MR. FIELDER: So we're trying, you know, that's in essence what we tried to do, _____ on average summer days, we're pretty well covered. If it goes to a real peak day, we're exposed.

_____: My QF guys always ____________

_____: Just kind of a history of looking at the forward prices. As you can see for most of the—most of the 1999 period and through the early part of 2000, the forward prices—this is for a August contract, (ninex ?) product, six by sixteen, so most of the year and early this year, it creeped up after the PUC increased our purchasing limits in these forward markets, but you can see what's happened to the August contract. It was pretty flat around sixty dollars and dipped down to about fifty, and then starts creeping steadily up, and then about, about April—March or April, it just kind of took a steep increase, and it was up in the $120, $125 range, and I think that's pretty much where it is today. Let me—

Hedging is a strategy to mitigate risk. I think everybody recognizes that. However, the way the forward prices have gone, there is a relationship between the forward price curve and the real time prices, and this is kind of the—the forward price curve for the month of July, August, and September, and you can see for third quarter this year, which we are now in, and third quarter next year, if you wanted to go lock in six by sixteen, now that's a lot of power if you're buying six days a week, include Saturday, and the sixteen hours a day, I think it's 6:00 a.m. to 10:00 p.m., so there's some off-peak periods in each day, the price is around $120. So we could buy forward today for two, three this year or two, three next year at around $100. That's—that's the (Timex?) futures, and it varies day to day and goes up and down, and Dave you can comment on what makes it move.

There was some discussion about whether or not the PX or the California market set the price. Looking historically for the last couple of years, there's been a strong relationship between the _____, these are Palo Verde (cobb?) on-peak prices compared to the PX prices, and there's been a—a very close correlation, and I think if we asked at the power exchange, they've got data that shows that there's very close correlation between these markets and—when our markets go up, the markets in the other states go up because the supply has to go where the load goes.

So the last point I want to make has to do with underscheduling, and I guess there's been a lot of debate, a lot of stuff going back, and I'm going to ask—before I get off, I'm going to ask Mulvey, who really has the data. We have to speculate on what's going on in the market, but I'm going to ask Mulvey to see—to see if there's any evidence that the loads have been underscheduling, or at least our load. But I picked one day, and I'm actually going to give you our demand curve that we bid as a PX day ahead market for hour (our?) ending 16 on June 29th. Horizontal axis shows the percent of our load we bid in, and the vertical axis shows the dollars that we bid it in at, and the arrow shows what percent of our load got satisfied in the day ahead market, meaning how many megawatts or what percent of our load got spilled over into the real time market. So on this day we bid a hundred percent of our load in at prices up to $750, at $750, and we got about sixty percent of the load satisfied in the day ahead market. And we spilled over 5,000 megawatts into the real time market. And I think the issue here is that when we have high load days, when we have hot weather in the State, there's not enough supply in the day ahead market to meet our generation of prices below $750. And I guess that's all I'm going to say about that. If Mulvey wants to comment as to whether there's any evidence that he has that there's been load underscheduling.

MR. SMUTNY-JONES: John, can you comment on that?

_____: Thank you.

MR. SMUTNY-JONES: ____________________. I think someone's got a clarifying question.

_____: John, ________________

_____: Please do.

MR. BLUE: Going back to your first ____________. This is Greg Blue, _________. Your first slide. If you don't mind. Sorry I didn't ask this earlier. No, I'll comment on that last side. Starting July 1, you have approval to hedge up to 5200 megawatts. How come you're not doing that?

_____: Well, our net short position on an average day only requires us to hedge whatever the amount is there. If there's 3,000 megawatts, and if we tried to hedge for the worst day that we could expect, we think we'd be way overpurchased. And the other thing we've found is that the more we try and buy out of the forward markets, the higher the price goes. I mean, it's just-- We can actually see the market move when we go in to—and purchase the forward market.

MR. BLUE: Okay. Can I see your last slide now? Just one more question on that.

_____: Which one was that. Greg?

MR. BLUE The one that showed you're at $750—

(Inaudible.)

_____: You've drawn a line at $750 in the day ahead price. My understanding is that the cap in the day ahead market is not $750, but $2500, and I'm pretty sure there was more supply available—oh, that's what you guys were willing to pay. I'll just leave it at that.

_____: Yeah.

_____: That's a fact.

_____: Right. I think you're right. I think there were supply bids in the day ahead market higher than $750. Our supply curve would buy it at up to $750.

_____: Dave, you had a clarifying question, ____________.

MR. PARQUET: Yeah, this is Dave Parquet. If you could leave that up, John. I think you're making precisely the point that I was making last time, and that is that given the relationship between—yeah, we're in agreement. Given the relationship between the PX and the real time, you have effectively bid the—in the PX, the cap in the ISO's market. The result was, according to your curve, which I think is evidenced by the results of what we saw Carrie and Carolyn talk about, that sixty percent, or forty percent of the load was thrown into the real time market.

I would suggest that if the cap was lowered to another number, given supply and demand, that even more would be thrown into the real time market. And that is the point. And that is that to the extent the cap is lowered, given this kind of bid strategy, and it is allowable, I'll say that, the consequence is that the ISO is not only chasing its tail at this kind of a price, but it will be chasing it more at a lower price. In other words, more will go into the real time market if we have a lower cap, given your own bidding strategy here, John.

_____: And I—I guess, Dave that also—you have to make some assumption about what generators will do. You're saying generators won't bid into the day ahead market at $250, and the cap at the ISO was at $250.

_____: We'll put generators aside because maybe they're—they're the other half of the issue perhaps, but talking about this specific one is your bidding strategy causes forty percent of the load to go into real time.

_____: But when there is insufficient supply in the day ahead market—

_____: No.

_____: . . . at that price.

_____: No, no your strategy is what causes it.

_____: Well, if you're saying that we—

_____: Put me in the queue—

_____: The point is that the real time price cap sets the price in the day ahead market.

_____: Okay.

_____: Barbara.

_____: Oh, did you have something you wanted to add?

_____: ____________ real quick.

MR. MULVEY: This is John Mulvey, California Power Exchange. If I could rephrase Mr. Fielder's question. Has the PX seen underscheduling by load in the day ahead market? The answer to that is no, the PX has not seen underscheduling ________ by these loads in the day ahead market on a systematic basis. There are a couple of days where the loads did come in low. I believe also those days we found that the ISO's and everyone else's forecast were ___________________, you know, to a large extent. But on a systematic basis, the PX has not seen anything in the data that's adjusted to ______________ underscheduling of day ahead market.

_____: Okay. But we need to move this along. You had a question for Mr. Mulvey, is that right?

_____: No, for Mr. Fielder on his presentation. John, I don't know if you have number off the top of your head or anything, but what the amount of hedging that you did do, do you have any idea how much money you guys saved employing that tactic?

MR. FIELDER: I don't have it ________________

MR. SMUTNY-JONES: I'm sure it was billions. Um, Barbara.

MS. BARKOVICH: There doesn't seem to be any unit that's smaller than billions in this discussion last I heard. Um, I'm going to start out by responding to this little tete-a-tete with respect to the PX market versus the ISO market because I think you forgot the next step which is that if the cap—what you're saying is that if the cap—what you're implying, and I assume therefore saying, is that if the cap on the ISO market is $250, then you'll simply submit demand bids into the day ahead market with the condition that you will go no higher than $250. So if you won't buy any more than $250 in that market and then the ISO has a $250 cap, the only conclusion I can draw is that even more power goes out of market at prices which are not capped in any way, which is in my mind probably the worst of all possible outcomes, because for one thing it means that there won't be any price cap. For another thing it means that any attempt at discipline that we have attempted to create in the California market through the markets we have, imperfect though they may be, is completely thrown out of the window once we go into out of market. And therefore, in many ways what you get is the worst possible result, which is one of the problems I had when I referred to the idiocy of the resolution in the last meeting. Um, what you are really doing is undermining the entire market structure and strategy in California. If you want to drop a bomb on it, obviously you're free to do it. Heaven knows you've tried before. But it seems to me that what we have now is we have a market with imperfections. Everybody agrees there're imperfections, and we're trying to work on them. The problems right now are most directly affecting customers in the San Diego service area, and there have been various proposals alluded to, and I would hope we'll get more information on those as to what to do to look after the genuine concerns that people have about the impact of higher prices in San Diego. Those are legitimate. The solution to higher prices in San Diego is not to change price caps and basically undermine the entire market structure in the State of California. That's like trying to take an A-bomb to solve a problem that you have too many flies or too many mosquitoes. I mean, it will probably—well, it may or may not work. In this case I'm suggesting it won't even work, but the point is, it'll certainly be overkill, and it'll be a heck of lot more to try to ________ a bunch of fly—of dead insects bodies to deal with when you're finished. So, what I am greatly disturbed about in this entire debate is that I think we're talking about—we're basically talking about solutions that are disconnected to the problems. And I've already told you my concerns last week. I don't have to go through them again in terms of impacts on PG&E and Edison customers. Now obviously, you have determined—several people have come forward this afternoon to suggest that they have concerns about the economic development rate at SCE, because I guess it's tied to PX prices. I would submit to you that the amount of power that is sold under that rate schedule for Edison compared to the amount of power that is sold by Edison is so miniscule, and furthermore, is subject to PUC tariff, that, heaven forbid, one solution, and indeed the solution to very many of the issues which have been addressed today, whether it be demand responsiveness, restrictions on hedging, or anything else, are things that can be handled by the PUC, which have categorically nothing to do with price caps in the California ISO market.

I would also point out to you that although we are talking and all the discussion is target on the ISO markets, that the last time I looked, despite all the power purchasing that is being pushed forward into the ISO real time market, that still even more power last time I looked was being bought in the PX market, and nobody is talking about what to do about prices in the PX market. So, without wanting to go on too long, because it's already after 5:00 o'clock, and so whoever bet we were going over two hours will be happy to know that they've won, and I just hope you got something good for it. I would like to—that it seems to me that we are going about this in completely the wrong way. The arguments in the documents provided by management make a very eloquent case for why the price cap is virtually irrelevant, and there are a series of problems which absolutely need to be solved, but I don't think anybody's made a compelling case as to how that is the way to solve it. And I would suggest that we ought to be focusing on the solutions, the—I find myself agreeing both with Senator Bowen and with Dr. Woolock—um, I think his conclusions and mine actually mirror each other very closely. And I agree with the Senator. Heaven knows I've tried hard enough to work on demand responsiveness at the ISO, and most of the road blocks I've had—well, some of them have been here, but a lot of them have been at the PUC, and therefore are fixable. How about that? And probably even relatively quickly.

So I think I've talked long enough. I am basically reiterating what I said last time., but hopefully with a slightly different focus. I certainly agree that we need to find a way to address the problems to the people of San Diego, who should not be sacrificial lambs to a debate on what to do about price caps.

MR. SMUTNY-JONES: Thank you. Carolyn.

MS. KEHREIN: Well, there's one advantage having me follow Barbara is I will talk less long. After having talked last time, and now that I get to follow Senator Bowen and Greg Tomlin, and Professor Woolock, and Barbara, they've pretty much covered a lot of what I wanted to say, so I'm going to be relatively brief.

Um, we do need to focus on both short-term and long-term power supply. We need to do to the best we can to maintain reliability in supply this summer while trying to solve this problem within, in my mind, the next twenty months. And changing the caps doesn't solve the problem. I won't go into that because you just heard it from speakers enumerated above, including Terry. Um, we, um, one issue that wasn't brought up by the previous speakers is the fact that our cap authority is also covered by FERC. And our current authority runs out in November. And we had a hard time getting cap authority this time. And it's _______________ discretion, and we don't use that discretion well, FERC won't give us any discretion. And I am worried about what signal we send when we tell FERC, this is our solution: Our solution is $750, then $500, and we come out in March saying it's $750, and then we waffle and say it's $500. That's bad enough. Now we waffle again and . . .

(End of Side B, Tape 1)

. . . comments and others is that we all saw the rate freeze period as being an opportunity to shake out the problem. We made larger changes than any other market in the world. And we were able to do it because people crafted the rate freeze period. The legislators were intelligent, the PUC came up with some good ideas, and that is you protect customers through a rate--rate freeze period, and, um, utilities, um, you know, they—we were giving them a reasonable situation to collected their stranded costs, and we weren't supposedly putting ratepayers at risk. Unfortunately, San Diego's rate freeze ended earlier, and I will get to that later, but we thought this was an opportunity to shake out the market. If you ignore San Diego, and I'm not going to other than for this statement right now, customers are not being impacted by the price caps other than in San Diego. And I agree with Barbara that if we throw out the price caps now, we are not only putting Terry and the ISO in a short-term situation, we're also in a long-term situation where, as Greg cited, caps that exist in the United States are much higher than they are here, and if people have a choice where to build a generation facility, it isn't going to be here. Um, and some of the calls I got requesting me to reconsider how I was voting, and they asked what it would take, um, one of the comments that I made is by lowering the cap to $250, we are chasing less generators away, and we need to come up with some sort of fix that creates the same incentives to get them here that going down to $250 drives them away. It's not just the price change, it's the fact they can't trust us. We tell them that we're going to do something and the next minute we change it, why would anybody want to build here? It's much bigger than the $250 to $500 issue. But I wasn't able to get any solutions, but that's one thing we do need to figure out is how we can incent generation to want to build here in the long term, and I have some ideas on that, but I won't go into them. But changing the price cap, like I said, sends more than just the $500 to the $250 message.

MR. SMUTNY-JONES: Okay.

MS. KEHREIN: Um, just a second. One more thing, Jan. Um, as far as—well, two more. On the DSM, I was, like Barbara, very, very involved. I was trying to get some of the end users involved, and even with the uncapped demand responsive program, we had a hard time getting people in. It's not something we can do quickly. There's infrastructure, there's lead time. We better have it in place by next summer, but we're not going to have it there by this summer. We tried, and even uncapped, I couldn't add some people that I was hoping involved for lots of reasons.

And the last thing is that this isn't just our issue. People have alluded to it. It's something we need to work on together. It's not something we can solve on our own. We need to work with legislature, we need to work with the CPC, we need to work with FERC. For instance, the issue that was brought up on the economic development contract. Barbara hit the answer on that, so I won't say it. But the one thing we do need to do to work all together right now is a solution for San Diego. Those customers are having a problem. We can't solve it alone. We need help from other people. But there are lots of ideas being floated around. I'm very happy to stay here and talk with Gary, but they include putting the rate cap back on, all sorts of things that we could do t help the citizens of San Diego, and any part of the process, or any step in that process that we are a part of, we need to be there. But putting the caps on doesn't solve the problem for them. It just means that the whole State forever is going to have a problem. And we might as well ________________ is go back to deregulation because ___________________ sent all the market signals out the window, and no one's going to want to do anything here, and ________________ considered a market, so, but I agree with what they said at the Oversight meeting—we should go back.

MR. SMUTNY-JONES: Gary. Oh, I'm sorry. Marcie.

MS. EDWARDS: Thank you, Mr. Chairman. Again, I would make the observation. I find it interesting that the entities inside Los Angeles responsible for marketing and generation echo to a man the comments made by Parquet and Dinagee, our version of regulators sound exactly like Barbara, and Carolyn and the procurement agent people mirror Fielder to a man. I—isn't that frightening when you think about it? Um—

Given all of that, and given Terry's an element of correctness to more or lesser degree than everything that we are saying, it becomes a matter of process. We need to be able to move forward on a lot of these issues, and in an effort just to facilitate that, and the fact that I believe ______ staff comments in the proposed price cap resolution at least attempt to provide the broadest set of remedials possible, I'd like to move ________ language within the proposed price cap resolution _______ fill in the blank of $250. Thank you.

MR. FLORIO: Second.

MR. SMUTNY-JONES: It has been moved by Governor Edwards and seconded by Governor Florio. Okay. Any discussion?

MR. WOYCHIK: Yeah, this good. Eric, I think I'm in the queue here.

MR. SMUTNY-JONES: Hold on a second. I got my lawyer grabbed the microphone here so I could _______________.

_____: I'd actually like to suggest an amendment to the opening line of the staff's resolution, and it relates to-- We're sending the June 28 resolution. I think so that we do not have a gap between when this motion goes into—this resolution goes into effect and when the previous resolution went into effect, we need to change this, and I can go around and work on it while you take comments.

MR. SMUTNY-JONES: That would be fine.

_____: Excuse. Mr. Chairman, there is a second line in there that is an effective date for that $250 that you wanted to fill in.

MR. SMUTNY-JONES: I'm sorry. He's heading your way, so hold on. Okay. Um, Mr. Winter. I've got Winter, Woychik, Florio, Hapner, Parquet, Ferreira. Anybody else? Jerry. Okay. Anybody else on the microphone? Has Governor McGuire joined us yet? Guess not. Okay. Mr. Winter.

MR. WINTER: I will be very, very brief. In my previous comments I zeroed in on the short term and got so emotionally involved in it, I forgot the long term, and I just wanted to remind all of you that the long-term solution is generation transmission lines and demand side management, and maybe distributive generation if that comes to be. But the fact remains is that to get out of this thing that we're in right now, as I look in the Western United States, and you look at the total load and how fast the other areas have grown, we just do not have the market out there to draw on any longer. And I look at the State, and if we grow at 1200 to 1600 megawatts a year, and I think 2001 I'm going to get between 1000 and 2000 megawatts two years short, I'm already out of power before we even get there, so we've got to do something to encourage generation to be built here. At the same time I'm losing--if nobody outside the State builds, I'm losing anywhere from around 1800 to more than 2000 megawatts a year in the total resource. And I know there's some plans being proposed in Arizona and some in the Northwest, but I look at the sides of those, and they're not keeping up either. So if nobody's keeping up, we've got to figure some way to get more generation and transmission lines built so that we can move the market to a competitive network. Thank you.

MR. SMUTNY-JONES: Okay. Mr. Woychik.

MR. WOYCHIK: Thank you, Mr. Chairman. Uh, four quick points.

First, I think we are missing the broader issue. I think these problems were foreseeable. The problem, as I've said many times, is market structure. We need zones. Lack of generator market power by applying generator bid caps, not price caps. The ISO staff has said very eloquently that they think this is a reasonable approach, and we've discussed it in the congestion (?) reform, but we're still not there. FERC has said the market structure needs a complete rework, and, in fact, FERC gave us price cap authority in order to fix the market structure.

MR. SMUTNY-JONES: Eric, you'll probably never hear me say this again. Could you please speak up?

MR. WOYCHIK: That's funny, funny. Yes.

MR. WISEMAN: This is Wiseman. I just—I just came back in. I thought I was after Eric. It appeared my—trying to get in line, I had been muted out. I'm sure it wasn't a conspiracy. But would you please get me back in line.

MR. SMUTNY-JONES: I'll put you back in line.

MR. WISEMAN: Thank you.

MR. WOYCHIK: Okay, Jan—

MR. SMUTNY-JONES: Yes, go ahead, you're good.

MR. WOYCHIK: The Federal Power Act said that you can have market prices if there's competition. There's not competition. We have market power abuse exacerbation by lack of demand response. We should have cost of service rates as a result because we don't have competition. We need to fix the market structure, we need generator bid caps, and we need to implement the staff's proposal to do that.

Now, I have not fared well in the popularity contest as I've been a sharp critic of the ISO market structure, but I have to respond to Barbara's comment about dropping a bomb on the market structure. It seems misplaced. We have never had a competitive market structure in California.

Final point. I'm reluctant to support the $250 price caps, but I believe there may not be any other way to get greater focus and attention on the market structure reform. So, I strongly urge that we follow Gary's suggested approach of a full-blown dialogue of all market participants. We have to respond to the demand side, but we need a complete market structure reform as FERC has said. Otherwise, when we go to FERC for anything in the near future or in the long term, we will not have any authority to do what we need. Thank you.

MR. SMUTNY-JONES: Thank you, Eric. Florio?

MR. FLORIO: Uh, if Ken was ahead of me, I'm happy to let him go.

MR. WISEMAN: Oh, you're so kind, Michael. Thank you.

MR. SMUTNY-JONES: That's a courtesy. Go ahead.

MR. WISEMAN: Well, you know, Mike and I are both children of the 60s, and I'm sure we'd be right in there for ban the bomb. Uh, you know, I think the only—

MR. SMUTNY-JONES: Is that bomb or _______?

(Laughter.)

MR. SMUTNY-JONES: Sorry.

MR. WISEMAN: Thanks, Jan. I think the only "something wrong with the market" is the undue political influence of the command and control warriors of the past. The future we all need is open, fair, socially responsible markets to protect the consumers of San Diego, protect the environment—and I agree with Senator Bowen for all California—and most of all protect all consumers from the undue influence of those entrenched in the past. Now we can protect the consumers of San Diego without having to protect the command and control warriors of the past. Price controls at $250, you know, and helping the consumers of San Diego are separate issues. Let's keep them separate. Let's help San Diego, and let's be warriors of today's economy, not warriors of the past. I mean, the past is New York at $1300 and California at $250. Team, it's not the 60s. It's the new millennium. Let's log onto to reality here.

MR. SMUTNY-JONES: Thank you.

MR. WOYCHIK: Ken, this is Eric. Can I just ask you a quick question?

_____: That was awesome, dude.

(Laughter.)

MR. SMUTNY-JONES: Go ahead, Eric.

MR. WOYCHIK: Ken, I heard your nice dialogue, and I saw your e-mail, but I don't know what your principle is about. So I don't understand why you think we shouldn't use $250 on pure principle.

MR. WISEMAN: I'm just a market guy, Eric. What can I say?

MR. SMUTNY-JONES: Thank you.

MR. WOYCHIK: I don't know what your market's about, Ken.

MR. SMUTNY-JONES: Thank you. Mr. Florio?

MR. FLORIO: Yeah. Well, I—I have interesting distinction of being one of the few people on the Board that didn't support AB 1890, so it-it's kind of a strange position to be in to see what the inevitable result of what was wrought there coming to roost. It just came a lot more quickly than I thought it would.

I have to compliment Ken on his extremely eloquent Fourth of July message to me, but there was a phrase that he used that--that kind of floored me a minute ago, "socially responsible markets." I don't—maybe those exist somewhere, but it's certainly not this market.

_____: $750 price cap, Mike.

MR. FLORIO: Yeah, oh, I see. But, I mean, Mr. Fielder was criticized for his company bidding the demand in at the price cap, and this was called, well, just a strategy. Well, I think that reverse is also true. Why in the world are generators bidding in at above $750 or even above $250, when we know that there costs are much less than that. I mean, that's a market manipulation, that's an exercise of market power, that's why we can't rely on the market to set a fair price, because we have generators exercising market power. I agree with Eric's comments a hundred percent. The market is broken. There is no market price, so it falls to us to come up with some replacement for that. I don't agree that San Diego customers are the only customers affected. These costs are piling up in the transition revenue account for PG&E and Edison, and those costs eventually are going to be paid by those ratepayers. We just don't have the pain of seeing it all at once, but there's no exemption from these prices if you live in San Francisco or in Southern California. Uh, I don't know, I have been out of town, and I haven't had the pleasure of all the interactions that the rest of you have had, but I've heard a lot said about political pressure. Nobody from Edison or from the State legislature has pressured me, although a lot of people on the other side of the issue have certainly tried very hard to get me to change my position, but I just don't see it. I think I come back to the fundamental. Markets are fine if they work, but this market's not working, and we've got to do something else. So I'm supporting the $250.

MR. SMUTNY-JONES: Thank you. You done?

MR. FLORIO: Yep. Thank you.

MR. SMUTNY-JONES: Okay. Dede?

MS. HAPNER: Thank you. I—I won't repeat the points I made last week about caps and when and where and if they're relevant. I guess what I'd like to focus on is just a few things I heard today, which—which were striking.

First of all I'd like to really commend the ISO on the detail that it put into this motion. One of the things that bothered me last week—whether we were talking about the $250 cap motion or the $500, or leaving the cap as is—was we did not have a lot of specificity on the short-term approaches, whether they were studying issues or urging the CPUC to look at—at changing the abilities of the UDC's to bid differently or asking the CPUC to look at demand side programs differently, or whatever. And I feel much better about the detail, the terms and conditions as was mentioned earlier. I think that was latching (?). I thank every one of these with the additional push for more generation and more transmission that seems to be about the only thing that we all agree on, really makes whatever direction we go on an actual number much, much stronger.

Secondly, I—I just would like to call attention to the—the emphasis on demand side bidding. Again, I think that's an area that we all agree on—on that's something that has been in the works for a long time, and I appreciate Carolyn's comments. It's very easy to say let's do more now. The reality is to do even what we have now, all three _________ have demand side bidding programs. It took two years to get those in place. Uh, then there's—there's still not a hundred percent participation, as Carolyn mentioned. So, certainly we can move this process ahead faster, but that's going to take a lot of people's efforts, and I personally appreciate the commitment of the legislature to get more involved in that.

I—I guess the other striking comment was one that you made, Gary, on the choices that were made last year when San Diego concluded its rate freeze. And I remember that they specifically, um, won because San Diego was the—the guinea pig falling off the rate freeze first, and two, because that was a time when, um, uh, both FTE and PG&E were involved in the last stages of divesting their—their nonnuclear generation at their hydro plants. And last year one of the motivating issues for stake holders was how quickly we could end the rate freeze. And this year, a year later, the debate is not how quickly we can end the rate freeze, in fact that's a different issue all the way around, and—and I'm not judging that issue by any stretch. I'm just noting that, um, that whether or not if San Diego's customers that are feeling volatility right now, I think all customers are feeling it because whether or not you are seeing it in your bills in Edison's territory or PG&E's territory right now, the fear of feeling it very shortly is something that we're all focused on.

And I guess that the other piece of that that is striking to me is I remember that debate, even though we were removed by several hundred miles, on whether or not to cushion San Diego's customers or let them feel the force of volatility. In fact, we just had this debate at the CPC with respect to, uh, to recommendations that were being debated for post rate freeze in Edison's territory and PG&E's territory. And the comments then were let's protect San Diego in the first year. Let's set up a method of doing that, but then let's let customers feel the volatility. So, if we slice off just the portion of this issue that deals with San Diego, I don't think that we're dealing with the issue. I don't think that it's appropriate to just take care of those customers. I think we just delay the issue for all customers.

MR. SMUTNY-JONES: Thank you, Dede, and then Dave Parquet.

MR. PARQUET: Uh, yeah, thank you, Jan. I guess I got a comment and then maybe I could suggest a few friendly amendments _________________________ consider that in this long _________________________

I'm going to point out—Greg came over and pointed this out to me, but since I got up first, I'll steal some of his thunder perhaps, but let me quote from the homework assignment that the IS—that was given to us when we took our twenty-minute break.

This is from ISO management, Background and Issues for Consideration. Quote, lowering the price caps will increase out-of-market activity. Quote, greater dependence on out-of-market activity may result in payments higher than any savings that might be realized from lowering price caps. Quote, increased out-of-market activity by the ISO also likely will result in additional strain on the real time activity of maintaining reliability, and last, a reduction in price caps of these markets will not, therefore, provide substantial relief to retail customers.

I mean, that along with many of the various comments that were made by the speakers and also the comments that I made last time, all I can say is very dubious benefits going with the $250 price cap. Comments by ______ Commissioner Conlin I guess echoes my opinion that we're trading the risk of blackouts for very dubious savings. So I'd strongly suggest that we don't go there with the $250.

What I would suggest is that, um, that perhaps maybe now is the time for us to take a little bit more of a leadership role in changing some of the fundamental things going on in the State. I know that I'm kind of echoing and then drawing a circle around what a lot of people have said, but broadening out some of the issues that are discussed in this resolution to pay attention to, let's say the California issues as opposed to just the ISO issues. Uh, to the point, why can't we put together in this motion a strong suggestion, however it's done, and it's very hard to kind of do this on the fly, but however we do this to—as Governor Conlin, or former Commissioner Conlin indicated, put together some sort of a panel where we take a role, other constituents take a role in actually (defecting ?) some of the things that we see are structurally issues that we are dealing with, not just the issues on underscheduling or withholding which I talked about at great length last time. But that issue as well as those that are right now the responsibility of—technically the responsibility of some of the other agencies. I see nothing in this resolution to deal with the issue that Gary indicated, dealing with the issues of incentives and generators. I don't see enough in here on issues dealing with demand side management. I don't see any issues in here dealing with issues relating to—even if they only have a small effect—on supplying meters to customers. I don't see anything in here on—I don't see enough in here on allowing the kinds of market solutions or proposing the kind of market solutions to be appropriate agencies. There have been a couple of mentions made of a proposal that we made. We have made a proposal to San Diego. He is correct. It is not allowable for him to accept that now. I will not under any circumstances say that it's the best idea out there. I think it's an idea. In order to effect that idea after they've met (?) it, and look at it, and think about is cannot we take this leadership role in the point of view of—of soliciting input of other agencies' commissions to allow this to happen. I don't seen enough in here. I don't see anything in here on underscheduling of work. Nothing. I still see the residuals of withholding, but I don't see there's anything in there on scheduling of load. We must deal with that. I won't argue whether it's withholding or underscheduling, but we have to deal with that.

Um, last of all, can we deal with price signals (?) to consumers? The friendly amendment is--and I'm sorry, this is on the fly—is can we collapse or combine or broaden anything that's necessary? Some of the general statements here into an acknowledgement that the ISO can take a—a more of a leadership position. In looking at these more statewide issues, whether it's an immediate issue for San Diego or a latent issue that Dede and Mike Florio talked about for all the customers, can we not acknowledge that let's put something together that establishes a blue ribbon committee, whatever you want, to look at all of these other issues as one. Those that the ISO can handle, let's have them handle them. I believe, as Angelique indicated last week, I think a surgical strike in the under—underscheduling is right withholding. We can deal with that. But let's put a blue ribbon committee together in this motion that acknowledges that these other issues are impacting the State, and we all want to go after solutions with those other agencies as appropriate. Now I don't know how to do that, or—first of all, would you consider a friendly amendment to acknowledge adding to this resolution a place for—let's call it a blue ribbon committee. I don't know what else to call it.

_____: I think while I conceptually agree with you, David, the mechanism then becomes staff based __________ portions of the Board. If so, what portions need more process, what-- I agree with you that it's important we start centralizing our plan of attack and specifying the items that you listed and the possible remedies to them. I'm uncomfortable in moving it in as part of the motion, but I would support you if you bring it forward separately.

MR. PARQUET: ______________ initial motion later on.

MR. SMUTNY-JONES: Mr. Ferreira.

MR. FERREIRA: Yes, thank you, Mr. Chairman. Uh, I was one of the Board members that supported the request to revisit the price cap issue. And quite frankly I'm rather pleased by the general discussion today. I think the comments by the Senator, ____ the comments by the generators and the sellers as well as those on the market side that I'm finding more and more that I think we all (intending?) to agree on a general vision. I think where we tend to perhaps have a different perspective in terms of how we move forward, I think we all generally agree that we don't want blackouts or brownouts, that the cost to the industry and economy are far greater than the costs we're talking about here. Many folks have said we need to build more generation, we need to build more transmission. On the demand side issue and the conservation issue, our company, SMUD, has been a national leader in developing demand side programs. It took us ten years to put together a program to come up with about two hundred megawatts of demand side, recognizing what we have in place is an air conditioning cycling program. It's an acceptable program for our customers on two bases: One is assuming that the price level is appropriate and reasonable, and secondly if we cycle air conditioning customers, let's say 15 minutes out of an hour, over a short period of time, you're unlikely to inconvenience the customer to the extent where a—at least they're willing to continue with the program to the extent that you have sustained usage, and we're going to lose these customers that no longer have that program available to us. We need to fix the market design problems and the market power programs that we're all talking about.

And I think eventually, at least I'm in support (initially?) at some point in time, maybe these price caps that we're talking about today we don't have to have in place. But quite frankly, that's not where we are today. We don't have a competitive market today. We do need solutions. I think all of us need to step up and assume some leadership in coming up with solutions. I think we have to recognize we're in a regional market; this is not a California market. In the meantime, what do we do in the transition period while we're trying to set the right price signals. We can argue whether $750 is the right number

(Voices talking over the speaker.)

MR. SMUTNY-JONES: Bill, you've got about 150 people joining you in your conversation.

MR. FERREIRA: . . . the concept that—that at a $250 rate, folks aren't going to build generation in California. It's difficult for me to buy. I think that the—the uh, question of what is the right number, I agree with Gary and some of the earlier comments. These higher prices are not only affecting San Diego's customers or PG&E and Edison, you're just affecting the customers here in Sacramento from a standpoint that we have a balancing account that we have put in place to mitigate during the transition period when we expected to see higher prices. At these kinds of prices that we're looking at, obviously it's going to be difficult to mitigate that or to hedge those costs until we can find the time when we see more competition and more generation. How much it's going to cost is going to depend upon how many hot days we have this summer. And if we get to the point where there is truly a supply shortage in California and the West, no matter how much Terry offers, no much how much Arizona offers, somebody is going to be without power. And if you don't have a price cap, there isn't any limit to what sellers or generators can price, and we need some way to mitigate that. I'm still planning to support the motion to reduce the price cap. I think it's time we send the right price signal to the consumers that we're trying to do everything we can to mitigate this while we're in this transition period, and I think we all need to work toward a solution. Again, I think we all share the same vision. I think the question is how can we move in that direction. And given the comments that Carrie has made in respect to the other part of this package, I'm comfortable with supporting the motion.

MR. SMUTNY-JONES: Thank you. Let's see. Jerry.

MR. TOEYNES: Yeah, two points. One's on prices and the other one's on reliability.

The one thing I haven't heard anyone say, and I think we certainly need price caps, but lowering the price cap from $500 to $250 is going to say (save?) anyone, particularly the customers, one dollar. I have not heard anything on it because we might pull _______________ anyway, ___________ market. Any out of market probably isn't going to change.

And _______________ make an assumption going, say, ten percent on the ancillary services. That's ______________ to play ____. That's less than ten percent of the energy cost. That's less than one percent savings if you made that assumption. Then ____________ turn around ______________ San Diego, and they said, boy, now we're happy because we saved fifty-three cents on our bill. That isn't the problem. So we're taking a risk of lowering __________ to $250, a risk I see on the reliability side. And I think what John showed a little earlier. Right now we—as Terry mentioned, we've got a purchase of some days or 10,000 megawatts of power. And when that's going to be scheduled back even more in the PX, that's going to throw you I don't know what numbers ________, but certainly making 20,000 megawatts. At some point in time there's a limit, and 10,000 may be the limit as far as being able to secure __________ reliability on a real time nature. And I think back _________ Mr. Collins said, reliability is the issue. One outage in California costs a whole lot more than potentially saving the few dollars you might be saving in lowering this cap at this point in time. So if it were me, I don't think the risk is worth it. If we want to implode the market here in California, just have us list this one time because we had to purchase so much power on the real time market and couldn't do it. We have destroyed this market. That isn't worth the risk for me.

MR. SMUTNY-JONES: Thank you. Karen.

MS. JOHANSON: Well, not to be too redundant, because a lot of very good things have been said here today. I want to remind Mike that—that the (leak?) supported you when—with Prop 9, and I haven't been a believer from the beginning that everything is going to work perfectly, and yet I think we're at a crossroad here today, and I think a lot of the events leading up to this can turn into a very positive outcome. I'm—I'm very pleased to have Senator Bowen here to have the PUC's attention, and I think we need real leadership in the State to put this all together. I think the idea that Dave Parquet of a blue ribbon committee or something. There's some things that aren't working right. We know that. But we have to move forward. My major concern is that I cannot see that lowering the price cap to $250 is—is really solving any of these major problems that we've talked about here, and I share Jerry's concern that it might do more harm than good. But I think we should all try to work toward the positive solutions, and many solutions are coming forward, and—and we need to work together and to push as an ____________. I just sent him all that Dave Parquet said.

MR. SMUTNY-JONES: Mr. Blue.

_____: Jan, ___________ phone, which is me.

_____: ________________. Thanks, Jan. Uh, I guess first up, I want to respond to a couple of things I've heard, and then I've got a few comments I want to talk about. Um, I guess I'll echo what—echo the echoing of Mr. Parquet's idea on a blue ribbon panel to really sit down and look at these issues, (task?) some people to sit in a room however long it takes to work on some of these issues. So, I—I'd support that. Uh, commenting on what Mr. Toeynes said regarding reliability, yes, Dave, you did steal some of my thunder. I've been reading some of this, but I'll—you left off part of it. I'm going to continue reading the one sentence there. Actually, I'm going to reread a little, but I'm going to continue on, because the next sentence is even more important.

This is from the ISO Management Background and Issues for Consideration under number two, second bullet. Increased out-of-market activity by the ISO also likely will result in additional strain on the real time activity of maintaining reliability by increasing the volume of energy purchases required and the number of transactions required in real time, all of which are handled manually here at the ISO operations floor as well neighboring control areas. This strain will increase the likelihood of scheduling errors and other real time problems that affect reliability. That's a very important statement there.

And then I guess a quick response to Mr. Ferreira. Yeah, maybe some generators will build a $250 combined cycle base load unit, but what we need are peakers. And I can guarantee you nobody will build peakers at $250. Um, I guess what we heard earlier—I guess we heard from many speakers, and most importantly we heard from our CEO, Terry Winter, the price caps are not the issue here. And I think that's really important. We've heard it how many times, but I'll say it again, you know, the problems we're talking about are twofold. One, there's not enough generation, and there's not enough transmission in the State right now, and yes, we are in a short situation. Two, we've got an issue with the San Diego ratepayers. And I think clearly there are market solutions to that, and I'm sure that solutions will be forthcoming to help on that problem.

Uh, currently in the motion before us there is a section under there that basically says such reduced caps shall not apply to out-of-market calls placed on management to out-of-state generating resources. I guess I have a question for our General Counsel. How do you feel that we are going to hold up to challenges under the Federal Power Act for undue discrimination paying different generators different prices? I guess that's—you don't have to answer now, but that's a question out there. Unless you want to answer. Okay.

(Laughter.)

I mean that's a real issue. Terry has said from day one ________ that's a major problem. When you're going to pay other generators out of State different than what you pay in-State generators, that's a problem, and I may have solution to that a little bit later.

One other item. Back in the original formation of the $250 cap, there was a formula, albeit, I don't know if it's actually been distributed out, but it was basically based on a unit, a-a-a, a least efficient unit, plus some fuel costs, plus a hundred bucks, and that got you to $250. That was based on gas prices back in 1998. Today gas prices have more than doubled from '98, and I would say that based on the conversations I've had with others, including the ISO staff, but if you were to take that same formula and plug in today's gas prices, you would get something around $300. So at a minimum the number should be $300, in my opinion.

And last but not least, my favorite subject of which I wrote a memo to the ISO Board, to Terry, on June 19, dealing with the issue of if a generator has a transaction scheduled out of State, and a bilateral transaction, and due to _______ emergencies we get cut or curtailed, what we get paid. I believe there's a whole in the tariff there. I sent the letter to the ISO asking that they be added to the agenda for the meeting on the 21st. I sent it so it didn't make it in time. I understand, I sent it only two days before the meeting. I expected it to be talked about last week; it didn't get talked about. This is a real issue, especially if we lower the caps even lower, it's even a bigger issue. I sent an e-mail late Friday night, so people had it Monday morning, again asking that this be added to today's agenda. And once again, it hasn't been added to the agenda. So when this motion is-- When we're done with this motion, I will be offering a motion to that effect that basically, and I'll read it and talk about it later, but it talks about covering our replacement costs for generators who have their schedules cut and what that means. So—I guess going back-- I currently do not support the motion that is currently stated. I'll just stop there, and I may come back again.

MS. ROSCOE: Jan, can you put me in the queue? It's Stacy.

MR. WOYCHIK: Yeah, Jan, this is Eric. I'd like also to be—

MR. SMUTNY-JONES: Stacy, you're in the queue, followed by Eric.

MR. WOYCHIK: Thank you.

MR. SMUTNY-JONES: Go ahead, Stacy.

MS. ROSCOE: I didn't realize I was next.

MR. SMUTNY-JONES: Yes.

MS. ROSCOE: I guess in listening to some of the conversation, one of—I've got three points, my first point being it seems to me that, um, the approval process through the CPC and trying to correct the demand side management or DSM programs and leading them forward isn't necessarily being handled or managed in the most expeditious way. So that being one item as well as the building of generation and transmission. So in working with this blue ribbon group of some sort with the CPUC and taking those issues out of the hands—or totally out of the hands of the ISO, or at least not making them solely responsible in actually making those corrections would be one item that I would like to put on the table. And maybe with Dave Parquet's little blue ribbon group, they could try and work with the CPUC in order to see how those two items could be moved forward.

Um, the next issue is, um, on the reliability. Uh, from what John Fielder had stated as far as how they're bidding and the fact that they're bidding up to the ISO cap in the Cal PX day ahead market and leaving the balance to real time, increasing the activity in the real time for the ISO, this could be a real issue. And, um, if in fact you were to lower the caps to the $250 mark, take into consideration that they will only get so much energy up to the $250 mark, if in fact there's other markets outside of the California market that are over and above the $250 range.

And the third issue being totally separate is with regard to San Diego. I think that San Diego is currently experiencing the price caps today. And making reference to what PG&E and FCE may be experiencing in the future is a totally different aspect. and I think that—I think that we--we should be dealing with San Diego in a separate matter. Thanks.

MR. SMUTNY-JONES: Okay. Thank you. Eric?

MR. WOYCHIK: Thank you, Jan—

_____: I'll answer the phone.

MR. FLORIO: Yeah, this is Mike.

MR. SMUTNY-JONES: All right. Florio?

_____: Just a quick observation. Even if we did have sufficient generation and transmission, I still think we do not have a competitive market structure, and so we would have still many of the same problems. Furthermore, as Senator Bowen said, we probably cannot afford all this new generation and transmission that we say we want. So I hope we can work on a workably competitive—

(End of Side A, Tape 2)

. . . I think it's, however that it's only going to work if it's at a very high level. If we just set up something that, you know, some staff people get sent to, it's just going to become one more meeting, and I think it's—if it's going to work it has to be something at a very high level that if—if not including, you know, the senior decision-makers, it certainly has to be people that report to them in order for this to be effective. And I think the situation is urgent enough that that's called for. It's hard for all these different institutions to coordinate with each other, and I think it takes a special emphasis in order to make that happen, because, you know, while I'm voting for the cap, I also realize it's a blunt instrument and that alone it doesn't solve any of these problems. It only mitigates the effect, so I—I'd be happy to second Dave's suggestion as well.

MR. SMUTNY-JONES: _______ Thank you. Dave, you have the floor now.

MR. PARQUET: Um, I'll take your suggestion, Marcie, and deal with some of these other issues in a later motion, but what I'd like to do with this specific motion is deal with a couple things that I believe we can deal with at the ISO.

Um, first item is, uh, under Item Number One. It says temporarily reduce caps in the ISO real time ancillary services and congestion markets, et cetera. I would like to insert the word before congestion to intrazonal congestion market. Recall that we just had a rather extensive MTR auction that dealt with interzonal issues, and I believe the real issue is intrazonal congestion, and I'd like to see if you will accept that amendment.

The other amendment that I would ask—or that I

_____: We do them one at a time.

MR. PARQUET: Yeah. okay.

MR. WOYCHIK: Dave, this is Eric. I support that as well.

MR. PARQUET: I know.

_____: Terry (?), can I ask for a staff interpretation of what the implications of that would be?

_____: We only get one set of adjustment bids from generators, or from load or generator market participants, and then one set of adjustment bids are used to manage interzonal congestion in congestion management and any residual are passed over to real time to be used with supplemental and other energy bids to manage intrazonal congestion. I-- As a practical matter, if you have $750 capability on—or on adjustment bids and any of those bids are over $250, then they wouldn't be able to passed to or used in real time to manage intrazonal congestion as they would be about the $250 cap. Since we only have one set of adjustment bids we get from resources, I—I'm talking about supplemental energy ____________, it's just one adjustment bid. It's a practical matter. I—I'd have to think a bit about it. I don't know exactly how to do that, because immediately if you've got them higher, they would be not able to be used in real time.

MR. WOYCHIK: _____, this is Eric. That depends on how you structure the market and whether you have a distinction between those things. So, I won't carry it further, but market structure issue is why have intra/inter distinction.

_____: Eric, I understand that. The motion as proposed before had an implementation date immediately. We need, you know--a couple of days ago we actually already implemented the $500, and so changing the market structure to remove the distinction between inter and intra is a—is something that we're looking at in the congestion reform process, as all of you know. But with the possible immediate implementation of a resolution like this, we have to deal with the structure that's in place at—at this time.

MR. FLORIO: This is Mike. I guess—I'm troubled by the suggestion, because it would seem to me that if you have a $250 price cap but it didn't apply to interzonal, you could have—you know, you could really have some disconnect, so you would have a $250 price in one zone, and it could—you could add $750 of congestion to get to the next zone, and—uh, I-I think all these things have to work together. I'm not sure that you can separate them.

MR. SMUTNY-JONES: Marcie.

MS. EDWARDS: Jan. I think to move us past this, given the disparity in terms of comments, I'd like to—to, uh, suggest that rather than incorporate it, we—we use that issue involved in the overall congestion reform process, because I think there are too many branches associated with that to clearly extract one component and have it in this motion. And I think that this motion will be affected by those overall congestion reforms.

MR. SMUTNY-JONES: I will take that as she does not see it as a friendly amendment.

_____: How about a uh— How about take it out? Take out __________ congestion markets. Just leave it out.

MR. FLORIO: I don't see how you can do that for the same reason, _________ these things are linked.

MS. EDWARDS: ________ comment applies. I can't see how to clearly extract it at this point, and I think we can get the information in a broader context if we insert in a subsequent congestion reform ________.

MS. ROSCOE: One of the things that you might want to consider, Marcie, is that when people bought, purchased FTR's they purchased the FTR's with the $750 in place as far as the probability of congestion going to a specific level for a certain number of hours, and that auction has already gone forward. So in considering the congestion market, you're also taking away those revenues that people had already implemented in the bidding process for an entire year. So I think Dave has a good point in taking it out.

MS. EDWARDS: I agree with the point that you're making, Stacy. In fact, I know there are a number of municipals that hedged forward with that $750 in mind as well, but in terms—in real time in terms of modifying this proposal, I don't necessarily—I can't accept that as a friendly amendment. I agree with the points, and I think we can address at least some of it in the ______________ congestion protocol reform.

MR. PARQUET: Well, let me try for another one, then.

MS. EDWARDS: You're killing me, Dave.

MR. PARQUET: Oh, you'll live through it.

_____: Keep trying, Dave.

MR. PARQUET: Uh, this, uh, this motion does not deal with underscheduling of load, which I think Mr. Fielder's own charge indicates based on the cause and effect of that bidding strategy probably could be made worse. There was some information in the last motion that I guess has been drawn by this one dealing with the ISO's belief that things kind of begin to get tense at 38,000 megawatts or some other level. And if we could kind of take that fact that we're trying to deal with a reliability issue here, and that underscheduling at least causes problems. There's other words in here that deal with withholding, I believe. If I could add something like the following: If the ISO determines that an existing PTO has underscheduled load by more than 200 megawatts, for the next day when system load for that day is forecast to exceed 38,000 megawatts, the ISO shall apply a $750 megawatt charge to load that the PTO underscheduled, and revenues shall be used to offset the ancillary services charges of other scheduling coordinators.

_____: That's pretty Draconian to me. I-I mean right now I don't think we can consider that kind of change in this setting. I— It has ripple effects that are huge.

_____: I-I understand.

_____: Dave, let me just make a brief comment on that. You take a look at the Sacramento load. We can forecast load for the next day, and we have a parameter curve ____ depend upon the forecast. And if you lived in Sacramento very long, we know that we have a natural air conditioner. We don't—not certain whether it can come in the night before or not. We could forecast a load of 2500, the delta breeze comes in, I can be ___________ more than 200 megawatts, even though I scheduled in good faith based upon what I thought the load ___________. It wasn't confusion on the scheduling, it was just a fact of the weather. And I know that the-- I think _____________ described it to SMUD with that very good example the reason why this market is structured this way so that we don't punish people for turning on a press and ______ some scheduling coordinator didn't do it, or the cloud or the fog goes in or out of Sacramento, but we have to deal somehow with this underscheduling. We cannot just ignore it. And this motion ignores it. And I know it's your motion, Marcie, but—uh, how about a friendly amendment to my friendly amendment?

_____: Can I ask a clarifying question of staff before we do that, Dave? Would you mind?

_____: _______

_____: This was a question that came up last time, Carolyn (Callen?), and perhaps you can straighten it out for me, because it also came up in the sessions with the municipal sector outside of this is when there is an instance of underscheduling, whether it be by virtue of as SMUD points out the way it's supposed to work to give us that range, or by means of a purposeful strategy to cap what a particular PTO might pay in a time frame, what's the cost allocation of the—the dollar spent to cover that? Is that assigned to the particular scheduling coordinator, is it assigned to the PTO's spread. How is that currently handled?

_____: When the ISO buys the tool that was created in the ancillary service redesign ('99?) to address this—was the replacement reserve purchases—when I buy replacement reserves to address underscheduling, and the costs of those megawatts of replacement reserve are allocated, much in the way that Dave indicated _____________ to the underscheduled load.

_____: So you make—you make it a $750 call out of market __________, and that $750 then, even if we put this $250 cap, the guy who pays it is the one that created the problem.

_____: No, ______________ better. ____________________ do it right.

_____: Sorry.

(Two people talking at once.)

_____: That's okay. ___________ allocated specifically to that. There's one megawatt of underscheduled load. If I bought one megawatt of replacement reserve for that, this one megawatt of underscheduled load's going to pay two things: It's going to pay for a megawatt of replacement reserve capacity, whatever that costs, and it's going to pay the imbalance price for its energy. So it's going to pay the sum of a capacity payment that I paid for replacement reserve, and the energy payment that is whatever the energy payment that is whatever the energy price was in that—in that time frame.

_____: But it won't be capped. So, I'm just trying to determine—is there some automatic function already that there—that you could argue there's some penalty factor assigned here if you're purposely underscheduling.

_____: The out of market-- Yeah, the out of market call-- The out of market is not targeted specifically to, uh, underscheduled load megawatts. So that the capacity replacement reserve is targeted to the underscheduled megawatts. The out-of-market energy is not—is not targeted that way, so if I were to go out of market and pay $5,000 per megawatt in some extreme case, it would not then be targeted as—as the settlement system is currently structured, it would not be targeted at that specific underscheduled megawatts. It would simply add to the costs for imbalance energy.

_____: How would you suggest that that's more the—the problem is assigning the cost allocation to the specific entity that's--that's generating it rather than—because it appears that they're already-- It's hard for me to define at this juncture how much of it's gaming and how much of it's reality.

_____: Well, I think you—you're using, since you didn't have the benefit of seeing the gorgeous charts that I put together last time, uh-

_____: They were sent to me, though.

_____: Okay. So you saw them. But just paying attention to what John Fielder put up, with scheduling on that day, $750 caused forty percent to go in real time. On the other hand, if hundred percent is scheduled in the PX, whatever the price would have been, we wouldn't have the pressure on the real time. The consequence of-- I'll call that up—