what I'm going to pay for it. And it appears to me here's what we keep doing is talking about the price instead of looking at what's the rest of the contract look like, the contract with consumers in San Diego and the contract between the buyers and sellers here in California. I agree with John. We need to do something to correct the hedging mechanisms to allow utilities to go forward and hedge what they need to protect this risk. We need to have people like (Enrun ?) and others to provide the ability for individuals customers to hedge going forward. The other one that we keep falling back on is the whole one-pack-fits-all-size for what everybody gets paid for electric. Electricity here in California—it's just interesting to us that basically the Chicago Board of Trade, the New York Stock Exchange, basically those are all buyers and sellers agree on a price, and that's what they trade at. Everybody doesn't trade at the same price today when they bought Enrun stock today. And we just really think that that issue needs to be relooked at as one of the fixes.

And the last thing we feel that if any discussion goes about lowering this cap at this point we feel that there must be some type of a date certain which if things aren't done that things go back, that the price goes back up. And the reality there is that we're in a crisis point. If we're going to solve—if people feel that this is the right thing to do lower the cap to solve that problem, then we can each keep the pressure on to correct the terms and conditions to the contract that we all have here with the, with the consumers in California and with each other, everybody that's in this room. Thank you very much.

MR. SMUTNY-JONES: Thank you. Is there any other member of the public that wishes to address the Board? Going, going, gone. Okay, thank you. Uh, Terry?

MR. WINTER: I guess I'm here to tell you that I have been very surprised by the comments that were made today, because the little talk that I was going to give all of you really hinged around the fact that we needed to look at a much larger issue than just price caps. I know the price cap is $750, $500, and $250, to me is not the issue. I think it is a much larger issue on what are the mechanisms people can use to make the transition, and that clearly price caps is probably the least effective of doing that job. However, having said that, I was asked a question with the last proposal when we removed the requirement that I could pay whatever price I wanted to out of market, whether that would impact reliability. And very clearly in the hypothetical case and theory, if I had infinite dollars and I had an infinite supply of power outside the State, clearly I could pay enough to encourage that power to come to California, and therefore it would not be an issue of reliability. However, put yourself in the operator's shoes at this time. You're sitting on that floor, and he is trying to keep the system balanced. He is looking at the megawatts coming in. He's looking at the load go up. And it's a full-time job just to balance those two with what he's been given as an operator. Now we want to give to him the responsibility of running a market at the same time. So he's not only expected to determine well, do I have enough energy, what is the temperature, what is the load, but he's now got to go out and buy that particular power in the real time market and at what price he has to negotiate. So the result of that is that suddenly his attention is divided from reliability and into the market at the same time. And he runs into a very practical problem. And that practical problem is that we do not normally make fifty, forty, thirty changes in schedule over the hour. And when we have to do that, we in fact do all of those manually, and it's not only the California ISO, but it's the neighboring control areas that also have to handle those—those situations. So when you have people bidding out of the State and then us buying it back in, you're increasing the transactions that he has to do. In there lies a concern that I have that we will overload the system, and we have __________ example of it where we--in fact I've ____ all the deals consummated, and therefore we're running short (?). So it is a reliability problem in the extent that it overloads the mechanisms that we have in place. Having said that, people ask, well, are you willing to go to $250? And my answer is I am very concerned about the prices that we saw. They were not a small amount of money that suddenly got put into the market over a very short period of time. On the other hand, to me it is very, very clear that just setting a price at $250 in fact may even make the problem worse. Because envision the State of California. We need six to ten thousand megawatts of power from outside the State. If we get into a shortage throughout the West, the only way that I can do that is go out and try to bid against neighbors throughout the West. And those prices are going to go up. We have seen them up a thousand higher. We've actually called those companies and not been able to get the power because it was selling higher. Do we drive the market? I don't know. But I do know that if we lower the price to $250, I'm going to still have to go above that, and the end result may be that I pay more money than I would have paid at the price cap.

The other problem is generators will, as been mentioned here, go outside the State. And when they go outside the State, why are doing that? To get more money. What does that mean? That means they're not in the PX market. What does that mean? That means the price for every megawatt, just not the ancillary services that the ISO buys, but every megawatt will have a higher price. I don't know whether that's higher or lower, but we're going to have to find out. To me if we're going to go down to the $250 level, we have got to get some commitment, as people have talked here and I'm extremely encouraged by, to all work together towards the problem. And the problem is going to be hedging. How do we allow people to transition over a period of time? The generator, theoretically, needs to make so much money during the year to be profitable. Now he can do that by getting ten dollars a month for the whole year and taking Christmastime or August as Christmastime _______ appears in the power industry, and make all of his money in one month, or we can spread it over the timeframe and—and not have the rate shock that we're looking at. So hedging is something we've got to put in place. I could not agree more that demand side management is really an answer. We have looked at that for years; we have tried to do all kinds of things. We've had air conditioning programs. We've had inverse rates where it costs more to use more, which is not your normal way of pricing a commodity. And I think all of those have to be reviewed, but everyone has to work together to get that done. I think the load has got to give a better representation of what it sees in the market. In other words, if it is going to use the market to underschedule, we have to have a mechanism where the ISO can, in fact, guarantee itself that it has energy. I cannot go into the day thirteen to fourteen thousand megawatts short and give people assurances that I will not have a rolling brownout or get into my reserves.

Over June we were down below three percent several times during the month. Now just to give you an idea, I know I'm talking small numbers, but the WFCC fines, I think all of last year I paid a little over a $100,000. In that one week I paid $173,000 in fines just because I was not able to maintain my reserves. I think everyone else was having somewhat the same problem, but nonetheless, that is a large number and shows how closely we are operating this system. I think regulators need to recognize their involvement. Clearly we are not the ones that developed demand side programs. We can fit it into our markets, but we're not the final say on how those are put together. We certainly, in my humble opinion, should not be involved in the hedging (?) markets. Those should be done outside the ISO. We should only see those as scheduled loads coming in which gives us the comfort that they are covered, and we will have the power when we need it.

I think generators have to live up to their commitments also. I am always amazed as I go through each morning report and see the number of out-of-market deviations that—that things—that people were to provide X and they didn't provide it. It is a huge list every day, and it isn't always big numbers, but the aggregate is huge. I think that-that if we're going to make this work, and if we for whatever reason choose a price cap, whether it's $500 or $250, I really think the answer is the regulators, the ISO, the PX, the load, the market, and the generators have to attack this problem, because as I see the size of those price spikes that occurred in June, I—in my humble belief do not think that the public is going to stand for that kind of volatility in the market. And therefore, we've got to figure a way to transition.

So, I thank you for listening to me. I am very concerned about the reliability, but I think just lowering price doesn't do it. It's got to be a combination of efforts. Thank you.

MR. SMUTNY-JONES: Okay. _________________ Greg and then Gary.

_____: Just a quick question. Are we going to—you going to go over this background paper at all ____________ presentation ___________

_____: No, I covered most of the points just now, but what I did want to do with that is let you all see the issues.

______: Can I ask just a couple of general questions, because I'm just trying to get a flavor for some of the things that are out there. One of the questions I asked at the last meeting was to what extent the block forward markets and the ________________________ opportunity to self-provide ancillary services were being provided. Now it is my understanding that both of those are now available at the PX; is that correct? If they're selling at the PX, could we clarify that? That'd be great. And if our staff has any observations in terms of _________ being utilized, I'd appreciate that.

MR. MULVEY: Hello. My name is John Mulvey (?) from California Power Exchange. The question was does the PX have self-provision of ancillary services and forward hedging products for ancillary services. The answer is yes. Starting July 1, ancillary services ________ self-provision as well as forward trading of regulation up, down, spin, and nonspin were available to the marketplace. So the PX has offered those forward hedging products for ancillary services, effective July 1 would be the first dispatch date.

MR. SMUTNY-JONES: Okay. Can you give us any sense of

____

MR. MULVEY: Yes. Uh—

MR. SMUTNY-JONES: I realize it's six days, but—

MR. MULVEY: Yes. The—I don't have the exact volumes here with me, but the regulation spin and nonspin, I believe, have all been traded on a forward basis. The volumes at which they've been traded is relatively low, but we are the first ______________ exchange anywhere __________ or forward trading of ancillary services. So, it took a little bit of time for the prices to converge for those products.

MR. SMUTNY-JONES: Okay. Thank you. Anyone else? Gary and then John.

MR. COTTON: Thank you, Mr. Chairman. There were several comments during the public period recommending ideas, or suggesting ideas, to help out San Diego customers. Let me give you an update from last week. We have newspaper articles essentially every day in San Diego now as well as other media attention. State legislators are receiving several letters. The energy charge that went out on Monday for the week starting Monday, July 3rd, was 10.7 cents. On Monday, July 10th it'll go over 13 cents. We're looking at bills here that—when you add the seven to eight cents residential portion for the delivery part, the customer's bill is going to be 20 cents. This is very serious. I will support going to $250, and I'll support doing everything else we can to bring the bills down in San Diego and get this under control. Let me give you a little history.

A year ago on July 1, '99, we ended the rate cap __________ freeze in San Diego, but we kept the mechanism in place to protect the customers for the summer of '99. In order to get that approved through the PUC, we had to agree with the market participants not to ask for similar protection in the summer of 2000. Market participants said they would get ready. They would gear up. They would be active in the retail market in the summer of 2000. Today with these prices, we have zero advertising going on on the part of the retailers in San Diego. Very hard to understand. Somebody isn't there ___________ figuring there's a way to provide some benefit here to the customers. When we've lifted the rate cap, and we have a crisis taking place.

I would like to make an offer to anyone in the room or on the phone who would like to discuss further the options and issues regarding San Diego customers, that I will stay here in this room for as long as there's somebody willing to talk about ideas and options at the end of this Board meeting. Furthermore, we can schedule a meeting tomorrow morning or Monday or Tuesday, or whenever people would like to talk about schedule solutions. Unfortunately, some of the solutions being offered we cannot now legally do, but we're willing to go after them, and we'll need everyone's support. We asked for and were turned down an option to go twenty percent outside of the PX market earlier this year. That was turned down. Today we are offering our customers level pay plan. We're going to ask very quickly for more energy assistance money from the PUC for energy conservation programs. We also are going to set up a low-income assistance program that we monitor or manage through a nonprofit organization in San Diego, and I will be contacting many market participants for help taking care of the people on fixed incomes, low incomes that cannot handle doubling of their energy bill on a monthly basis.

I would just like to—you know, close this with one comment, and that is that this is something that has to be fixed. We cannot allow this to continue, and I do think that going to $250, if it helps one percent, we have to do it. And we have to go over every other option, because the storm that we're going to all see from the standpoint of the impact on San Diego, and the economy in San Diego. When you think about that has a small business trying to come up with an additional margin of profit to make up for doubling of his electric bill. They've seen a thousand-dollar bill a month and now sees two thousand dollars a bill, he's got to sell additional product to make that up. And multiplied obviously for the larger customers. So I'll stay here, and we'll talk about things. We'll ____________________ We'll have—you know, see what we can do. It doesn't do any good for me to talk one-on-one with market participants about solutions. This is going to take a market solution with all the participants. Thank you, Mr. Chairman.

MR. SMUTNY-JONES: Thank you, Gary. I'll note there's thirty bag lunches behind you. Hopefully, you won't need to be here for thirty days. If anyone on the phone wishes to speak, just let me know. I'm taking the cards right now. I've got Mr. Fielder, Barkovich, Carolyn, and then Marcie and then Carrie.

MR. WOYCHIK: Jan, this is Eric. Can you put me in the queue. Thanks.

MR. SMUTNY-JONES: Okay.

MR. FIELDER: Thank you, Mr. Chairman. I'd like to talk about two issues. One is the hedging issue, and the other one is the issue of so-called underscheduling. But before I do that, I have a couple of ___________ I want to show, and I won't take more than three or four minutes.

I want to address the bigger issue that Senator Bowen and even John Stout commented on, and that is, there is something wrong with the market. We've heard different people focus on different things, whether it's demand side management, whether its lack of flexible hedging products, whether it's insufficient generation, and the price cap that we are talking about, that is the $250 price cap, is a temporary Band-Aid, I admit, and the motion that we passed last week and the forum that we'll vote on today has a price cap only in place through October 15, and then we'll have to reconsider, and hopefully by then we can take a giant step forward and fix some of these problems.

Terry, your point about whether or not to move it from $500 to $250 as reliability impacts, I mean, the one reference point we have is that we did have a $250 cap last summer, we had a $250 cap in 1998, and we had—admittedly we may have higher loads this year than we had last year or the year before. I'm not sure that the problems that you talk about—which I think are legitimate problem--are price cap sensitive. I just believe ______ the comment I made last week that the surrounding control areas, having much different market structures than what we have here today, will always have the incentive to outbid California generation whether the cap's at $250, $750, or $2500, because they're only buying a small amount of energy at those prices where California's buying virtually all of it _______________ position and for those prices. So I just wanted to give that big picture and then specifically talk about hedging. And Jan, you asked this question. I think this is responsive to your question.

What this graph—for those of you that are on the phone—that I put up shows—it's hardly readable in here either—is what Edison has done in the block forward market. The yellow bar is our average net short position for the months, uh, June—May, June, July, August, and September. That's based on average peak loads, and it's a net position, so that is what we have to buy ______________ against what we have generation to provide, QF's, nuclear and other generation that we own, and the green bar is what we've so far hedged. And as you can see, for the average ________________ summer loads for normal weather conditions, we're in pretty good shape. And so our customers will not have to pay the total amount of what we're seeing on the market. Our customers will get the benefit of these hedges that we've been using since the start of the market. The red bar is what we're worried about. The red bar is the hot summer days. And as you can see, the hedge position is significantly less than what the potential loads could be on a hot summer day. And those are six by sixteen hedges. And so that's a lot of power and a lot of shoulder, and I don't have the prices. These are just the megawatts. I'm not going to put the prices up. But when—if we have loads that approach the red bars, we will be buying energy either in the day ahead market or in the real time market based on those loads. And as you can see, in some cases we're three or four thousand megawatts short that we'll be paying whatever the market ______________ price is at that point in time.

The point here is that we have been hedging, and I'll put another chart up that kind of shows a little bit of the history and shows—

_____: John, ___________________ Go back, because I am one of the tallest guys in the room, so I'll just admit that flat out.

_____: The green bar—the kind of yellow bar, lemon-colored bar, is that your average net?

MR. FIELDER: That's short position for average summer days, nonpeak.

_____: So what's included in that?

MR. FIELDER: That's how many megawatts we would have to buy—

_____: Yeah.

MR. FIELDER: That we don't self-provide through our utility-owned generation.

_____: Okay.

(Two people talking at once.)