

CALIFORNIA ISO BOARD OF GOVERNORS MEETING
28 JUNE 2000

MR. SMUTNY-JONES: . . . and as they related to price depth. We have a full—I think there's nineteen Board members here. I also have—Marcie Edwards is on the phone, John McGuire on the phone, Ken Wiseman on the phone, and Eric Woychik on the phone. Is that correct?

_____ : Correct.

MR. SMUTNY-JONES: Anybody missing on the phone? Can you please each identify yourself.

MS. EDWARDS: Marcie Edwards.

MR. SMUTNY-JONES: Marcie Edwards. I heard her.

MR. WISEMAN: Ken Wiseman.

MR. SMUTNY-JONES: Ken Wiseman. All right.

MR. MCGUIRE: John McGuire.

MR. SMUTNY-JONES: John McGuire. Eric?

_____ : Eric was just on a minute ago.

MR. SMUTNY-JONES: Huh?

_____ : Eric was just on a minute ago. We were talking to him before we were beamed into your room.

MR. SMUTNY-JONES: Okay. Well, hopefully he'll call back. We do have a quorum, so we are going to move on. As I indicated, this meeting was called—I called this meeting last week in response to some fine sensitive issues in a letter that was received from Senator Peace to the Board, and with our special meeting notice, we needed four days. I'm going to ask what—regardless of what we end up doing today, I think it is important that if possible we recess rather than to adjourn this meeting in the event that we need to take some quick action going forward. Are we capable of doing that, given the fact it's special?

_____ : (inaudible)

MR. SMUTNY-JONES: We would need a majority vote of the Board at the end. I have no idea, given the complexity of this issue, who's where or where we end up. I

anticipate a long afternoon, but my point is that I think it's important that we have management have all the tools possible, so my preference is that rather than adjourn this special meeting today, we will recess it, so if we do need to take something up subsequent to this, we can. I will probably call a recess at one point in time for people to be able to take a deep breath and talk amongst themselves.

What I think we're going to do is go forward with public comment, but only public comment on Item 2 (which is election results) and Item 4 of the agenda. If you have issues with respect to the price cap reduction issue, why don't you hold them. We'll have a nice, fun-filled afternoon talking about that. So if there's any member of the public who has anything to talk about either on the election results or the PG&E generation proposal? Hearing them, we're going to move forward.

Election results is Richie Redier (sp?).

MR. JACOBS: Hi. I'm Rich Jacobs, Senior Corporate Counsel and Assistant Secretary of the ISO. I'm going to try to move through this relatively quickly so you can move on to more pressing matters, but wanted to follow up on last week's election results and request some Board action to finalize those results.

First, the question is: What does the Board need to do? The first thing is in regard to the above-line classes, the IOU's, monies, public and private buyers and sellers, governmental market participant entities, and (92-liter?) generators. As you know, governors in those classes are seated unless the Board votes to essentially veto their seatings. There was no such vote last week, and all of those Governors therefore are seated. What management is asking is just to clarify. We're asking for a motion, which we'll present to you in a few moments, that will formally, officially waive your right to veto, essentially put down formally in writing as a Board action that you did not choose to take advantage of that right. And as I said, all of the above-line nominees were in fact—there were not sufficient votes to veto any of those people last week.

Step number two. You received hopefully the fax yesterday, and I think we have extra copies of it around to our Board members right now, listing the recommendations on the below-the-line classes. Step two would be to adopt a formal motion that officially adopts those results that we would then hand on to the _____ Board.

_____: (inaudible)

MR. JACOBS: In the package you'll see in addition to the motion there is a list at the back which lists first of all that all of the above-the-line nominees are to be seated and also listing for the below-the-line nominees whether the Board voted by majority to recommend, to not recommend, or there was an insufficient vote in either direction for the Board to reach a recommendation decision. Now the last piece, which is the only part of this that's not proforma, is management is requesting that you consider releasing the actual vote totals that were received in the recommendation votes, and here's the reason. The bylaws just say that you either recommend or not recommend nominees to the EOB. And as you know, in order for that decision to have been made, you would have had to

receive thirteen votes either to recommend the nominee or to not recommend the nominee. There are a total of eight nominees in the group that did not receive sufficient votes for either recommendation or not recommendation. When you look more closely at the results of those eight nominees, seven of them who did not receive a recommendation, there were twelve votes cast either to recommend or not to recommend them, only one vote less than was actually needed for recommendation. If we report the results simply as unable to reach a recommendation, that would result in the rather anomalous in our view result that a nominee who had received twelve votes to recommend would be reported to the EOB in the same fashion as a nominee who received twelve votes not recommend. And also, when you take a look at the voting results, the final results on these nominees frankly were not terribly close. There was a wide range. We're not talking about twelve to eleven votes or twelve to ten votes. In fact, most of the votes were either twelve to one or twelve to two in one direction or another. The closest vote was twelve to five. In each case where you were unable to reach a formal recommendation, there was a clear plurality of votes in one direction or another to recommend or not recommend the nominee. For that reason we are recommending that you adopt a motion to have us release the actual vote totaled to the EOB and also to the public _____ copies will go as a result here. If you choose to release those results, we'll pass them around today.

And that's really about it. What else happens? Once the motion is adopted, we will move forward on submitting the names to the EOB, and if you'll prove the vote tally motion, we will include those with our packs 30B as well as distribute them to you today. And Bob, if you could put the motion up. Any questions?

MR. PARQUET: Yeah, Rich, I have a question. This is Dave Parquet. Tell me why we—are we voting or forever holding our peace on the individuals that are being seated? I don't quite understand that.

MR. JACOBS: Yes, that's the idea. The original bylaw provision was not meant to always have it hanging over the heads of those nominees that the Board could veto their seating. By adopting the first paragraph of this motion, what you are doing is officially waiving your right, saying you voted, you did not vote to veto, and therefore these people are seated.

MR. PARQUET: I assume that this has nothing to do with—I can't remember, I'm sorry, but other sections that I assume are in the bylaws for—pardon me for saying it—but some good reason to take someone off the Board.

MR. JACOBS: This does not affect that. You always reserve the right by a two-thirds vote to remove a member of your own Board for cause or without cause.

MR. PARQUET: All right.

MR. JACOBS: This is just the initial seating that we're talking about. Okay. Anyone else? Do we have a motion?

MR. WOYCHIK: Rich, this is Eric Woychik. I was trying to talk to you, but I had accidentally been mute by your conference call people. I never received any of that information and was hoping that it would be sent electronically, so I don't know what information you're talking about, and I'm wondering if other people are in a similar circumstance.

MR. JACOBS: I can read down the list of nominees if that will be helpful, Eric.

MR. WOYCHIK: Well, no, I'm wondering if there is going to be discussion on this idea of the vote and those kinds of things. I think I understand—

_____ : Eric, you're going to need to speak up. We can barely hear you. I don't know if that's a function of the equipment on this end or your end.

MR. WOYCHIK: It's your end.

_____ : I somehow knew that was going to be your response.

MR. WOYCHIK: Right.

_____ : Try speaking a little louder. That's normally not a problem.
Right?

MR. WOYCHIK: Right.

_____ : Can you hear us, Eric?

MR. WOYCHIK: Yeah, I can hear you.

_____ : Okay, I'm sorry. Your point was what?

MR. WOYCHIK: What about the question of the votes, whether that's going to be made public, how that's going to work. Is that going to be discussed?

MR. JACOBS: That's _____ up for discussion right now, Eric. We have a motion right now that Jan has called for that would authorize the release of those final vote tallies.

MR. SMUTNY-JONES: Carolyn?

MS. KEHREIN: I would make the motion that is presented up on the overhead. Would you like me to read it so that those on the call can hear it, or what's your pleasure, Mr. Chairman?

MS. COLLINS: Second.

MR. SMUTNY-JONES: Yes.

MS. KEHREIN: Okay.

MR. SMUTNY-JONES: It's been moved. Do I have a second?

MS. COLLINS: Second.

MR. SMUTNY-JONES: The second is by Camden. Okay, go ahead and read it, Mr. Jacobs.

MR. JACOBS: Moved, in accordance with Article 3, Section 4.5c of the bylaws, the Board hereby waives its right to deny membership to any of the following nominees for Governor: Mr. Cotton, Mr. Fielder, Ms. Hapner, Mr. Carnahan, Ms. Edwards, Mr. Ingruse (sp?), Mr. Pope, Mr. Patel, Mr. Ponder, Mr. Smutny-Jones, Mr. Woods, and Mr. Blue. And be it further moved in accordance with Article 3, Section 4.5c of the bylaws, the Board hereby recommends to the California Electricity Oversight Board, the following nominees: Mr. Hanshen (sp?), Mr. Barkovich, Ms. Kehrein, Ms. Johanson, Ms. Bingham, Mr. Kirshner, Mr. McNally, Mr. Shanahan for both nonmarket participant and end user (?) at large, Mr. Florio and Mr. Roscoe. Does not recommend the following nominees: Mr. Burton for both nonmarket participant and end user at large, Mr. Michaels and Mr. Perez for nonmarket participant only, and has been unable to reach a recommendation on the following nominees: Mr. Woychik, Mr. Borenstein (sp?), Mr. Monet, Mr. Bemet (?), Mr. Konozian (?), Mr. Madison, Mr. Morris, and Mr. Perez for end user at large only. And be it further moved that the Board hereby authorizes and directs the ISO's Corporate Secretary to release to the California Electricity Oversight Board, the Board, and the public via the ISO website, the final vote tallies of the recommendation votes on nominees to the ISO Board subject to confirmation by the Electricity Oversight Board.

_____ : That's just totals or tallies of the votes, not who voted how?

MR. JACOBS: You need to speak up as well.

_____ : I think he said yes. It's difficult to hear. That's just the tallies, not a report on who voted how, but the aggregate?

MR. JACOBS: That's correct. It'll just be the aggregate vote numbers received to recommend or not recommend.

_____ : Thank you.

MR. JACOBS: This is not Zimbabwe. We won't tell them who you are.

_____ : They may be armed.

MR. JACOBS: Okay. It's been moved and seconded. Do I have any further discussion? All in favor please say aye.

_____: Aye.

MR. JACOBS: Any opposed? Any abstentions? Okay. Move it forward.
Thank you.

_____: We'll be handing around the results this afternoon.

MR. JACOBS: That's fine. Thank you very much.

MR. SMUTNY-JONES: The second item on the agenda, actually the fourth item on the agenda, is a response to PG&E generation proposal for Bay Area power. Given the events of the last several weeks, probably this is a pretty important item, so let's move to this as quickly as possible.

(Blank space on tape.)

_____: Hello? Eric?

MR. WOYCHIK: Yeah.

_____: Anybody else there besides Eric and Ken?

_____: I think we went away again.

_____: You guys are still here.

_____: Okay, we're back? Okay, while someone is setting this up, if someone could just key to what this issue is, so we could move this along.

_____: It's just so that phone people to know that we're trying to get the volume up on the phone.

_____: Oh, okay, thank you. We're working on the phone here for you guys.

_____: You're not missing anything.

_____: When you turn the volume, we just disappear, but that's all right. Okay. Let's go.

MR. BIBB: My name is Tracy Bibb. I'm Director of Engineering and Maintenance here at the California ISO. I want to take a few minutes to go over a proposal that we're seeking to add some generation on a temporary basis for the San Francisco Bay Area. Just a real quick overview: Planning is currently going over upgrade for the Bay Area that will take place not until the year 2002. Until then it has become obvious that we need to make some temporary upgrades to the San Francisco

Bay Area. One of those upgrades would be that we go out and procure additional generation to help alleviate outages. When outages of other generators occur, that creates liability issues of low voltage and overloading of other facilities. Part of that is going to be that we would like to go out and procure 100 megawatts of generation—excuse me—95 megawatts of generation that would be connected at Hunter's Point. We currently have a proposal for two periods that would be from August 1 through the end of the year at an estimated cost of \$11.3 million. Part of that contract or the proposal would be to extend the generation to September 30 of 2001, with an additional \$9 million. We would expect to do this under a condition _____ contract, and we would only run this unit when the ISO were to dispatch it, and the owner would get variable cost for generation itself.

What this is going to provide to us is increased Bay Area voltage support, which is what we had a problem with most recently. It also will relieve loading on the Tessler (?) - Ravenswood line, the _____ - Newark, the two Contra Costa-San Mateo lines, as well as unloading the Tracy 500/230 KV transformer. In addition, when I was out on the flight is during the last June 13, 14, and 15. We saw high loading of all those facilities, particularly with forced outages that were on generation at the time. And that's another reason that the last bullet shows there a contingency for the various generation outages. Since the ISO has been in existence, we have yet to see one hundred percent generation availability in the San Francisco Bay Area. It's clear to us that this 95 megawatts is going to give us some margin that we can procure on what we would call heavy load days or when contingencies, line outages, other unit outages happen. This will give us that extra contingency needed.

Some of the uncertainties that we have yet to cross, and we have touched bases with some of the agencies already, but we're looking at having to get air permits. This would allow us to run—so far we're getting some preliminary reports back from the Bay Area Air Quality Management District that a two-hour emergency generation exemption can be granted for that. We feel that 200 hours would also give us, using the generation for peaking only and for emergencies, 200 hours would get us through the critical loads for the year 2000. And if we should deem it necessary and go on into 2001, the 200 hours would give us that margin that we feel is necessary.

And then the other uncertainty is _____ in cost. There are some costs associated with connecting this generator, some mooring costs (this particular unit would be on a barge that we brought in), other costs for fuel, but the interconnecting costs are something that we're not sure of, but we're asking the Board to approve this, so that we can go out and find what those costs are, find out all the uncertainties, get those things negotiated, and then make a final decision as to the effectiveness and to the dollar amount that this would cost.

Before you is a graph that shows the cost comparison. As you can see, the fourth bar from the left shows what a kilowatt year cost would be based upon the \$11 million that we estimate it to be and maybe some other soft costs that we haven't put in there yet.

_____ : Tracy, you don't need to read every _____, but what is that cost on the bar?

MR. BIBB: The cost is \$142.39 kilowatt year for the barge. To give a, I guess to put a kind of a comparison, the Humboldt R&R runs \$41.46, the man relief program ran 428.57.

_____ : Thank you.

MR. BIBB: A very quick overview of what we are asking the Board to approve would be for us to continue to negotiate and to look into the feasibility of procuring this 95 megawatts to be hooked up at Hunter's Point and to work with PG&E and the generator owner to come to some kind of conclusions and proposals.

_____ : John?

MR. McGUIRE: How is this paid for? What part of the market is going to be billed?

_____ : Who is that, please?

MR. McGUIRE: John McGuire.

_____ : McGuire, I'm sorry. The question is how is it paid for?

MR. McGUIRE: Yeah, what part of the market would the cost be billed to?

MR. BIBB: My understanding is that we're looking right now for this to be spread the across the PG&E _____ owner.

MR. McGUIRE: Thank you.

_____ : John White and then Dick Ferreira.

MR. WHITE: What—is this a combustion turbine, a diesel generator, I'm not sure I understand the technology.

MR. BIBB: Yeah, basically this is a—I might not have . . .

MR. WHITE: Never mind, I have the _____, and I'll read it.

_____ : Is there a fact sheet there with it?

MR. WHITE: I'll read it first. I'd like to know what the emissions rate is, if someone can tell me that.

_____ : Anyone know what the emissions rate is?

MR. BIBB: Currently I believe the emissions rate is 75 ppm, or 55 ppm, and they're looking at putting on some additional upgrades to the unit that would bring it down to 25 ppm. That would not happen initially. The 55 ppm would be for this year. If the generator were there for next year, these additional upgrades would be made at my understanding is no cost to us or to the TO but by the generator owner, and that would bring it down to 25 ppm.

_____ : Jan, put me in the queue for questions, please.

_____ : Okay, (inaudible)

_____ : Tracy, I was confused by one of the statements. For clarification, my understanding is this is a proposal by PG&E National Energy Group, but you made a statement that we are getting the air permit. Is ISO involved in getting the permits for this project?

MR. BIBB: Right now we are looking at—we're not sure who's getting the permit. At this point we want to talk with PG&E, we want to talk with the generator owner, and find out what would be the quickest way to procure this and go that route. I don't have that specific answer for you, what would be the way for us to go.

_____ : Terry, Marcie, and Camden.

MR. WINTER: Tracy, when would it be available? In other words, is it going to be in time to help us during the summer, or am I buying something that won't be here till November?

MR. BIBB: Well, that's why we were looking for the Board to give us some direction today, because if we can act quickly on this and get with the air quality people, get with PG&E—we have a meeting set up tomorrow with PG&E to discuss many things, and this is one of them, as well as the gen owner. We could have this connected and ready to go as early as August 1 of this year.

MR. SMUTNY-JONES: Marcie Edwards and then Camden.

MS. EDWARDS: Terry got my question.

MR. SMUTNY-JONES: Okay, thank you. Camden?

MS. COLLINS: Is the generation entity an unregulated entity?

MR. BIBB: Yes.

MS. COLLINS: So, ultimately we're going to make a deal with an unregulated entity that passes through to its regulated entity, and somebody's going to have to have an opinion about whether the price was reasonable. My concern is that unless we

commercially provide for ourselves books and records access _____, otherwise known as the open kimono. So we have access to all the relevant costs and receipts and continue exactly what the profit margin is so that the unregulated entity is passing through. Someone's going to push up against a wall on a regulatory farm and say, "Tell us that price is reasonable." The only thing you've ever done, ISO, that you've never put out to bid, but stand up and give us your opinion that it's a reasonable price to flow through to PG&E's regulated rate(?) payers. So I think that we need to be savvy to the fact that if we're going to adopt these extraordinary measures, we have to give ourselves extraordinary access to information.

MR. SMUTNY-JONES: Jerry and then John White.

MR. TOEYNES: Yeah, my question is, is this generator on a barge something that's proven technology, or is there a liability associated with that? Oil could be spilled in the Bay Area, that sort of thing, and are we going to be stuck with the liability if that happens?

MR. BIBB: A couple of questions here. One is the technology. Yes, it is proven technology. It's not cutting edge, state-of-the-art. It's proven technology for the first part of your question. Second part—that is what we need to negotiate with the owner is the liability. All those issues that you just brought up, those are things that we want to look into and negotiate and make sure that all parties are covered.

MR. SMUTNY-JONES: These are fairly common in the Third World. That's no reflection on California. John and then Greg and then Stacy.

_____ : So let me get this straight. We're going to pay 100.7 dollars per megawatt hour?

_____ : Kilowatt.

_____ : Kilowatt year for oil-fired capacity off Hunter's Point?

MR. BIBB: That's correct.

_____ : And you're assuming that the air permit issues are going to get solved in the name of reliability and keeping the lights on the community impacts. I would remind ISO if anybody doesn't know the geography here that Hunter's Point is a very heavily impacted community, African American predominantly. The power plant that's there now was supposed to be shut down and replaced with generation at Patrero (?), which is going to be repowered. It was extensive prior efforts by a prior applicant to build a unit there with substantial community opposition. PG&E's reputation in San Francisco is mixed, I would say, although they are very strongly positioned to provide political leadership. I just am concerned about the dots being connected with the other parties—the community, the Mayor, the PC if this is a pass-through, and I would just ask, are the diesel generators in Southern California far behind? We have a lot of back-up generation that is poised, and I wouldn't be surprised if folks are getting ready to jump in

the market and dump a bunch of air pollution in the air and get a lot of prices, and I'm not at _____ exhausted to remedies on the demand side, and I'm troubled by this proposal.

MR. WOYCHIK: John, this is Eric. Thank you for your comments. I agree with all of them.

MR. SMUTNY-JONES: Okay, thank you, Eric. Greg?

MR. BLUE: Yeah, a quick question about this motion. Number one, the motion says we're going to continue to gather information to evaluate a proposal. It sounds like we don't have all the information.

The next bullet, you're asking for basically—we're asking for approval to execute a contract. Is that correct?

MR. BIBB: Based on information we don't have yet.

MR. SMUTNY-JONES: Stacy?

MS. ROSCOE: Can anyone else actually do this, or is only PG&E Gen that can do this? Has it been opened to solicitation amongst any other generators that can provide a barge, or is it only them that can do this?

MR. BIBB: This proposal—we have looked at doing this earlier this year, and the proposal kind of went away, and now it's resurfaced again in light of the heavy load that we're seeing, the heavy overload—not heavy overload, but the overload that we're seeing on some of the facilities, things we haven't seen in the past to the degree that we're seeing right now. The answer to the question is, no, we did not put out an RSP in this particular case. Time being of the essence, we were contacted by the generator owner as to that the barge is again available because of a prior commitment that had gone away, and it just so happened to coincide with the needs that we thought we could—these temporary upgrades that we're looking at doing, and again I trust temporary in the Bay Area. We're looking at not only doing the barge, but there are many other temporary upgrades that we're looking at doing in the wires area in some of the facilities, so this is just one element of the temporary upgrades to get us through what we see to at least this summer and next summer until the year 2002, when some of the permanent upgrades start to kick in.

MR. SMUTNY-JONES: Okay, looks like you're busy. Carolyn? And then Dave Parquet.

MS. EDWARDS: Put me in the queue, Jan--Marcie.

MR. SMUTNEY-JONES: I'm sorry?

MS. EDWARDS: Put me in the queue, please, for questions—Marcie.

MR. SMUTNEY-JONES: Okay, Marcie's in the queue, after Dave. Go ahead, Stacy.

MS. ROSCOE: This proposal, it's a difficult one in that on one side I look at the fact that we did rotating block outages two weeks ago for an amount that was right in this frame, I mean it was slightly more, but we were—did rotating outages, and we're taking these people nonvoluntarily after everybody who voluntarily did. I mean, I was on the phone with somebody in San Francisco, and I heard them say, "The lights are going out." I mean, there was a lot of voluntary interruption that happened, and we still had to take people off nonvoluntarily. So on one side this is definitely something urgent that we need to do, and we need to make some decisions about nonvoluntary interruption of people versus potential precedence and different impact on this proposal there's—Camden brought one up which is that we've got an unregulated affiliate doing a transaction with an affiliate. One of the things I did like is I saw that the costs are being passed on to the regulated entity. So there is going to be somebody that's going to say, was this a reasonable decision, but maybe we can—I don't know if it's gotta be us. But we do have—you know, this precedence on this which is, we've got an affiliate building and the service territory of its parent. So is that an issue? So there's just a lot of issues I don't see in here. I'm trying to understand, and I realize it's because this is a quick thing, because we were doing nonvoluntary interruptions, but-- One of the issues which I don't see here is like what type of return is the unregulated affiliate getting? I'm not saying I need to answer, but there's questions. I'm saying it's a difficult one, and I think that's what you're saying, but I also think that cutting people unnecessarily is a problem.

MR. SMUTNY-JONES: I would just caution the Board, we had that same sort of issue arise in Tri Valley. There are certain things we don't do here—rate making, environmental _____. These are _____ issues coming up that I think are being well articulated, but I think we need to be cautious about what our role here is. At any rate, Marcie and then Dave, and Dede. And then I want to move this thing along. David?

MR. PARQUET: A couple of questions. One is, somebody refresh my memory as to what the demand side management value was for this summer. \$29 million, 160 megawatts, is that what it was? Is that about right? Okay. \$26 million, 180 million, 180. About how much would the fuel cost if we ran for 200 hours?

MR. BIBB: We believe _____ cost you about \$11.3 million, and the fuel costs, I don't believe that \$11.3 million captures the fuel costs.

MR. PARQUET: How much would that be? Is that the total cost?

MR. BIBB: Right, and I don't have a number.

_____: Could someone with a calculator figure that out in the next 30 seconds? Use the 10,000 E rate and-- Is it oil fired?

MR. BIBB: Right, oil fired.

_____ : Can we figure that out as we move along here? I'm sorry.

_____ : Almost regardless of what that is, it sounds like it's within the range, if not a little more economical than the demand side, number one. So there might be a test called a dirty hedge, but it's getting there. This sound like, in light of what happened in PG&E's territory a couple of weeks ago, this would be the right thing to do. I would only ask that if it turns out that all of these contingencies somehow do not allow for this thing to deliver power this summer that it isn't automatically rolled into the next summer, because there's lots of time to provide for _____ for the summer of 2001.

MR. BIBB: And we are going out with an RFP for next summer. We are currently in the process of getting the RFP out for next summer.

_____ : I have to make it clear that if this works for this summer, negotiate the extension would be my comment, but if it doesn't work for this summer, throw it back in the pile.

_____ : To figure on fuel oil, if we ran the full 200 hours at full load, it would be approximately \$2 million.

_____ : Okay, so it sounds like this is half or less on a megawatt basis.

MR. SMUTNY-JONES: Okay, thank you, David. Marcie?

MS. EDWARDS: Dave had mine. It was the length of the commitment. Thank you.

MR. SMUTNY-JONES: Okay, Dede, Barbara, and then John.

MS. HAPNER: Thank you. Obviously, since this is an affiliate company of PG&E, the utility, I'll be recusing myself from any discussion, but I think it's important to clarify what I think I heard you say which is that this would be treated essentially like an R-Mar (?) contract, pass through to the participating transmission owner's transmission customers which would mean that Thirk (?) would be the regulating entity weighing in on this.

MR. SMUTNY-JONES: Okay, Barbara, then John.

MS. BARKOVICH: I have two issues. One is that cost calculation doesn't entirely jibe with my numbers, but I'll go back and look at them again. With the cost based on an assumed number of hours, and in fact we do not know at this point how many hours this might be permitted to run, which is—and whether there would be any constraints on those hours in terms of which particular hours it would be able to run and whether it would be in the hours we really needed it to, which I would think a significant

due diligence question. The other is, what happens if it doesn't get on by August 1? If it's not available till October 1, it seems as though the price might, in fact, be not reasonable. So it seems to me that in anything that would be negotiated, there would be a number of contingencies that would have to be taken into account, and I would like to be sure that at least those two were taken into account and that there wouldn't be any commitment to do things without making sure that all such contingencies were addressed satisfactorily.

MR. SMUTNY-JONES: Thank you. John?

_____ : Yes. First I'd like to inquire of PG&E, and if I can't get the answer now, I'd like to get it later. Is PG&E running a refrigerate recycling program in its service territory and in San Francisco in particular. A small gesture, Edison's doing one that works pretty good. I understood PG&E had another idea they wanted to do, but I'm not satisfied. It's a small point, but I'd like to have an answer at some point.

Secondly, I'm not comfortable delegating this decision. I'm comfortable exploring it further and bringing more information back, but I can't vote for it with the information we have before us today.

MR. WYOCHIK: Jan, this is Eric. I can't put my card up, but I want to ask if you'd put me in the queue to make a couple of points.

MR. SMUTNY-JONES: You'll be next. Carolyn?

MS. KEHREIN: I wanted to move the motion as presented on the screen and in our handouts.

MS. EDWARDS: Second.

MR. SMUTNY-JONES: It was moved and seconded by Marcie Edwards?

MS. EDWARDS: Correct.

MR. SMUTNY-JONES: Thank you. _____ moved, Marcie second. Okay. Eric?

MR. WYOCHIK: Thank you. My point is, one, if it's a small amount of money as Dave Parquet is suggesting, then that's a fairly cheap insurance policy. If it would be just a few million dollars, that's one thing, but I didn't understand how the fuel costs would be integrated and what the actual costs were, so I think we don't have much data, and we don't have enough information. So on the one hand, I'm willing to support it because it sounds like a cheap insurance policy for liability, and, you know, adds capacity we need as Karen said, in the Bay Area. On the other hand, if it's expensive, and I don't understand at all now what the costs are, listening to Barbara's question, which is the same. So is there any way we can get some idea of the actual costs—the total costs—and how many hours it would run. Somebody there must have those ideas, ISO staff.

MR. SMUTNY-JONES: Do we have a quick answer to this? We don't have all
aft—

MR. BIBB: We believe that the cost would be, for this year, would be \$11.3
million and then approximately \$2 million for the fuel costs, bringing the total to \$13
million.

_____ : Okay. What I was saying is that this will run at the ISO's
direction, and we don't see us running this unless we get into continuance problems that
require heavy resource need problems, those type of things, this won't be run for
economic purposes, strictly reliability.

MR. SMUTNY-JONES: Okay, thank you. Dick?

MR. FERREIRA: I'm okay supporting the proposal. I endorse Barbara's
concern that obviously if this doesn't come on line until October, I don't think it's
reasonable to prorate it for the number of months, because the real value is obviously
during the summertime, so—

MR. SMUTNY-JONES: If we have an October like we had last October in
which case—

MR. FERREIRA: The other thing is, I would be concerned about the
precedential nature of the ISO acquiring permits on behalf of a developer, so if you'd
look into negotiations.

MR. SMUTNY-JONES: _____ McNally.

MR. McNALLY: I move the question.

Mr. SMUTNY-JONES: Okay, very good. All in favor? We really need to do a
roll call here. Actually, I wanted to say something quickly. I'm going to support this
motion. I recognize Mr. White's concerns, and I think they need to be taken up with the
air district, and I'm sure people will have an opportunity to express themselves there, but
we're about to embark in a few minutes on a huge debate about the cost of energy and
whatever else. We did have this situation occur two weeks ago in the Bay Area with
rolling blackouts, and I don't think we can afford not to take action with respect to
acquiring these resources.

_____ : Point of order.

MR. SMUTNY-JONES: Yes.

_____ : There have been a number of contingency question issues that
have been raised and thoughts that have been shared by the Board in terms of its
concerns. I would like to know that in the second bullet, which—

MR. SMUTNY-JONES: Would you bring that back up, please.

_____ : . . . which mentions as management deems appropriate that management will take them all very seriously to heart before making this decision. Either that or have a Board conference call because it seems to me there's still a great deal of uncertainty.

MR. SMUTNY-JONES: Point taken. Terry? He's not _____, by the way.

MR. WINTER: This is Terry Winter. Very clearly, Barbara, I'd be happy to bring them back to the Board. The only thing I'd request is that you all have to make yourself somewhat available to review it. We will get the documents out to you for review, but if we're going to do it by August 15, clearly we have to have it done rather rapidly.

MR. SMUTNY-JONES: Let's run down the list here.

_____ : Do you want me to give it to _____?

MR. SMUTNY-JONES: Yes, would you please.

_____ : Barbara Barkovich.

MS. BARKOVICH: I subject to Terry doing what he said.

_____ : Greg Blue.

MR. BLUE: Yes.

_____ : Bill Carnahan.

MR. CARNAHAN: Yes.

_____ : Gary Cotton.

MR. COTTON: Yes.

_____ : Marcie Edwards.

MS. EDWARDS: Yes.

_____ : Dick Ferreira. John Fielder.

MR. FIELDER: Yes.

_____ : Dede Hapner.

MS. HAPNER: _____

_____ : Karen Johanson. Steve Kashiwada. Carolyn Kehrein.

MS. KEHREIN: Yes.

_____ : John McGuire.

MR. McGUIRE: No.

_____ : Jack McNally.

MR. McNALLY: Yes.

_____ : Dave Parquet.

MR. PARQUET: Yes.

_____ : Stacy Roscoe.

MS. ROSCOE: Yes.

_____ : Jan Smutny-Jones.

MR. SMUTNY-JONES: Yes.

_____ : Patricia Swanson. Terry Toeynes. John White. Ken Wiseman.

MR. WISEMAN: Yes.

_____ : Eric Woychik.

MR. WOYCHIK: Yes.

_____ : Terry Winter.

MR. WINTER: Yes.

_____ : And Camden Collins.

_____ : The record will show recusal.

MR. SMUTNY-JONES: Okay, so the motion carries, 18 to 4, with one recusal.
Do you have a point? I'm sorry.

Mr. Woychik: Just a quick point to Terry and others at the OSO. There's a way to get these things out electronically and not be a fax. Not all of us can get our fax machine on an everyday basis. I see a real change in the way things have happened lately. We need electronic communication, please. Thank you.

MR. SMUTNY-JONES: All right. Thank you very much, Eric. Okay. Now for the main event. I want to thank you all for making yourself available today on short notice. Board members and members of the public, this obviously is a significant one with response to the response to price cap reductions. Before we go any further, though, on this, I want to basically thank the operators. There's been a lot of press accounts about ISO paying a lot of money for _____ services, and we're going to have a nice discussion about that, but I want the operators in our control room to recognize the fact that they have kept the lights on for California in what are clearly some unprecedented stresses, not just on the California system, but throughout the entire WSCC. So, Mr. Deffers (sp?), be sure to convey the thanks of this Board, and I think 34 million Californians, most of whom, have lights and most of whom have air conditioning based on the hard work of your folks, I'd appreciate that.

MR. DEFFERS: I'll make sure that I pass that on with all the operators. This is Jim Deffers again. I want to include that it's not only the operators here at the ISO, but it's the operators throughout the State, even in the WSCC, that have contributed to this. Things have been tight over the last few days throughout the western United States, and we need to recognize all of them, so I'll pass that on to them. Thank you.

MR. SMUTNY-JONES: All right. Now we are going to take public comment, and as a matter of protocol, I saw Senator Peace in the room earlier. I don't know if he's still there or not yet. There he is. Senator Peace, welcome.

SENATOR PEACE: Senators, they make sure that somebody else works all the mechanical stuff. We can't push our own buttons.

MR. SMUTNY-JONES: I'm not going to hear that.

(Two people talking at once—unintelligible.)

SENATOR PEACE: Let me first associate myself with your comment, Jan, in terms of good work from the operational perspective when it comes to keeping the lights on and assure those that are working on a day-to-day basis that a relatively broad policy message that you're going to receive today from all of us who have the opportunity or "burden" to attempt to provide a unified public policy position from the State of California perspective, that that message and the concerns that we have not be confused with an overall sense of not only support for but pride in the work product that . . . (end of tape 1 side 1) . . . lack much experience as we know what this week's experience is, and we know what today's experience is, and it's no secret to all of you that I am here today to urge you to reinstate your original price gap of \$250.

This summer and for the next several months California will have a chronic capacity shortage during times when weather is hot. In situations when capacity is short, the ISO and PX energy markets are not workably competitive. As the ISO's own Market Surveillance Committee noted, California's energy and ancillary markets have not been workably competitive during the last few summers. The ISO Market Surveillance Committee also noted in its March 9, 2000, memorandum to this Board that due to a number of factors, California's energy and ancillary service markets were unlikely to be workably competitive this summer. Our experience to date has confirmed that prediction.

The problem is high prices. Prices are too high because the output of large generators is essential for system reliability. Since there is no elasticity of demand, larger generators get to name their price. June prices have been at the price cap at system loads that are 3,000 megawatts below the average year peak demand. However, it is only June, and it is not yet hot in Southern California. If prices were high only on a few occasions, my notes say no one would complain, but someone would complain. Most of us wouldn't complain. But high prices are now threatening to become routine, and unless something is done now, the prospect for the development and erosion of public confidence in this market will be irretrievably undermined. Since it is clear that California's energy and ancillary services markets are not yet workably competitive, there is a need for price gaps to prevent customers from being victimized by the exercise of market power. Let me add that that is true whether that consequence is the result of a particular generator or group of generators and how they bid into the system or as the result of a utility and its failure to schedule loads. But whatever action is economically induced as a consequence of the pricing structure that ultimately results in that extra increment of profit shouldn't be in the system and is a redundancy in the system as a consequence of market deficiency and needs to be eliminated as a consequence of reworking the market.

Once \$250 price gaps have been reinstated, the ISO should immediately examine factors identified by its Market Surveillance Committee which need to be remedied, including market design flaws and a lack of price-responsive final demand. And limitations on IOU _____ contracting ability. And also reexamining what the appropriate level for price gaps should be. The ISO has set its price cap at \$750 but is not providing any analytical support for that particular cap or for \$500 or for that matter for \$250. Yet \$250 was adequate before and is at least \$100 per megawatt hour higher than the marginal cost of the most efficient generating unit using the most expensive fuel. In order to raise the cap during this interim, the ISO needs to make a credible case that the \$250 is not an adequate price cap. In addition, before raising price caps from \$250 it needs to insure that the factors contributing to the market are currently not being workably competitive are in fact remedied. These tests and their accomplishments must be independent of their desire by stake holders or other entities to precipitously do away with price caps in California. While it's a laudable goal, and certainly one I support, California's market is not yet that mature. Acting as though it is doesn't make it so. I continue to have faith in the general structure that was established in AB 1890.

California can benefit from the development of a competitive generation market. Some of the evidence of that is the fact that we actually have projects now queued up in the system for the development of new power generation which didn't exist under the older

regulatory paradigm. However, many factors must be in place for such a market to be successful, including the construction of badly needed generation and transmission. The parties at work to make AB 1890 a reality need to put back that citizen hat on, particularly those of you that have the privilege to serve on this body, and recommit yourselves to insuring the success of the work product. That requires not only a commitment to the principles underlying the legislation but also an understanding that we act in the real world and in a very serious transition in the largest market on earth and one which ultimately is going to be influenced by the level of public confidence in the system.

I also carry with me a letter from Bill Leonard calling for the reinstatement of the price gap. I will submit it for the record. You all know Mr. Leonard in terms of his participation in the AB 1890 conference. I also bring similar greetings from Senator (Brilty?). I don't think it should be lost on you that one letter at least that I have seen from a legislator suggesting you not put the cap back came to me from a recently elected term-limited legislator who was not here when AB 1890 was adopted. It's a complex issue, and I will tell you that legislator was going through some consternation this morning and _____ yelling at his staff. _____ put a letter in front of him and signed it—having it signed. It's a tough spot for all of us, the policy _____ inherent complexity associated with it. You will hear from the President of the Public Utilities Commission as well as the Chairman of the Oversight Board. I also have a letter, and you have in your record a letter from Senator Deborah Bowen and Assemblyman Rod Wright, the legislative representative on the Oversight Board, and you should also have in your record a letter from the California Energy Commission signed by Mr. Moore and Mr. Pinnell and Mr. Rosenfield.

Now I bring all that to your attention, because if you'll recall at the same time that we passed AB 1890, we also passed the Fundamental Reform in the manner in which California's policy makers engage in the process. We consolidated power in each of the entities, and we did so very consciously. We made the conscious decision that it was extremely important that we not have different agencies of government or quasi agencies of government or quasi private agencies _____ in the area on a different page. That it was better to be executing Plan B together, even if different people thought there was a Plan A that was better here, because we typically have six or seven Plan A's and the views of different folks. And California ultimately became—California's rate payers and citizens became a victim of the bickering that had developed between the Energy Commission and the Public Utilities Commission and, you know, even found ourselves in the embarrassing circumstance of having different agencies of government arguing different positions _____.

What we did in the reform of our institutions, and it included the development of the Oversight Board and its relationship to this Board, is we made sure that there was the incentive for all the parties to work together. You have participated in an agreement, for example, a memorandum of understanding, to assure that the Public Utilities Commission doesn't find itself arguing against the ISO's position in front of FERC.

Back to the extraordinarily important document, and it I hope sets the tone for what our expectation as policy makers were in appraising (?) not only 1880 and 1890 but also the

reforms that gave to the Governor the power to appoint the President of the Public Utilities Commission as well as the power to appointment the Chairman of the Oversight Board. It is significant that today you will have read into the record not only a letter from each of those individuals, but a single letter signed by both of those individuals, as well as the letter from the Energy Commission, all asking you to take this action. It is a united, unambiguous policy position of this State that the \$250 cap be reinstated. Now, having said that you ultimately have to take the action which you each independently believe to be in the best interest of the system and of the people that you ultimately represent. And I trust and have no doubt that you will do so. I only urge that when you make that decision, and you evaluate your responsibility, that keep the citizen hat squarely on your head. We all have to face the policy makers and whatever iteration the inherent conflict that comes about as a consequence of who we are in our private lives and who we are in our public lives and what brings us to this particular venue. And this responsibility is an important one.

We all know what the tension is and the concerns are and the contentions are with respect to the potential consequence that _____ cap. The assertion that energy won't make it's way to California. I think you can be certain that those of us who come before you today and ask you to reinstate this \$250 cap do not do so lightly. And it certainly wouldn't—even if you doubt our sincerity of purpose in our self-interest, it would be foolish for us to come before you if we had not looked seriously at the potentiality of the \$250 cap ultimately working against the ability to get power into the State. We all recognize the most expensive power is the power that doesn't show up. The most egregious failure in the system is the blackout that occurs. Nobody wants to go there. So let me say to you without any uncertainty whatsoever, that I am very aware of the concerns that many have expressed with respect to the effect of the \$250 cap on the availability of energy, and I do not believe that it will have one iota of effect in terms of whether power is available in this State. California is a price setter, not a price follower, and in many ways the adoption of the \$750 cap may have led to higher prices throughout the West, because the prices charged in the balance, the West tend to follow where the price point, and that was true before restructuring and continued to be true thereafter. I also recognize we may very well ultimately find ourselves in a position this summer, hopefully not, more likely next summer, hopefully not, in which we can't meet that fundamental responsibility of reliability. But it's not going to be because of the \$250 cap.

So understand that I recognize probably the smartest thing from a politician's perspective is never to come here and tell you to do this because if there is a problem with the lights going out, we all know somebody's going to jump around and say, "Oh, it's because of the \$250 cap was put into effect." Now that won't be true any more it is the case that restructuring caused the shortage of electricity in the first place. We know that we have this massive spike in demand fueled _____ by a vibrant economy, by the use of computers, the need to keep them refrigerated, a relatively soft lifestyle, quite frankly, in which Californians have not been tested with respect to their price sensitivity encouraging conservation measures. And we all know that the ultimate answers lie in not a single action but in a variety of actions.

The measure you just considered a moment ago I think pretty much tells the whole story. You're talking about bringing a barge into San Francisco Bay to burn oil, and you all voted almost unanimously to do so. That's an environmental disaster, and it is why Senator Wilsey (?) and I two weeks ago sent a letter to the Governor recommending that the Governor ask the legislature to give the Governor broad discretionary emergency powers to expedite the construction of power plants and transmission facilities throughout California. Now it is far easier for us to enter into this venture, because there will be those, and quite rightly, who will be concerned about environmental issues associated with such emergency powers. These are the same kind of powers which the Governor exercised after the earthquake to get our freeways constructed that we are proposing to engage in. We believe the emergency is no less significant, and we believe that the environmental damage if we don't do this will be immense. But there will be differences of opinion, and there should be differences of opinion, and that's going to be a difficult debate. If you expect (and you should) for us to collectively, wearing our collective citizen hats in each of the roles in the chairs we have the privilege to occupy, to get on the same page in the spirit of that memorandum of understanding that you and the Public Utilities Commission and the others in the State have been able to stay on and that many of you have continued to work under since the early days of the 1890 process, and even those of you that worked before the work product got to the legislative process, if you expect to have any capacity for us to stay together and work this through and have our people have an opportunity to learn the real issues underlying the shortage and the real issues underlying the potential conflicts with respect to the environment and our need to fuel a growing economy, then we have to be able to stay together and have a civil dialogue. Keeping the cap in place while you discuss the permanent fixes to your work product, to your market difficulty is the only logical place to go.

Similarly, while that is occurring, I would expect those, to put it bluntly, who ultimately hope to participate in this market over many years and expect it to be a good business enterprise to be involved in, should have some interest in whether this market exists three years from now or five years from now or seven years from now or ten years from now. This is no minor league experiment we're engaged in here. It's the most significant and dramatic and fastest change in the restructuring of a marketplace anywhere on earth. It is unrealistic, and I know many of you want to believe in markets, and I believe in markets as well, but I also recognize that the days when universities kept their economic departments and their political departments, and it was political economics, not economics over here and political science over here, which probably had more realistic reflection of how the world works. If we do not maintain public confidence through this transition, there will be people both of goodwill with positive intent but very little knowledge, and also people of ill will and potential political gain, even down to the basic political consultant who is looking for another initiative to make some money off of, that will exploit the uncertainty, the fear, the trepidation, of particularly the most vulnerable of all of our constituents.

And so to the generators and those that ultimately want to sell into this market, I urge you to treat this market as the infant it truly is. Deal with it in the context of realism, not in the context of a freshman class in economics at the University of California. We are

not dealing here with theory. We're dealing with real people's lives and real consequence, and this product can work.

I've just been handed a letter, incidentally, from Mr. Boss (?) that says, "My letter to you on June 27, 2000, was written prior to my being briefed on all the facts surrounding the issue of price gap. Therefore, I am now taking a neutral position on this issue and urge the ISO Board of Governors to take the action they feel best serves the consumers of the State of California. Couldn't put it better. Thank you.

MR. SMUTNY-JONES: Thank you, Senator Peace. Any other members of the public? _____
By the way, you're welcome to join us up here at the table since you're sitting there.

_____ : All right. Following Senator Peace, it's sort of anticlimactic, but I'm going to read into the record a letter from President Loretta Lynch and Tim Michelcon (?) of the California Public Utilities Commission and the Electricity Oversight Board respectively. You've each received this by fax as of about noon this afternoon.

"Dear Mr. Smutny-Jones: We're writing to urge the independent system operator to lower price caps from \$750 a megawatt to the \$250 per megawatt in the electricity market subject to your control for the summer 2000 period. In so doing we are joining Senators Peace and Bowen and Assemblyman Rod Wright, the legislative leaders in the utility regulation arena who have previously written to you. While reducing price caps may need to be reevaluated once you reach a fully functioning market, California has not yet reached that point in its electricity markets. We are concerned that the level of electricity prices in the preceding several weeks poses a serious threat to the California economy and a serious threat to the wellbeing of California residents. During the week of June 12 alone, skyrocketing market prices for electricity cost California consumers as much as \$1 billion, even though power capacity was reportedly adequate. In five days Californians spent one-eighth of the total amount that they spent on electricity for the entire year. The electricity supply and demand behavior and the experience of electric prices in the forward and real time markets demonstrate that unacceptable levels of market power persist under load conditions. This is an issue of extreme importance to the people of the State of California. It should be discussed and decided in public, not in executive session or other nonpublic process. We urge you to consider the impact on California customers and the California economy and reduce price caps to their original levels. Signed Loretta Lynch, President, California Utilities Commission; Michael Michelcon, Chairman, California Electricity Oversight Board."

I simply encourage you to consider carefully this letter, which represents the Governor's appointees to the top positions in the Executive Branch _____ energy regulation.

MS. SCHRIEF: Good afternoon. My name is Linda Schrief, and I am here today for the Co-generation Association of California. The Co-generation Association of California would like to state that it supports Senator Peace's recommendation to lower price caps going forward for the remainder of this summer's peak period only. Thank you. Bye-bye.

MR. SMUTNY-JONES: Thank you very much. Next. By the way, while we were here, we were still receiving letters. Lots of greetings. And I'm not going to read all of these into the record. I'm just going to indicate Mr. Brusetta (?) has sent a letter asking us, let's see, that we use caution in taking any action. And Senator Peace referred to the fact that we have received a letter from Mr. Leonard previously, asking us to reduce it to \$250. And similar letters came in from Assembly Member Wright and Senator Bowen. Do I have all the letters that have come in from public officials?

_____ : No, Mr. Smutny-Jones, I have one more.

MR. SMUTNY-JONES: Okay.

MR. CHAMBERLAIN: My name is Bill Chamberlain. I'm with the California Energy Commission. I've been asked to read this letter signed by Michael Moore, Robert Cornell, and Arthur Rosenfeld. The other two commissioners are out of town traveling and were not able to participate in any discussion of this matter.

MR. SMUTNY-JONES: I wish I could be, too. Let me know where they are.

MR. CHAMBERLAIN: "We understand the Board will be convening a special session today to consider a request to adjust existing real time energy price cap back to its previous level of \$250 per megawatt hour. Current price levels have exceeded common expectations about market response, even in the light of the temperature extremes of recent weeks. The temperature fluctuations coupled with consumer-related demand are predictable and can be expected to reappear at unknown intervals during the summer months. In a fully functioning demand-responsive market, price caps would typically only exist for damage control and mitigate prices generated by truly extraordinary combinations of events such as multiple plants idle combined with peak demands or major transmission line failures. In such a regime with open competition and transparent pricing, average prices will approach long-run average costs. The consumer is then at risk only for the real cost of energy and can make individual choices regarding time of day use or choice of load. These conditions do not exist today as recent evidence and prices reaching the \$750 per megawatt hour level illustrate. While we do not have current evidence that would suggest the most market-friendly price cap to set, the \$750 per megawatt hour level appears to be too high. The only other figure with any market history is the \$250 per megawatt hour. We suggest that you return to that figure temporarily until other complementary issues such as congestion management reform, demand responsiveness, reliability must run and ancillary service markets are resolved. A corollary benefit will be a limit to the de facto exercises of market power by generators when tight market conditions prevail. We recognize that this will be a temporary measure to avoid sending new potential generators the signal that our market will always be capped at this level. Nevertheless, at this time imposing a lower cap to enhance market stability seems the most prudent policy. The optimal situation would be one in which there is sufficient demand elasticity in the future to make this kind of regulatory action unnecessary. To assist in demonstrating methods that can achieve this outcome, the Energy Commission has initiated pilot programs with two municipal utilities that

allow building managers to program their space conditioning systems to respond appropriate to ISO real time prices. As we gain experience with these programs, the Energy Commission will examine whether the Commission's authority under Public Resources Code Section 25403.5 to adopt load management standards might be helpful in accelerating the maturation of our market."

And I have copies of that for the Board.

MR. SMUTNY-JONES: Thank you, Mr. Chamberlain. We'll get that in the record. This is like Southwest Airlines, folks. If you want to get on the plane, you got to stand over by this wall here. We're still seating 1 through 30, so—

MS. WINN: Well, good afternoon. This is Michelle Winn. Generally I would say I'm representing somebody else in _____ services. Actually, I have clients that could wax poetically and passionately on either side of this issue. Actually, I could take Senator Peace, whose presentation waxed poetically and passionately on either side.

What I think having called everybody I work with or have worked with in the last two years, and yes, they're on both sides. The ESP's would like the price down. Generator traders would like to see the price stay. What all of them are worried about is availability. That's what I'm worried about. I'm not going to see a price spike at my house or in my business this summer. I'm in Edison's territory. I'm not going to see one until sometime in 2002. I don't know if I'm going to see one then. I don't have air conditioning. I am going to be concerned about whether or not when I drive home there's light. The last time we had a presentation, I think somebody indicated that the total generation in California was somewhere around 38,000 megawatts. If none of the utilities had ever sold any of their generators, we'd still have like 37, 38,000 megawatts, and I think yesterday the peak was 40,000, which leaves me to believe we'd have to buy it from somebody. Who would sell it to a trader, who would sell it for whatever price he wanted to sell it for. So the question that I have before you, and I'm glad you're there and I'm here, is what are you going to do that allows people to be able to buy energy at any price. If your neighbors are allowed to buy energy because they are absolutely required to cover their load, and they will pay anything to recover your load. And you say, "Oh, we'll pay anything up to." That's my concern. Thank you. Oh, and one other little thing. Where were these people in the year 1998, when we had this problem starting out, and we should have been out there giving serious incentives to generators to build because we knew we were going forward in a noncompetitive marketplace. I'm glad to see that we might have a Governor who's going to put some incentives out there, but we should have been there in '98. Thank you.

MR. SMUTNY-JONES: Mr. White observes that some of us were there in '95. You've already heard my opinion on that. I won't—actually it's cheaper now. It was 3-1/2—a thousand megawatts at 3-1/2 cents was a pretty good deal.

All right. Who's up next? Mr. Stout? Could I just have a show of hands? Is there anybody else out there that isn't up against the wall here who wants to speak? Okay. Thank you. I see one. Is there anyone else? Two, okay.

MR. STOUT: Sorry about that. I'm just an engineer. My name is John Stout. I'm representing Reliant Energy, and to some degree I'm speaking for a number of the generators who are in the California marketplace today. I know there's a lot of discussion and debate over the politics of the situation, but what I'd like to focus on in a short presentations are some of the technical issues that I think we're facing in this marketplace. And in doing so I'd like to respond to four basic questions that I've heard during the debate following the events of June 12.

The first is a comment which I understand is attributed to Mr. Terry Winter. It has to do with the fact that it seems like every time the load gets above 40,000 megawatts the price in this market seems to go to the price cap. Why is that? Is that an exercise or an abuse of market power by the generators? At the same time that I'm trying to answer that, I think I can also give some answers to a question that was asked by Senator Peace a few moments ago, and that is, what is the right level for price caps.

So with that in mind, I'd like to refresh your memory for just a second to the way things were before we restructured the market. If you recall, back in those days the incumbent utilities did not recover all the cost of the capacity that they installed in the system through an energy charge. Instead they recovered most of that through some sort of fixed monthly payment, what I'll call a demand charge or a capacity charge. From the years of experience that I've had in the utility industry, it is fairly common to see a demand charge that was on the order of about \$4 a kw a month. Now if you use that capacity purely all year long, let's say 8,000 hours a year, your average cost per megawatt hour for that demand charge was only about \$6 a megawatt hour. On the other hand, as you used it less and less, the equivalent cost per megawatt hour goes up because the denominator in the equation keeps going down.

With that in mind, I have prepared for you a chart which illustrates what the average price is per megawatt hour of that same \$4 per kw month demand charge, when you only use it for 100 hours a year less. As you can see from the chart, when you get down to about 60 hours a year, you hit the equivalent point of about \$750 a megawatt hour, which is currently where you have the price caps set in California. As you go down to situations where you only use it 20 or so hours a year, the price goes as high as \$2400 a megawatt hour. Now just for a point of reference, earlier this year the ISO entered into a demand side management contract with some of the participants in the market who were willing to curtail load. And you pay \$26 million for 180 megawatts. You can only exercise that option a certain number of megawatt hours per year. And in addition to the payment of \$26 million, you have to pay whatever the imbalance price is for the energy. Well, if you simply do the math on that, what you find is that you pay the equivalent of \$1200 a megawatt hour for the demand side contract, plus you're going to pay potentially \$750 a megawatt hour for the energy component, which means you're effectively paying about \$2,000 per megawatt hour. The conversation we just had about the San Francisco barge-mounted generator, when you actually figure that one out on a per megawatt hour basis, including the fuel cost, I believe that we figured back there on the back of a napkin that you're talking about \$830 per megawatt hour. The point of this is that depending on how you structure the contract in terms of fixed costs and variable costs, whenever you

convert a fixed cost to a hundred percent variable and use it for very few hours a year, it looks like a very incredibly large number.

What I'd like to do now is show you what the modulation (?) looked like in California during last year. This is looking at the load for the last 58 hours of the year, which just happens to be the only time that the load last year in California got above 40,000 megawatts. The peak load was 45,500, and since it was only about 40,000 for 58 hours, what that means is the last 5,500 megawatts in the system was only utilized for 58 hours during 1999. If you look at the load levels that you have experienced these last few weeks, 43,000 megawatt load levels, you can see from this chart that during 1999 you experienced those levels only for about 15 hours. Now if in fact you were still in the regulated utility environment and you were paying \$4 a kw month, and your load got to that 43,000 megawatt level, there would be in fact people paying the equivalent per megawatt hour price of \$2400-\$25000 per megawatt hour. They wouldn't necessarily realize it, because they were paying the demand charge in equal monthly installments. But in fact when you advertise that and figure exactly what it is per megawatt hour, it is a very high price.

Now if you take a look at the data I've got here and compare it with the \$4 a kw month and draw what the equivalent price is based on this load shape for the last few megawatts of capacity in the California market, this is what you get. You find that it starts out for the last 5500 at just under \$1,000 a megawatt hour, and it goes all the way off the scale at \$5,000 a megawatt hour, even for the last 1500 megawatts of capacity in the market. We point out that this 5,500 megawatts we're talking about only is used in the market for less than one percent of the time, but it doesn't represent just one percent of the generation in the market. If you take the 40,000 megawatts or so the ISO reports they have in the control area, it actually represents about fifteen percent of all the generation in the market. Hopefully, this will help to explain why the price tends to go to these levels when the load gets above 40,000 megawatts. The simple reason is generators are attempting to recover not a greedy profit but their average cost of generation per megawatt hour. Unfortunately, this is one of the consequences of that very subtle design change you made in the market where you eliminated capacity payments, and you went to an all volumetric rate for energy.

Let me also point out that this problem is going to exist even if we had 10,000 extra megawatts of generation in California. It is not caused by a shortage of supply. It is caused by the shape of the load. As long as the load only uses those last few megawatts for a few hours per year, the economics that I'll show on these slides are going to continue to work themselves out. Now I don't show this slide to attempt to persuade you to raise the price caps to \$2500 or \$10,000 per megawatt hour. What I am trying to point out to you, though, is it illustrates a fairly fundamental flaw in the way the market has been designed. Because if you don't want prices to go to these types of levels, you have to come up with another mechanism in the market to compensate the market participants for their fixed cost of operations.

It just so happens the \$4 per kw a month that I was describing a minute ago which was the typical utility rate, is also about what it costs to build a simple cycle

combustion turbine. So you have to ask the question, if this is what it takes on average for someone who builds a peaking unit in California, it only runs for a few hours per year. What are you going to do to encourage them to build those units when you have price caps of \$250 a megawatt hour. Well, I think what's going to happen is you're going to do exactly what you did today. You're going to vote a special deal for each and every one of them and give them a form of capacity payment. I would suggest to you that what this also says is that perhaps we need to think the fundamental design of the market and the way people compensate it for capacity. And perhaps what we need to do is revise the market so that you have in fact a capacity market in California rather than in all energy markets.

The next question that I'd like to address is something I understand is attributed to Southern California Edison, and that is an issue that generators have been withholding from the day ahead market. I can't speak for all the other generators, because quite honestly I'm not allowed to ask them what their bidding strategies are, but let me speak for Reliant Energy and say that in fact we do withhold from the market every day, the day ahead market. But let me explain what takes place and perhaps you'll understand the business reason that happens. The primary reason that it takes place is because we have entered into quite a number of forward contracts with other parties. It depends on what month of the year you're talking about. Could be as little as a few hundred megawatts, but in some months we have entered into contracts for well over half of our portfolio of 4,000 megawatts. Obviously, if we have sold that contract or that capacity on a forward basis, it's no longer ours to bid into the day ahead market. So, if you were to look at the bids from someone like Reliant Energy that has a 4,000 megawatt portfolio and see that we're only bidding half our portfolio into the market, it may simply mean that we have forward sold half of our portfolio.

The other reason that we don't bid every single megawatt of our capacity into the day ahead market is because the day ahead market carries a penalty if you don't provide the power that you bid. It's a form of liquidated damages, and that penalty comes back at you. In the event your unit trips off line, you end up having to buy back that shortfall in the real time market, and potentially you also have to pay for replacement energy capacity assessed by the ISO because you were short on your schedule.

Let me illustrate for you exactly what that translates into. This is the kind of contingency exposure that we had not even considering the replacement reserve issue but just considering the cost of replacement in balance energy for a day a couple of weeks ago when we had the hot flashes, June 13. For every dollar that we made by bidding into the day ahead market, we were exposed to about \$3 of risk that if the unit tripped off line, we were going to have to buy it back in the imbalance market. Now the response that Reliant Energy has to that is one that's traditionally used by a lot of other utility players, including the ISO itself, and that is, we carry a reserve margin. The reserve margin's size is a function the size of the largest unit that we have bid into the market. And our _____ 750 megawatt units.

To sum all that up, and even though Reliant Energy has a 4,000 megawatt portfolio, for quite a number of days when we only bid 2,000 of it because of the fact that

we forward sold and we subtract yet another 750, so our total bid in the day ahead market is only about 1250, because the largest unit we have in our portfolio is 750 megawatts.

To get to the final question that I'd like to address, and this is one that I've heard, not from other participants in the market but from the generator sector itself, and that's a question of whether proper hedging by the IOU's could have fixed the problem that we had a couple weeks ago. I think the answer to that question is found in this statement. "To the extent buyers are hedged, price spikes in the energy market will not affect them." That may sound like something that I might have said, but in fact this is a direct quote from a filing that was made on May 25 by Edison _____. They believe it too. And it certainly leads to two very important questions.

Number one, was the market in fact hedged, and if it wasn't, why wasn't it hedged? To answer the question, we first need to look at the hedges that the IOU's should have had in place at the time the price flaps occurred. And to really look at that you first have to look at what we'll call the natural hedge, the fact that they still own about sixty percent of generation stake. The fact that you already have generation under your control, in this case this represents QF contracts as well as physical generation _____ utilities. To the extent that you're bidding that end of the market, you may be getting charged high prices, but you're also getting paid high prices. So in effect you're hedged from that effect. If you take that into account and look at the typical example of the day where you had 40,000 megawatts of gross load and you subtract about 20,000 megawatts to reflect the amount of IOU generation, which is only controlled by the IOU's, you end up not with an exposure of 40,000 megawatts, but an exposure of about 20,000 megawatts. Next you have to look at what they could have also hedged through the authority that's been given to them to participate in the PX block 4 market. And for the Q3 of this year, that level of authority is about 7500 megawatts. Now the question here is, if in fact they still did exercise one hundred percent of what authority they had been given, if you do the math like I've done on this screen, it still shows 12,500 megawatts, a short position. That is a very dangerous thing for anyone to go into a summer peak season with in a market as volatile as the electricity market. In fact, any marker that's done that, ultimately at the end of the summer has disbanded its marketing operation and fired all its traders because they lost too much money.

Now the question that we need to ask, are these figures right, and if they are, how did this happen, because when the utilities went for authority to trade in the block forward market, everyone said we're giving you the ability to hedge your net short position. But if you look at these numbers, something doesn't balance out on that. I think we need to examine whether in fact the utilities do have the ability to hedge their total net short position. And if they don't, it's a mistake. And the public policy makers that put that in place need to get it corrected as quickly as possible. Now even if you do correct that particular situation, at least the question of whether the utilities themselves took full advantage of the hedging opportunities that were offered them in the block forward market. The Board needs to ask that question. I certainly don't have access to that data and don't know what the answer to that is. But had they done so, assuming that prices in the block forward market parallel those at Palo Verde, what you can see from this slide is that had those positions for June been hedged prior to the start of the second

quarter, it could have in fact locked in prices at only \$38.27 per megawatt hour rather than the \$123 or so per megawatt hour that June actually ended up costing. Had they locked in the key three prices that were available at the time, they could have done so for \$60-\$80 per megawatt hour. Unfortunately, those prices are now up to \$120 per megawatt hour. But the question comes up if in fact the incumbent utilities did not utilize the full 75 or whatever megawatts of hedge they were authorized under the PUC, the question comes up, was this simply a conscious business decision to take a risk? And if in fact it was, they should suffer the consequences just like any other business and write off their losses. Even today the IOU's could go out and hedge their forward prices on the market. I may have some limitations which perhaps can be easily corrected by public policy makers, and if they were to do that today, they could lock in prices for the rest of this year and for next year at levels far below the \$250 we're talking about in terms of a price cap. The fundamental question is, if you have a market solution to eliminate the effects of price box, why not exercise that in lieu of lowering the price caps.

One last quick comment, and that is with regard to next summer, last year the folks at Dinagee (?) saw price signals in the Midwest that caused them to go to South America to dismantle a power plant that was up and running, to relocate it near Chicago, and in nine months' time they had that power plant up and running. It served load last summer. Back in December of this year, Reliant Energy came to the conclusion that we wanted to have some generation in the Midwest as well. As of the first of June, we actually put fire in the turbines, and by the end of this month, just six months after the decision to go forward with that particular project, we will have 500 megawatts up and running in Shelby County, Illinois.

The point of all this is it is not the generators who are standing in the way of fixing the problem for next summer. You've got to number one, get the incentives right for people to want to work that hard to get that generation in place. Number two, as Senator Peace has suggested, we've got to fix the _____ and certification problem. So with that in mind, this market can have hundreds and perhaps thousands of megawatts on line by next summer. Thank you.

(End of Tape 1)

_____: If there's a way of producing him for the Board. Do you want him for the Board? Is that what you want now? Or—

_____: The General Counsel agrees with me it would be a useful part of our decision-making record since we're not likely to get through by just making a decision today.

MR. SMUTNY-JONES: Okay. If you could e-mail it to us, we'll get it as part of the record. All right? Fine. Okay.

Mr. Florio, I understand that you are somewhere still the other side of the world. Is that correct?

MR. FLORIO: Yeah, okay. The kids are _____. You don't get to vote, Mike, thank you. All right.

MR. SMUTNY-JONES: Mike, I need you to acknowledge your existence, because we're counting you here, but I need to hear you. When you get there, just yell. Okay. Let's see. Also, for those of you standing in the back of the room, we do have an overflow room set up across the hall where you can hear and see these presentations on the screen. So if you get tired of standing around, you can go sit down and relax and make funny comments on what you see here. You'd have to turn your cell phones on there, too.

Okay, who else is up?

_____: Was I paged here? I'm listening intently.

MR. SMUTNEY-JONES: Okay. Are you on Zulu time, or where are you?

_____: I'm in London, so it's quarter after 1:00 a.m.

MR. SMUTNY-JONES: I need to know whether you joined us after the votes that _____. You have just joined us, is that—

_____: I joined during Senator Peace's presentation.

MR. SMUTNY-JONES: Okay, thank you.

MR. GOLDBERG: Men and women of the ISO Governing Board, my name is Alex Goldberg, and I'm with the William Companies out of Tulsa, Oklahoma. I am indeed a foreigner in your presence. Williams, like Reliance, have approximately 4,000 megawatts of generation available for sale through a relationship with AES Company. I was very appreciative of Mr. Stout's presentation because it focused on important facts. This is a time for a focus on important facts. We are dealing here not just with an economic issue of price caps, but we are dealing with a fundamental reliability issue which goes above economics, and facts should be considered when dealing with reliability. I hope to add to the facts presented by Mr. Stout, and I would ask that if at the end of these presentations there are questions about these facts that perhaps this body consider not coming to a vote today on this very important issue, but perhaps this body should consider considering those facts, understanding them, and then coming to a decision. Now to the facts that I have to add, by no means an attempt to filibuster the issue.

These facts relate to William practices as a marketer as a seller of electricity. We are loathe to present them to you today because we believe these are very confidential, and they represent to some extent our marketing strategies. But this is such an important event that for this evening we want to put some of this on the table. By no means are we waiving legal rights, of course, for future events.

Williams, of course, has a fine amount of supply available to it. And it is also an uncertain amount of supply because unfortunately on any given day we do not have any certainty that all of those 4,000 megawatts will be available and operational. On any given day we look a day ahead, and we start by looking in the morning, and we try to have a cushion. We try to have more capacity available to us to sell than we have already committed into the market a full day ahead. The cushion is important, because as I mentioned, these generators are a little bit fickle. These generators they bought from Edison don't always run everyday. It is important to have a little cushion.

We went into the week, which we're discussing mostly here, the week of the 12th to the 16th of June and found ourselves with an outage and found ourselves in fact overcommitted into the forward market. We had already sold a day ahead before the day ahead market more generations than we could come up with. That was the case Monday, Tuesday, Wednesday of that week. In each instance we were able to go out into the market and procure additional power to cover that shortfall and a little bit more. We were able to meeting our commitments to deliver that power. We went out into the market, we spent the money that was necessary to procure that additional power. We did that at our risk. Thursday and Friday of that week we were a little bit more lucky in terms of what was operational. We went into those days with a little extra capacity, not quite as much as we had hoped for, so we still went out and bought a little bit more, but this was all in the forward markets. Each one of those five days we were virtually entirely committed, if not overcommitted, through forward markets. We did not hold back to hourly markets the power that we had control over to any significant extent whatsoever. And one day we had 50 megawatts for one hour. And another day we had about the same for a few more hours. Very, very small amounts. Even in light of this laid at our feet the blame for what's happened here. We cannot accept that blame.

Mr. Stout talked about the ability of the IOU's to hedge in the forward markets. We don't know exactly what they did or didn't hedge, but we are able to open up a little web page put out by the PX that's supposed to tell us. Well, what that web page tells us is that in the block forward market, out of a potential 7500 megawatts, approximately 1500 megawatts statewide were purchased. For just Southern California, only about 850 megawatts, far, far below the amount that was available. This is public information.

I'd like to close by looking at this question of 250 was good enough last year, it ought to be good enough this year. California is a price taker. Yeah, that's what I said. I think California is a price taker. In today's market, with what has happened in the neighboring states to the north, to the east, at 250 bucks, California isn't getting the power from outside the State. That power's going elsewhere. That's our opinion, and we're here to stand up and present that to you.

Once again, rather than vote to reduce a price cap, rather than to vote to reduce a price cap and for many years in the future potentially be faced with problems, be faced with reliability issues. Think about what was said here this morning. People are doing a good job keeping the power flowing. They are doing a good job keeping it flowing at \$750. There is a lot of electricity coming in from out of the State at \$750. We do not

know, none of us know whether that's the case at \$250. Williams believes it won't come into the State. Thank you very much.

MS. EDWARDS: Jan, can you let me know how many more you have in the public comment queue.

MR. SMUTNY-JONES: Okay. Who else? Could you raise your hand if you want—one, two, three. Anyone else? Looks like about three, Marcie.

MS. EDWARDS: All right. Thank you.

MR. LEDNECKE: My name is Lyn Lednecke, and I'm with Dinagee (?) Power Corps. I will try to be brief. I too have a letter. I will not read it; it's being distributed now. I would echo many of the comments that were made by Reliant and by Williams, but I won't try to repeat those there. We do understand the concern that has arisen in the State over the last month. As we see it, the issue is basically one of price. Now what I would like to do rather than enter into any particular debate about the policy issues here, I would like to provide a few facts which I hope will be helpful to you in reaching the decision that you're being asked to consider today.

First of all, it seems that there are two theories that have been advanced as an explanation for why prices were higher than one might have otherwise expected. The first theory is that it is a result of the underscheduling of load which may have been caused by any number of factors, whether deliberate or inadvertent. The second theory is that it is a function of generators withholding capacity.

I can't really address the first theory. The ISO and the PX have sufficient data. I do not, and I'm sure that in the Board's deliberations you can take a look at that data. But I can tell you a little bit about the generator side of things. I can only speak to the units that we have—Dinagee with its partner, NRG Energy owns approximately 2700 megawatts in Southern California. And during the week in question, the week of the 12th of June. I'd like to give you a few facts, and these are included in the letter.

That 2700 megawatts that is under our control consists of thirty-six generating facilities which are spread around ten locations in Southern California. During the week of June 12th, thirty-five of those thirty-six units were up and available and generating in the market. The thirty-sixth unit, unfortunately, was out of service as a result of a forced outage which had occurred the weekend prior to the week in question. We worked diligently. We did get it up at the end of the week, but the other thirty-five units were in place and in service during that week. During the peak demand hours we had scheduled in the forward market either through the bilateral market, the PX day ahead market, the day of market, or the ISO ancillary services market roughly 1800 megawatts. And we also had during those peak days—it varied day by day—but we also had roughly, or at least 250 megawatts of uncalled bids, bids that were made in one of the PX markets that were not called in that market. And of course in each of those days we did sell generation as allowed by our operational conditions and market conditions, we did sell into the real time market.

I would just echo the statements that John Stout made about maintaining a reserve in light of the financial consequences that are present in the market if you make a commitment and fail to deliver on that commitment. At Dinagee we also observe that practice. We have always made clear, though, that in the event that we receive a phone call from the ISO that says we absolutely have to have whatever you have, we will make that available. But as a matter of bidding practice, we do not typically commit all of our capacity in the forward market for a variety of reasons. So that is the information that I would like to present to you on behalf of Dinagee and NRG. It is similar to what you have heard from Reliant and from Deuts (?). As I said, I don't intend to address some of the other broader issues at play, but I would like to provide some information specific to at least one generator and what was happening to us. I think that will be very helpful to you as you consider allegations that prices in the market are driven by withholding on the generation side. Thank you.

MR. SMUTNY-JONES: Thank you. Next?

MS. SCHNEIDER (?): Hi. I'm Susan Schneider from Phoenix Consulting, and I just want to make a very short statement on behalf of Real Energy, Incorporated, formerly known as Entergee (?). The letter that is being passed out is really self-explanatory, so there are only really two points I'd like to add to that.

Real Energy is involved in installing distributed and small generation units on on-site in local areas where capacity is needed. Typically those units are smaller, they have a higher per-megawatt cost to install and to run. They don't always run because the units are not always competitive in the market, and it is when the prices are up at the higher end that those units actually have the ability to recover their cost. Chopping off the ability to do that will significantly impact, we believe, the availability of distributed generation. Those units not only allow the ISO to avoid potentially transmission investment but also distribution costs, and that should be considered in your decision today.

The other thing that we believe you should consider is that there are some significant disincentives to development of clean energy, largely intermittent resources like solar and wind energy due to the adoption of ten-minute settlements and dispatch. Those units typically cannot schedule reliably ahead in forward markets and typically are price takers. Their risks and potential costs have risen considerably with the adoption of these policies. We do understand why the policies were adopted, but again, because there is additional risk, there needs to be an additional opportunity to recover costs, either when the units are scheduled and cannot perform because of the inherent characteristics of that generation or if they're not scheduled, then they have to take whatever is available in the real time market. Typically these units are also those that are most acceptable in the local areas where capacity is needed, and that should be considered in your decision as well.

MR. SMUTNY-JONES: Susan. Next.

MR. ANDREAS: Hi, my name is Dirk Andreas. I work for NRG Energy. As Lyn Lednecke said, we're partners with Dinagee and about 2700 megawatts in Southern California. We also have a Crockett facility up here at _____, about another 300 megawatts we partnership with. I'd like to speak out in support of the statements that John made as far as the functioning of the market today. I'd like to reiterate that any market requires buyers and sellers. As we go through this process reviewing the flaws that may be in the market today, we need to be cognizant that we shouldn't just be looking at the seller side of the market only. We need to look at the actions that buyers took in the market and the incentives that they have whether to underschedule, overschedule, et cetera. Our analysis shows that on average through the whole beginning of the year, typically the hour ahead market sells with a discount to the day ahead market. So there is an incentive to underschedule, because if you underschedule, you can buy cheaper the next day. Unfortunately, what goes along with that is that it's about one-and-a-half times to one-and-three-quarters time more volatile, which means the price goes up. I think the one graph that John put up basically showed that when you look at the hour ahead versus the day ahead markets that the hour ahead is much, much higher looking forward. You're looking at \$200 prices for an hour that the following day might have been \$600 or \$700. So there's some things that need to be looked at there.

The second thing I'd like to highlight here in 2000—in reality we're looking at here about 4200 hours this year the price traded below \$250—this year. We've got somewhere right around fifty hours that traded between \$250 and \$500 and about another twenty-five to thirty hours that traded between \$500 and \$750. We're looking at a very few number of hours here with obviously high prices. What that drives back to is that what I believe still is the flaw in the system is that you've got a one-price-fits-all mentality. Why should the guy that has, as John said, the peaker that's going to run a hundred or two hundred hours a year, why should he get the same price as the guy that's around the whole year that can recover his loss the whole year _____ in the money. And that methodology appears, in my opinion at least, to affect bidding behavior, particularly from people that are rate-based, people that are out of State, the munies and people that are in the State to get their fixed costs recovered right now, it can affect the way that they bid, because they can bid at zero. For instance, just in the past few days when we bumped up against the price cap at \$750, there were hours trading at zero overnight. A lot lower volume, but you still traded low. And that needs to be looked at as well.

And the last thing we'd like to really stress again is there are the ability, and the buyers need to be offered the opportunity to hedge in the forward markets, to hedge _____ going forward. Hedging is just an insurance policy. Us owning generation is an insurance policy.

And the last statement is that we need to just make sure that we protect out-of-state transactions where people may have contracts that are in place that they entered into a few months ago when we dropped this cap down. There could be an impact there on the ability of people when they look into next summer of rational behavior for buyers and sellers next summer for what they may want to do. Thank you very much.

MR. SMUTNY-JONES: Thank you very much. Anybody else?

MR. HALL: Bill Hall.

MR. SMUTNY-JONES: You said Bill Hall? Okay.

MR. HALL: Yeah, Bill Hall with Duke Energy. We currently own 3300 megawatts of generation in California are developing 1500 megawatts in addition to that. For the sake of time, I just want to go on record as supporting the comments of the other generation owners that preceded me.

I do want to mention one additional comment around new generation development. We are currently in a situation in one of our projects where we're trying to modernize our site, eventually terminate a fifty-year-old plant that has reliability problems and also is dirty, and replace it with new generation. Since the time we announced our intents to modernize that site, eighteen months later we're still bogged down with the community trying to their buy (?) and to move forward so we can file an AFC. Assuming we get there, by the time we get it AFC approved, it will be three to three-and-a-half years out from the time we announced it and then another eighteen to twenty months to build it. That's five years or thereabouts. I don't think we can afford to lose through that kind of protracted process, so I agree with Senator Peace's comments and ask for his support timewise (?) to expedite that process.

The other thing I want to mention is, during the week of June 12 at our Moss Landing Plant, which is two 750 megawatt units, certainly during the summer months when every one of those units trips, NV-15 (?) responds immediately and goes to the price cap, so believe me, we pay a great deal of attention to that plant and are proud of the reliability of that facility. Unfortunately, on the evening of June 13, at 3:30 in the afternoon, we discovered a generator bus fire. It was minor. Our operators caught it, and we immediately took the unit off line. Prices went to the cap. Our folks used a lot of ingenuity, worked through the night, and we had the unit back on the next morning at 10:30, providing bars (?) immediately, and then by 1:30 in the afternoon had it at load. All of our units were at load during the rolling blackouts in San Francisco with the exception of one peaker in Oakland. We had virtually all of that energy sold into the day ahead market, and you can do the math on a 750 megawatt unit buying real time and replacement energy cost, the losses that we suffered. So we accept risk with price caps as well. We've got to have regulatory certainty, we've got to have an environmental process that insures that California has new, clean generation, the one that moves us through the process in an expeditious manner as compared to what we have today. Thank you.

MR. SMUTNY-JONES: Next.

MR. LEACH: This is Brad Leach from _____ Mercantile Exchange.

MR. SMUTNY-JONES: Yeah, Brad, I just received a note that you are there. I wonder if you could just hold on.

MR. LEACH: Sure.

MR. SMUTNY-JONES: We have Frank Woolock (?) with us.

MR. WOOLOCK: I'm Frank Woolock. I'm Chairman of the Market Surveillance Committee. What I would just like to say is, the job of the Market Surveillance Committee is essentially—I view it—is to try to identify market design flaws that hopefully will be corrected to make the market work better. Since the August 1998 report, the prohibition on UDC forward hedging, the restrictions on _____ forward purchasing, the incentives for demand responsiveness have been risen again and again in the Market Surveillance Committee reports as market design flaws that are essential to correct to get the market working. I think that John Stout may be absolutely shocked to hear this, but I completely agree with his position that really this is a necessity of—

(Bell ringing. Laughter.)

MR. SMUTNY-JONES: Let the record show that the—

MR. WOOLOCK: . . . is the necessity of the ability of the UDC's to forward contract in all market participants, both suppliers and demanders to forward contract, and to manage their risk. And we put in place in California a market structure where that is possible, modulo (?) the regulatory barriers that currently exist that are against a holdover from the rate freeze period. And I think that this is really in many ways where the effort should be directed to correct these market design flaws, and rather than the, you know, and focus on these sorts of issues to give the loads the opportunity to _____ that they need to be able to do to make the market work. I mean, I guess you can kind of think of it as, from the generator's perspective one way to think is to say two years seems a very long time to get the competition. In some sense maybe what competition needs is a bit of a push, and in fact maintaining the \$750 in some sense holds the feet to the fire, but I meant on the other hand, I also think that the question then still arises is \$250 sufficient? And in some sense I guess there you have to ask yourself the question of given that you've let the genie out of the bottle, so to speak, at \$750, going back to \$250, you know, what will happen given the load conditions in not only California this summer but in the surrounding area, will there be sufficient energy around? I think that's the unknown question that I think is really the fundamental issue associated with moving the cap back down. But in terms of incenting new investment and the sorts of commitment to a competitive market in California, I think in many ways the design changes that have been made over the past years have been very positive. There has been one exception that I think has really exacerbated a lot of the recent problem, and I think this is one that could immediately be corrected and really, I think, result in a lot of the problems going away, and this is the—John Stout alluded to it—is the replacement reserve penalty. Purely thinking, what it does to loads, it says to loads that we're going to pay generators not to schedule in the forward market, and we're going to charge you for that. To me as an economist, that just seems to be, I have to say, the wrong way to do it. In fact, the beauty of the California market is that each market participant, loads and generation,

have the ability to schedule where they please and where it fits their financial interest, and I think John Stout identified another problem with that that causes even greater incentive for loads to underschedule, rather generators to want to underschedule, and that is the fact that if you fail to meet your schedule by producing less than your schedule, then you'll be hit with the replacement reserve penalty. So it's sort of like, not only do you get paid not to underschedule, but you get penalized, in fact, if you are unable to meet your schedule. So I think the first order of business in this regard to correct the market design flaws would be to eliminate this replacement reserve penalty. A simple solution would simply be for the ISO to say, "All right, what we really want is reliability of energy, and if we really don't believe it's going to be there in real time, we'll put a standing bid in the PX at \$750, which is the ISO price gap. We're willing to buy what we need is necessary there if we have real time reliability concerns, but I mean, that's just one example rather than the replacement reserve penalty, which has effectively resulted in, as I said, the asymmetric treatment of load congeneration. Once again, as the economist in the—it's going back to Alfred Marshall, who said basically just as neither the top scissor nor the bottom scissor cuts the paper, nor does the supply or the demand curve set the market _____ price and quantity. So to blame generators for underscheduling and to blame load for underscheduling is really, I think, misdirected. I think that the real issue is the incentives that we're creating for underscheduling and what it does to the incentives. I think in that way the penalties—replace and reserve penalty is sort of the first order of business to really, I think, help the market moving forward. But besides that, I think that the, certainly the immediate action to allow more forward contracting, allow more flexibility in terms of the UDT's to actually participate in this competitive market, there is regulated distribution, there is a competitive supply sector, all the pieces are in place, we just need to allow that to happen. Thank you.

MR. SMUTNY-JONES: Thank you very much, Frank. I understand that Brad Leach from Nimex (?) was trying to get here, and we have arranged for him to make a statement. Are you with us, Mr. Leach?

MR. LEACH: Yes, I am.

MR. SMUTNY-JONES: Please proceed.

MR. LEACH: Nimex is—

MR. SMUTNY-JONES: You need to speak up a little bit, please.

MR. LEACH: Yeah. Nimex has been working with the Western market for almost ten years. We began our research efforts in 1990, and ten years later we have a market in the West and in the U.S. in general that's not fully deregulated. And, you know, we've had growth in that time, and I think some of the problems that we're having nationwide are related to growth of the market that has exceeded the transmission and generation capability. Today we have five Nimex contracts. Two of those are based in the West, Cotton and Palo Verde. We are also planning to launch a mid-Columbia features contract later this year. The Western contracts are the most active of the Nimex electricity complex. Today when the Cotton-Palo Verde contracts went off the board,

July could have been had for \$135 a megawatt hour and \$138 respectively for Cotton-Palo Verde.

Because we have five contracts, our perspective is national, and we're tracking developments on a nationwide basis. In '98 and '99 the focus nationwide was on the Midwest and the Eastern markets in terms of price spikes and reactions to those spikes. This year, this summer, it's clear to the Western market that's a major focus from the standpoint of market disruption. Yesterday for today, mid-Columbia traded at a high of \$800 a megawatt hour, and that's a level that's never been seen in a northwest market before. It's clear, on the generation side, at least, market is quite competitive. Less show, of course, from the transmission and distribution side.

It's a nationwide issue that we have, and not only are you dealing with disruptions in the Western market, but today the Daily News in New York carried the following headline: "Summer Brownout Alert. Con-Ed's Juice Squeeze. Power Supply Maxes Out Demand Surges _____". That was front page. The New York Times carried a similar story, though less colorful in the headline. But it points to the nationwide issue that we have. And that's how do we improve our generation and transmission environment to enhance the overall reliability?

Price caps are at best a temporary solution. And what price caps in our view do is muscle the price signal. And like it or not, the signals that have been sent by the energy market and by the _____ service market are an unambiguous price signal that the market needs attention. Muscling the price signal won't make the problem go away. What will make the problem go away is a concerted effort to study the grid and study the generation availability _____ environment to enhance the development of the grid. In the course of our national research efforts we have examined total megawatts on the drawing boards in various regions in the U.S. In total going out ten years is at least a hundred thousand megawatts of additional generation capacity that's been proposed. About a fifth of that is in California. Going back to nationwide, most of that generation is natural gas fired. So there are separate issues once you get past electricity related to future availability of natural gas. In order for the U.S. to stay in double digits from the standpoint of the reserve margin, that generation has to get built.

In May New York issued its ten-year assessment, and it's sobering reading. When you look at the unadjusted assessment by reliability region in the U.S., they call seven out of ten regions as single-digit reserve margins without merchant generation. It's clear that going forward we need to encourage merchant generation, because truly merchant generation is the future of the reliable generation supply. As utilities have sold off generation, others have bought it, and the environment that those generators are dealing with is a fundamentally different environment than what characterized the previous utility market. I think sensitivity to the issues that we've heard raised by the merchant generators is very important in terms of affecting the solution to the problems that we're faced with today. These problems took years to develop. We've had almost ten years of deregulation, and still on a nationwide basis, we don't have nationwide retail access. We're still working on regional transmission organizations. It's still a work in progress. We need to do what we can to encourage generation, and I don't price caps are

the way to do that. I think that political interests, regulatory interests, consumer interest, and industrial interest need to cross their boundaries to realize the priority that this should have, not only within the State of California, but in the West and the U.S. in general. Because it truly does pose a great challenge for the development of industry. Thank you very much.

MR. SMUTNY-JONES: Thank you, Mr. Leach. And I look around the audience, I trust there's no more public comment; is that correct? Going, going, gone. Okay. With that we will close our public comment period. And I guess just to summarize sort of what we've heard today, because I think this is obviously one of the more complicated and controversial issues that continues to come before this Board. And I almost feel like any decision we make on anything here is always the wrong decision. I think we're trying to balance, I think, or address what I think Senator Peace raises are some very real and legitimate issues out there and issues of concern. And also as being one who's sort of been in here in the beginning trying to build this market here, I am troubled by the way it may be perceived. The other side, I think there are obviously issues here that, you know, affect regional supply, and I think we're seeing some interesting things over the last couple of days. More importantly, positions that people have already taken in the market. So, whatever we're doing here, for those of you listening, we're not doing lightly. This is a difficult issue. We've struggled with this before. And, you know, I hope we can proceed in a manner that addresses these things both adequately and in a manner that is fair and responsible, and most importantly keeps the _____ in California and is our primary role here. Having said that, the card's up.

I know, Mr. Parquet, you had something on hedges. You wanted to explain something, and I think Camden was up first. Go ahead, _____ question and then Mr. Parquet. Presentations. _____

MS. COLLINS: I'm sorry for the long preamble, but when I was listening to Senator Peace say he believes that there would still be adequate imports if we lower the cap to \$250, and then listen to Williams say that they believed the contrary, I was very thankful for Professor Woolock clarifying that this is the fundamental issue before us. And I'm just wondering, since I know I'm not as ingenious as the market, and Greenspan doesn't think he's more ingenious in the market since getting the balance right, I'm wondering how we can hedge our bets, and as a point of order wondering whether we're going to allow the ISO to go out of market at prices that are above a reduced cap level because something suggests to me that if we really get in a bind that \$250 won't get us the power in the rest of region, we better make sure that we understand whether the ISO can or can't buy above \$250 at a market, and then secondly how can we even take on this issue of lowering the price cap without deciding whether we're going to pay to the real prime market the out of market price. Because that seems to me to be punishing the people who by virtue of being aware we need when we need them are going to pay the price for having not exported. So I'd just like to ask whoever's going to make the motion to consider those two points that are already on our plate in front of us placed there by their parties that we may not have the luxury of making importers come in specifically

FERC said in their order on the cap before, "With respect to generators, they are not required to sell to the ISO and that the ISO cannot dictate their prices."

FERC cannot turn on their heel and do an 180 and then claim that we need an availability requirement and that the generators must be mandated to bid. They have put their stake in the sand. Markets are voluntary, and if the generators don't want to bid in this State, we better have another plan.

MR. SMUTNY-JONES: Thank you, and I know that these issues have been written down. We'll take them up when and if there's a motion. Mr. Parquet, and then Mr. Fielder, and then Mr. White. Is there anyone on the phone who wants to talk?

MR. WOYCHIK: Jan, this is Eric. I'd like to make a quick statement and be in the queue.

MR. SMUTNY-JONES: Okay, please proceed, Mr. Parquet.

MR. PARQUET: Yeah, thank you, Jan. What I'd like to do is something I haven't done before, which is to make a presentation to the Board. I agree totally, as I believe all of us sincerely agree, with Senator Peace's comments that—my words, not his—that we all care. His meaning was the same as my words. And as we go through these deliberations over the next few hours, possibly the next few days, the basis of my presentation is I have heard a lot of noise in the market. I have talked to the generators, I have talked to the utilities, I have talked to a number of participants. I think we need to get some, and if they can be my opinions that people can criticize and comment on, that's fine, but I'd like us all to take a deep breath because I think it's important that we also pay attention to some of the noise I hear, we hear in the market because it is just disrupting the—I think the deliberateness of what we're about to do. I think we need to, let's say, set the record straight, then take a deep breath, then go ahead with this. So in that context I would like to make a presentation.

MR. SMUTNY-JONES: Proceed.

MR. PARQUET: I do have copies which I will pass out.

MR. WOYCHIK: Can I ask—this is Eric—as a point of order, Mr. Parquet, if you're making this comment as part of the public record or as a Board member?

MR. SMUTNY-JONES: We—I'll answer that. I have already closed public comment, so he is making this as a Board member.

MR. WOYCHIK: Thank you.

MR. SMUTNY-JONES: Eric, was that the point you wanted to make?

MR. WOYCHIK: Exactly, thank you.

MR. SMUTNY-JONES: So I can take you off the speaker list?

MR. WOYCHIK: No, I still would like to make a couple of—

MR. SMUTNY-JONES: I knew I didn't get that lucky.

MR. WOYCHIK: Thank you, thank you.

MR. SMUTNY-JONES: You're still on there, Eric.

MR. WOYCHIK: Okay, thanks.

MR. SMUTNY-JONES: Will there be lights, camera, and action?

_____ : As a point of order, Mr. Chairman, the meeting was scheduled to end at 7:00. Some of us have made plane reservations—

MR. SMUTNY-JONES: 7:30.

_____ : Or 7:30 to get back home. Do we still think that's going to be a schedule for us to reach some kind of conclusion? Is that your goal?

MR. SMUTNY-JONES: It would be my goal, but the Chair's optimism on this issue. I actually thought this issue was settled last August, so we're—so you may be here a while long. I would plan a hedge, if I were you.

(Laughter.)

MR. SMUTNY-JONES: Go ahead. Please proceed.

MR. PARQUET: It doesn't work. It's okay now. There we go. Okay.

I will try to go through the issues that I'd like us to consider as we consider this possible price cap change. They have been repeated before. I will go over them, but some of them I think they're a little bit of concentration. Our position is that California is facing a serious energy supply crisis, and a precipitous reduction in price caps will only heighten its problem.

The key point that I want to make is the word precipitous. Mr. Leach indicated a little bit of comments relating to impacts of precipitous actions on markets. I want to heighten that. We think that the supply shortage is real, as you've heard. We think that people should consider the fact that over sixty-one percent of the thermal generation in the State is more than thirty years old. You heard some indications of issues relating to availability and impacts on bidding strategies. We are also, good or bad, the victims of our own economic success. There has been an economic boom in California. There has also been very large growth in the West. The Bay Area has experienced this greatly.

And we compete vigorously with the rest of the growing West for increasingly scarce supplies.

We put together a few slides looking at the monthly average demand in the WSCC over the past couple of years. We all know that it's high. If you pay attention to the spider diagram and look at the upward slope on the spider diagram. This is the upward WSCC. To the point you look at in January of '98 pretty much consisted with what everybody felt was the average demand that could be expected of a percent and a half or so. And as we have gone through the intervening many months, we are now up to the ten percent level. If we look at the ISO's point of view, and these are, I will say these are in-run charts that we have put together. If there is data _____, these are ours, but I believe that this pretty much mirrors what the ISO has seen, and that is in California in these recent months we are eight to ten percent higher than we were last year. One big comment to realize, and it's the comment that Camden was focusing on to the point is California is not an island. We also do not believe that a self-contained solution can be developed. We do not believe that a solution that ignores what's happening outside of the State can be developed. If you look at the bar chart—a very simple bar chart—I was surprised, 'cause I just didn't know, and my having been on the Board for quite some time, that the magnitude of the Northwest load parallels the size of the California load. And if you look at the magnitude there, California's important

(End of Tape 2)

... hydro production. The specific numbers are 5,000 to 6,000 megawatts less hydro in the Northwest these months than there was last year. Five to six thousand megawatts. A lot of megawatts to try to find a home for. And echoing what Mr. Leach indicated is that we took a look with our own view of the market, our own view of what growth could be, and our own assessment of which generators do we think are really going to work and which ones aren't, let's say from a competitor's point of view, kind of understand how things go. And if you look at the blue bars, it's the growth and peak load. Look at the red bars, our estimation of what's going to happen to the resources. And the spider line, what do we think is going to happen to reserve markets. I think that some of the episodes that happened in the Midwest occurred right around that same ten percent reserve margin _____. That is a very low number. And to the point is that _____ think of things that we've all been discussing in detail over these past several years of what reserve margins make sense. What about an M minus one contingency? What about some of the things that we're talking about, like _____ shutdown? I mean, does anybody ever believe that if we're really going to shut it down, face this? We're talking about it. In the face of some of the difficulties in citing, ten percent is a very, very, very scary number. And our belief is that we ought to think about what a price cap reduction will do. We think it will result in serious impacts on the reliability of the market, not just cost, but the reliability of the market, and I've got some slides later to talk about that.

The cold, hard facts is that people make business decisions, whether they're the IOU's or the loads underneath the IOU's or the generators, or any businessman will make decisions. We believe that you have a lot of very caring people in California. We ourselves are developing a couple thousand megawatts of generation in California. I

personally intend to make sure that that happens, but economics are economics. I don't want to see the jobs, the economic base, and the reliability benefits of those generators go somewhere else. What will happen, we think, is the suppliers will sell outside of California where the markets are more predictable and the prices are higher. We think—John, Jim, Terry—we'll have a heck of a hard time keeping the lights on. That's our opinion. And interestingly, getting more from the market point of view, is we have created a very interdependent series of linkages in California's electric market. You can't change one without consciously knowing that you're going to change some of the others. And you can't complain about the impacts of changing one if you want to ignore the others. And as I said at the last Board meeting, uncertainty in the marketplace is the surest way to dry up the forward markets. If that's what you want to do is not have forward markets, then institute anything precipitously.

I'm going to put together a series of charts, not to wow you with our capability of making charts, but let's just go through what we have as a structure in California. As I go through these charts, I've even left out a whole bunch of people. I even left out the group that I represent on the Board. I left out the ESP's (?). I've left out scheduling coordinators. I've left out what everybody must be wondering, what is that non-California ISO market box? That's the Bob Leaches of the world setting up their own independent hedging products, that's the Nevada contract that one of the generators in the State might have, that's bilateral contracts, and the point is that we talk about generation to load. There are hundreds and thousands of things that go behind this and to the point is, if you think about in the context of what this market has reacted to, what the market has done, there are hundreds if not thousands of contracts in place today for Q3 of this year and Q3 of next year, all anticipating a structure. Admittedly there is always risk that things could change. But I want to make it very clear that at least it's our position that we start talking about one little arrow at the very top of that chart, where we change, let's say caps on the capacity payment trans_____ services. That's what we're talking about. You've got all those other arrows to deal with, and you've got all of the other contracts that are behind that, and I've got to tell you, if this starts getting unwound, you know, it's one thing to say we'll just take a deep breath, it's going to cost the market and the market participants, who in good faith responded to this market, millions and millions of dollars.

One of the things I want to focus on is the, and I don't want to get personal here, but I want to focus on what one of the real problems that is happening, and I do agree with those that have indicated that there is a structural issue in the market. Gross underscheduling of load is a real problem. I'll say right after that that gross withholding of generation is also a real problem, but I think in the last couple of weeks we've seen the results of gross underscheduling of load and the impacts that it has had on prices. We've all read about it in the newspapers, we've seen various quotes by various people, but I want to point out something that I think that is important to look at it.

Now theoretically, CPC payments can be increased by gross underscheduling of load, and I want to show how that works. However, under scheduling demand to the extent that it apparently has been happening, greatly increases prices and reduces reliability for everyone. When Terry went through, those of you that sat through it and

watched it and those of you that didn't, maybe you heard about it, but Terry Winters went through last—it was last week, I think. Was it only last week, _____? Terry went through a discussion minute by minute of what happened on June 14. And I came away from that meeting not really realizing what I'd heard until I just thought about it. Here it's like—what underscheduling means is that someone has a lot of load, doesn't schedule it, doesn't mean it's not there. It means it's not scheduled. Doesn't mean that people—Yeah, I know it's not scheduled, but it just doesn't show up on the ISO's radar screen. They know it's there, but they don't see things acting to cover the load that's coming. When thirty percent of it wasn't scheduled that day, the thing that amazed me is that the ISO really dealt with that problem out of a plus 40,000 megawatt system by only turning off 100 megawatts of load. That's incredible achievement. But, how far can we stretch these good people? That's what we're concerned about. Our opinion is that the underschedulers who are talking about high prices are victims of their own actions and strategies. And assertions to the contrary notwithstanding, which I think that some of the other generators are going to support this—or some of the other folks—there have been significant opportunities to hedge. If you're a player in the market, as everyone is that's participating in this market, the signs were there. A lot of us hedged. That's what you should do. You just look at the signals, and you do it.

Now let me show you what underscheduling of load does. And I could have put seven or eight more of these charts here, but I'm just going to pick some, and you'll have to bear with me, but let's pick a fictitious utility that has 10,000 megawatts of load that wants to schedule in an hour, or has in an hour. Who's to schedule it in a day I had market in my—if you want to schedule it in the day ahead market, let's say that everything would have been in balance _____ about 600 of megawatt or 10,000 megawatts in the PX. Let's say that that was the scenario as my old boss used to say, just because I said so. Okay? I love that comment.

The electricity bill for that particular schedule during that hour would have been 10,000 megawatts or 10 gigawatts times \$600 a megawatt hour, or \$6 million. Okay? That was the situation. In actual fact there is an incentive to underschedule that is not insubstantial if you can be the first one. If you can be the first guy in the pyramid, you can get a benefit. And the way that it works is that if the real but invisible curve of the PX, which we cannot by any means figure out, the PX knows this, and I think that one of the things I'm going to recommend at the end is that the Market Surveillance Committee look at some of these factors, because I'm sure they're far more economically intelligent people than I am here. But if there was an underschedule, and let's just say that there was an arbitrary bid limit of \$400. The instructions were to the schedulers, put as much today in PX (static). But that would result in my chart, and this is very stylish. I don't want anybody to make any effort to see out of the numbers in my chart. That would result in 8,000 megawatts scheduled at \$400. The rest shows up in real time. What that means is the ISO has to figure out what to do with 2,000 megawatts. In this example, if everything was in balance and didn't get out of balance because of this action, this particular scheduler would pay \$400 a megawatt hour times 8,000 megawatts, plus 2,000 megawatts at \$600 a megawatt hour. Saves \$1.6 million. That's pretty neat. Twenty-five percent they saved. That's good. Okay? That's the way the market is structured. Now the real reason it was structured this way is for an imbalance market, not for a

strategic bidder that purposely underschedules his load. It was for people like let's say SMUD who didn't know in that one particular day—I hope you agree with this—didn't know in one particular day whether or not the cloud was going to come over Sacramento. So let's say the cloud was there today, and the temperature was 90 degrees. They schedule X megawatts; it turns out the cloud's not there tomorrow. All of a sudden, what happens? The temperature goes up to 100 degrees; he blew it. He has to have a place to make that up. That was what that was for. And also for industrial customers. Like if we have an ESP who's working with a large company and all of a sudden wants to turn on a motor. Boom—megawatts. That's what that was for, not for a bidding strategy. But now what happens? What did the ISO have to really deal with? That's okay if that strategy works. Put a lot of money in the bank during those periods of time that it does work, but what happens when it becomes let's say “massive” underscheduling, which would be characterized when the load really is going up, like the hot days in June, the hot days in May. What happens is the curve goes up. Price changes. Yeah, there are still savings, as you'll notice; however, what happens is that now the ISO in my example here, in my fictitious example, has to deal with 3,000 megawatts, not 2,000, a thirty percent shortfall, not twenty percent. They're scrambling, and as I indicated on June 14, they handled it with only 100 megawatts out of 40,000 that they had to _____ problems to. And I will accolade everybody else that it wasn't just the ISO, it's the rest of the system.

Now in my words—I'm sorry, I'm glib sometimes, but the ISO, as opposed to what they did in May, they punished the underscheduled. In May if you recall what happened is the same scenario happened, gross underscheduling of load, the ISO went out of market outside the State, bought power, put it in the beach back at zero. Put it in the beach back at zero. In other words, rewarded the underscheduler for having done what they did. In this case they went out and said, “This is a real problem.” They went out and bought replacement reserves because they needed more control of the situation. The result was \$1500 a megawatt hour because it hit both price caps. So in this particular case the underscheduler was punished, and what was the result? In my fictitious example, there were savings, and that's the one key thing I want to talk about, or make that point, there were still savings. Yes, there were costs. We've all read about in the paper the billion-dollar day. Yeah, sure, the tan box in the upper right-hand corner might have been a billion dollar day. That's nice, but what about that billion dollar savings down there? So the underscheduler in my example here, he lost a little bit of money, didn't lose a billion dollars, absolutely did not lose a billion dollars. Furthermore, he probably had money in the bank from all the other times that he'd done this that hadn't caused a problem. So one of the noise that I'd like us to all take a deep breath on and make sure that to the extent the public who we are responding to here get the impression that this was a billion-dollar day. That's only half of the story. _____ also saved, now I have no idea what the actual savings were. I want to make it very clear that is a stylized graph. But it can even get worse on a really hot day, and that is that as Terry talked about last week, not only was there underscheduling, but they couldn't keep up with the forecast. Things were changing so much, temperatures were going up, things weren't going away, that there was underforecasting as well. So to that extent, that brown box up at the top even got worse. However, the savings got better.

The point is again on the stylized graph, I would say that the underscheduler is about equal, and it's incredibly disingenuous to talk about billion-dollar days when the following has occurred. The underscheduler is probably equal, maybe a little worse off, maybe a little better off, not a billion dollars off. Number two, as opposed to what he did for himself, which was—be about equal, cost everybody else a lot of money and jeopardized the reliability of the system.

Now what happens if we go to a \$200 price cap? What would you do if you were a generator with these—I mean a scheduler of load with these kind of capabilities at hand? I'd set my new price limit at \$250 in the PX and throw all the rest of it into real time. Have a nice day. Now look what's going to happen. In my fictitious example, maybe not so fictitious, now you're going to have forty percent show up in real time. Now what are we going to do? My only point is that this little scenario here isn't far off from what I heard Terry talk about. The distinct question there in the bold letters, where's the ISO going to get the _____ load if the external markets trade at greater than \$250 a megawatt?

And I want to put a chart up for a second just to make this real. Yesterday at Mid-C, Mid-Columbia up in the Northwest for hours ending 1500, 1600, 17, and 18, prices in Mid-C as well as Palo Verde, all of those hours were greater than the ISO's caps—1200, 1500, 1200, 1000, 1000, 1000, 1000, 1000 versus 750. We think that's the problem. I'm beginning to hear others echo this. We don't think that Senator Peace may be right. It'd be nice if he was right. I respect his instincts relating to the issues in the California market, but I think that this is a key issue for those of us that are in this market wondering whether or not we can actually keep up. We are seriously concerned about that.

I have another chart that indicates pretty much the same thing. A little different scenario, but what happened in May during the last time that I made such a fuss over as to why did you go buy power outside the State, stick it into the deep stack at zero? I won't look at the prices outside the State during those particular hours, and you see numbers, you know, the expos price of, you know, \$200, \$300, \$600, \$750, etc., and for the most part you see a lot of numbers, not all the numbers in this particular case. You see a lot of numbers where prices outside are higher. We are really concerned about that.

So what is our recommendation? A lot has transpired since I put these slides together, even when they were put together, absolutely did not intend that if this Board votes to, let's say, not reduce the price cap, there is no way that I think that any of us could not do anything. We have to do something. But I strongly suggest that we do not go there as far as the \$250. We just can't afford to do that. Let's instead—perhaps there's some interim things we can do. We need to look at things like market power abuse. Our opinion is there is no question that there's been market power abuse in the way that the load has been scheduled. What about the market structure? Comments have been made like that. Load growth. You know, if I've got a wife and two kids and we're in a Volkswagen, and all of a sudden I have two more kids, I've got to buy a bigger car. Why can't we—

MR. SMUTNY-JONES: You'd probably just give it to your wife.

(Laughter.)

MR. PARQUET: She'd still have to buy a bigger one. We have to get a bigger car. We cannot, and I do understand the political reality of prices going up. We've enjoyed, regardless of what you think, you know, not bad prices over the years. People look at their average electric bill relating to what else they pay money for. I know my electric bill pales in comparison to my phone bill, and it just isn't a lot, but it's important. It's an issue of, can I turn the lights on? But the load's gone up. Hasn't been enough generation built. You know, if you look and see the result, you can see that if the only question and problem was underscheduling of load, eliminating the price caps would fix that real quick. I don't think that's the politically appropriate thing to do. Parody with the PX caps. That probably also would fix it real quick, because the punishment—my word, sorry I'm so glib—would be extreme for creating this kind of scenario that was created. We think that there are alternative solutions that we can combine. I believe this Board can think of some. I know we can. And I think they entail structural market changes. I think we need to do—I absolutely applaud Senator Peace, Senator _____ about doing what he can with the Governor to speed the siting of new generation. Transmission is an issue as well. We need to figure that out.

And my last point, demand side bidding. You know, it was interesting. I attended—I was asked to give a speech at the National Council of State Legislators, the Committee on Energy, a couple weeks ago. I gave a presentation on market issues, Commissioner Keyes (?) did from CUC, an individual from the Edison Electric Institute, someone representing renewables, someone representing distributor generation, every single one of them coming from—and I assure you we did not collude—every single one of them suggested as one of their key points, gotta get price signals to consumers. I do understand the realities of protecting some of the underprivileged in the State. I absolutely support that. But for example, we have demand-side bidding processes that we're participating with load in New England. When the prices are at the \$250 level, it isn't worth the time. It just doesn't work. You get up above those levels, and we've been sending checks to our constituents. So I think all of us agree that somehow or another we gotta make this demand side work, and it will work if we let it. So that's my deal.

MR. SMUTNY-JONES: Thank you, Mr. Parquet.

MR. PARQUET: All right.

MR. SMUTNY-JONES: You have two more charts?

MR. PARQUET: Those charts are just to look at. It supports some of the-- One of them is a trace of the hydro in 1999 versus year 2000 relating to the divergence and the huge divergence of what's going on last year versus this year from a hydro point of view. The other is the pretty clear market signals that were in the market in gas and power at PV and SB 15. And then you see at the bottom of that chart you see a growing cumulative participation in the PX block forward. Our information diverges a little bit

from, for example, the information that Williams talked about. I believe the difference is is what we did was that's for a June contract, and there's two places that we look to find how much was in the June contract. One was June contracts, and the second one was Q2. We just aggregated June out of Q2, and to that point is the total number of megawatts of about 1800 was what the entire market was doing in our view. We may have it wrong, but—and we participated in some of that. So that's the entire market was 1800 megawatts. I think the point that someone also made was that 2200 megawatts was what at least Edison was allowed to participate with. And maybe I could leave you, since the last bullet on the slide is demand side management, I know that John's really interested in this, is one of the very interesting slides that Commissioner Keyes presented. He put together a bar chart showing the breakdown of capacity for load at peak, commercial, industrial, etc. Two percent of the load is clothes dryers. Now you think about two percent of 40,000 megawatts, that's 800 megawatts. What could we have done with 800 megawatts last week?

_____: Are you suggesting _____ clothes dryers there, Mr. Parquet?

MR. PARQUET: What's that?

_____: _____ clothes dryers? _____ clothes dryers, then?

MR. PARQUET: I have clothes—

_____: _____ the electric guy. Supposed to be funny. That's okay.

MR. PARQUET: Yeah, yeah. Okay. _____ just trade them both.

MR. SMUTNY-JONES: All right. Thank you, Mr. Parquet. All right, I believe Mr. Fielder was up and then Mr. White. At some time—okay, Board, let me just kind of get your sense of where we want to go with this. We do need to hear from staff at some time.

_____: I'm very short.

MR. SMUTNY-JONES: Okay, and then I want to know what you want to do. We have dinner here for you folks. Unfortunately we didn't get anything for everyone here, but we do need to act today, whatever we do, because there are no hotel rooms between here and Yuba City. There are ten thousand teenage girls playing in a volleyball tournament, and, so even if you found a hotel room, I'm not sure you'd want to stay there. So we're going to need to address these issues. What—

_____: Thank you, Mr. Chair. At this time in order to give a context for more Board discussion, I'd like to make a motion. I think Elena's got a motion somewhere, but for those on the telephone, let me read it. Moved that in response to market performance indicating that during high load conditions the California independent system operators real time electricity, day ahead, and hour ahead ancillary

services markets are not workably competitive. The Board instructs the ISO management to: 1) Investigate the factors contributing to the failure of the markets to be workably competitive and identify the changes in market rules and operations which will eliminate the need for market price gaps. 2) Temporarily reduce the caps in the ISO real time ancillary services out of (at a?) market and intrazonal congestion management from \$750 to \$250, effective July 1, 2000 through October 15, 2000. 3) Report at the September ISO Board meeting: a) Proposals for changes in market rules and operations that would eliminate the need for market price caps, and b) The level of price caps until such changes can be implemented.

MR. SMUTNY-JONES: Mr. Cotton has seconded the motion. John?

_____ : Would the \$250 price cap be applicable to demand bids as well under that formulation?

MR. SMUTNY-JONES: I don't know that we addressed demand bids in his motion, John. I guess I'd say that we'd have to talk about that and see what we do with demand bids. Mr. Blue, Ms. Barkovich. You want to—

MR. BLUE: I think this may be one of many comments that I have. I'm not going to do it all right now, but I guess I'm trying to understand the motion. So you're going to limit the ISO to \$250 for making the out-of-market calls. Is that the purpose of this—the result of this motion?

(I think someone was talking in here, but could not be heard on tape.)

Despite all the evidence we've seen today. So you're saying that the ISO cannot go out of market and pay more than \$250. Just want a clarification on that.

_____ : That's what it says.

MR. SMUTNY-JONES: Okay, I'm going to recognize Barbara and then Gary. Does anybody on the phone want to be recognized?

MR. WOYCHIK: Yeah, Jan, this is Eric.

MR. SMUTNY-JONES: Woychik and Mr. White whose card was actually up next wants to hear from staff, so what I will do, you know, depending on—I'll take it in order here unless you want to seed the staff in which case I'll change it, but for now, Barbara, Gary, Eric, and Dick. Then we're going to have Terry.

MS. BARKOVICH: I have a comment with respect to the wording on the motion. I also was going to, however, make a recommendation that we not have extensive discussion on the motion until such time as we hear from staff. I would be prepared to defer my comment as long as I am give the first opportunity when we discuss the motion subsequently to offer my comment on its unworkability.

MR. SMUTNY-JONES: Okay. Let the record show that Barbara has hedged her vote in a forward market, and Mr. White is—okay, that's fine. We will— Okay. Mr. Cotton?

MR. COTTON: Thank you, Mr. Chairman. I just wanted, I think before we break and before we go to staff, make some initial comments which I think are very important, and I'll keep it brief because all members of the Board did receive a letter from the President of SPG&E, and there are. when we take a look at the impact, the burden of the cost of the market as we're seeing it today, two groups are being hit, some which are protected by rate caps and therefore shareholders and others which are customers. And I would like to give you some numbers of what's happened to the bills of the customers in San Diego, and I'm going to just pick a _____ residential customer, average bill, and show you what's happened from May 21 on a weekly basis to June 25.

On May 21 the customers are receiving bills, we are looking at an average PX price, the monthly average price of 4.2 cents. Based on '99, that was only a nine percent increase. June 4, the average PX price for the month that was going into the bills was 5.9 cents, twenty-seven percent increase over 1999. June 25, starting this week, the average price 9.3 cents, the monthly average price going to the residential unbundled customer. The total bill is increased fifty-nine percent. The customers are calling. The customers are concerned, and I think we need to take a look at how we proceed here from the standpoint of realizing that the potential reaction is received from customers who are feeling the pain directly. I might point out that feeling this pain when I can't tell them it's hot in San Diego. We have not been within eighty percent of our peak load in San Diego yet this year. And so they don't have high demand, the only have very high energy costs. Thank you, Mr. Chairman.

MR. SMUTNY-JONES: Thank you. Let's see, I had Eric— Eric?

MR. WOYCHIK: Yeah, thank you. Just real quickly, a couple of observations. No one has discussed economic withholding. And I hear the generators saying, we were all there available, but the issue is discussed by Mr. Woolock in their report, by the MFC, by the Department of Market Analysis, and other places. There is no doubt about it, economic withholding is the issue in large part when it comes to market power abuse.

Second point. I have to say that the consumer is turning _____ in talking about these problems and that the market is _____ for three years, and it takes this emergency to have people recognize that, and we've taken a heck of a lot of heat for a long time, and it's very interesting from my view to hear John Fielder and a whole set of other people explain these problems and particularly in the motion. I'll stop there.

Third point. The big issue is, I think exactly as Mr. Woolock has posed it, the problem is whether we're going to get the capacity, if we go to a \$250 price cap, when we need it, and whether we don't push the capacity that's out of State away from us and come to a blackout because we can't get power. I'm not sure that's not the case.

Fourth point. I'd be delighted to go \$250 price cap, and it sounds like other people will take responsibility for it, and if that's the case, well, maybe that's the direction to go. Thank you, Mr. Chairman.

MR. SMUTNY-JONES: Thank you, Eric. Oh, let's see here, we've got Mr. Ferreira and then Mr. Blue and Mr. Parquet.

_____ : I have a statement to make with respect to the motion, but I'll wait until after the staff presentation, but I wanted to ask one question relating to Mr. Blue's question. Even today with the current \$750 cap under the ISO tariff, can't the ISO go out of market and pay higher than \$750 today?

_____ : We've looked at that and looked at the tariff, and we believe that the answer is yes, that there is authority for the ISO to pay more than that if necessary and in an emergency.

_____ : Okay, so regardless of the cap level, you have the ability under the current tariffs to do that.

_____ : The tariff authority is there.

_____ : Yeah, thank you.

_____ : Hold on a second. You want to say something?

_____ : However, if our Board passes a resolution instruction management that it cannot go above a particular cap, then we have an issue.

_____ : I don't see that in this—

(More than one person talking here.)

MR. SMUTNY-JONES: --and not adjourn it. I mean, whatever action we take here can have all kinds-- Every time we pull the thread of this sweater, different things appear under it. Speaking of open kimonos. That's ugly. Okay, so just-- We'll think about it. I think that the issue has been flagged well. It's been laid out there. Let's see, who do I have? Mr. Blue. Barbara, are you still up? You're first in line.

_____ : Just another data point.

MR. SMUTNY-JONES: You're next, _____.

_____ : Regarding the issue of whether power is going to come into California or not. Nevada Utility today was offering \$1300 an hour for 10-hour blocks.

_____ : I have a hard time seeing why people are going to sell into California at \$250, and the other thing is if there's, my idea is that if you include out of

market, out of market calls should go into the price that is paid in State as well. So that's something that we need to talk about as well. Because currently you do out of market calls, it goes into the D stack at zero. That's a major problem. I won't even-- I'll talk some more after the staff presentation.

_____: Thank you.

MR. SMUTNY-JONES: Thank you. Karen, and then Stacy.

MS. JOHANSON: I also have some questions of staff based on some of the things mentioned today. But I also have a question right now for Gary Cotton. If you had fully utilized your hedging capabilities, did you do the numbers to see what the prices would be in San Diego? Because I do have a lot of empathy toward the customers.

MR. COTTON: The authorization we have for hedging is a very small percentage, and we've run the numbers, and there's _____ no benefit to us unless we can hedge a large percentage.

MS. JOHANSON: _____ to who? To the share holders?

MR. COTTON: No, the customer's cost would not have changed if we'd had the full amount we are allowed to by the PUC. Because it's only a small percent, like ten percent, and so, you know, we're hoping to get that changed, and we're taking steps to change that, but at the present time our hedging authority is just too small.

MR. SMUTNY-JONES: Stacy and then Dave.

MS. ROSCOE: I think one of the items that we've not looked at is, we're addressing whether or not power will flow into the State, but in addition to that I think you also have to consider if the Mid-Columbia is trading at \$1200, then the generators will be exporting your power out of State to areas like the Mid-Columbia, or Palo Verde, and you won't have access to that power either.

MR. SMUTNY-JONES: Mr. Parquet.

MR. PARQUET: I think I'll wait until after the staff presentation.

MR. SMUTNY-JONES: That'd be fine. Uh, Mr. Blue, are you going to wait?

MS. EDWARDS: Jan, this is Marcie. Are we almost to staff?

MR. SMUTNY-JONES: Yes.

MS. EDWARDS: Thank you so much.

(Laughter.)

MR. SMUTNY-JONES: As a matter of fact, you're so persuasive, Marcie, that staff's next.

MS. EDWARDS: Oh, that's amazing.

MR. WOYCHIK: Jan, this is Eric. I thought I was next, and my presentation's only 39.5, about 40 minutes.

MR. SMUTNY-JONES: Okay.

MR. WOYCHIK: Just kidding. All right, go ahead.

MR. SMUTNY-JONES: Yeah, go ahead. We're going to actually have staff now, Eric.

MR. WOYCHIK: Okay. I worried about another filibuster. Go ahead.

_____ : _____ Angelique—

MR. SMUTNY-JONES: Let me just comment on that just for a second. Eric, the issue that's before us, I think, is a very important issue. There's no filibustering going on here. We do have an open access process here, and I think it's important, as you point out, these are very complicated issues that we hear everybody out. At the last meeting we had a presentation by one of the utilities. We gave them all the time they needed to make a presentation, so as Chair, I think it's important that we hear from whomever wishes to speak on this issue, because this is an issue of critical import.

_____ : I agree, Mr. Chairman. I just hope that we can get to a decision. If it's that important, we need to get there. So—

MR. SMUTNY-JONES: I am well aware of that.

_____ : Okay.

MR. SMUTNY-JONES: Please.

_____ : I had Ab Callen and Angelique prepare a lot of facts. A lot of those have been presented, so what I would like to ask them to do is Callen, kind of go through yours, but let's not reiterate things that have been already previously discussed, and the same with you, Angelique. So if you could condense ours to just some key facts to bring people up to date.

_____ : That's fine. I was—something in here Elena suggested. Do we want to have people get dinner, bring it back, and do during that, or do we want to wait longer for dinner? I thought it was over there already. It's been there for quite some time. What do you want to do?

_____ : It's been there _____.

_____ : Okay, it's dead now anyway. Does it matter? Or what do you want?

_____ : Okay, fine. What I had intended to do was—

Elena, the question was do we have a handout on what we're going to present?

_____ : My understanding is that _____ in the package. Oh. Kim has it now.

_____ : I know there's a handout. All right.

_____ : I'll do this stuff really quickly since most of you know this, and we have had a good bit of history already. This just goes over some dates about when our price caps were instituted and what they were, and I won't spend any time on this. Very, very quickly, we have the initial FERC order in May of '98. We've been, you know, \$125. moved into \$250, \$750, and have the last extension for 12 months which gets us to November of this year, and this last March we had the vote to continue with authorization at \$750 for a number of reasons that were presented and voted on at that time.

What I want to talk about is emphasize a couple of things. Resource adequacy, both in the region and in California. Over the last couple of days it has not been particularly hot everywhere. We have had, and I'm going to talk a little bit about age of generation and some other things that Mr. Parquet has already mentioned. I have a slide here just a little bit later that emphasizes that. But I just want to mention a couple of facts that have been going on in the last couple of weeks. Neighboring control areas at the same time as us have been in at interruptible stages, yellow alerts or other alerts have been, you know, noted in other-- Yesterday, for example, we heard that Nevada was in a stage—their equivalent of a Stage 1 yellow alert, Salt River declared an emergency. I think either yesterday or today at the same time. The resource adequacy picture is not limited to California. It's a very significant issue. We have had phenomenal load growth both here and in neighboring states, so it's not a question of—quite often it's not a question of who gets the megawatts, it's a question of there simply not being enough, and there is actual competition for these megawatts.

I have some interesting information about prices over the last couple of days that supports pretty much what I heard today. We saw prices as high—and go the specific company names which I'm not inclined to divulge—but \$1350, \$1100, in the Northwest and in the Southwest, Palo Verde yesterday and today, for not huge blocks of megawatts, but still competition for significant numbers of megawatts. We've had to go into Stage 2 interruptible curtailments for a couple of days, 1200 megawatts yesterday and about the same number today, so there is real competition for megawatts. We have a situation where even at a 43,000 load, which is about where we were the last couple days, we have resource issues. I looked around the Western United States at forced outages that are in

effect today, and there's about 7,000 megawatts around in the WXCC out of service, scattered around and different things out of service. Seven thousand megawatts is maybe about five, five or six percent of installed capacity. If you get to Mr. Parquet's—Dave's number of a ten percent capacity reserve, and you take five or six percent out, that leaves you with only three or four percent. That's below operating reserve criteria. That's in two interruptible areas, and, you know, interruptible level below five percent. That's exercising all those, and that assumes nothing else is—that assumes perfect transferability of—

(End of Tape 2)

... anybody was doing or could have done about that. Given where the load was and where the generators were, and nomagrams (?), we couldn't get to those megawatts. Market, they were unavailable. So—and that's another externality that makes the situation that's described about capacity even worse. So at loads of 43,000 megawatts, with pretty much normal system conditions and not particularly hot weather, we're seeing Stage 2 interruptions at 1000 megawatts both yesterday and today, and I don't expect that— There isn't anything abnormal that will suddenly change that will make that picture any different a different week or a different time. We know, based on what we've seen and the load growth that we saw in the Bay Area with really hot weather, that we could see a peak with a hot day up and down the State of 48,000, maybe even 49,000 megawatts. I wouldn't be surprised at that at all. We've seen Bay Area load growth, as Terry talked about the other day. The peak in the Bay Area was 8400, 9100 this year, that's eight percent growth. So those kinds of things are there, and if we have really hot days, we're going to see 48,000 or 49,000 megawatt peaks. How this all relates to price caps and hedging and all those things has been well explained by others. I just want to point out a couple of other ways to think about this.

In the old world, before deregulation, a utility owned what I'm going to call three levels of resources. They had base load units. They had intermediate units that they used seasonally or during the daytime, then they had peaking units to get the peak loads, and that was basically the shape. In the world that we've created here, you have the same kinds of instruments from a financial standpoint. You have long-term hedges that look out many months or a year, maybe longer. That maybe would account for a significant piece that's equated to the base load unit, fifty percent of someone's capacity. You have intermediate seasonal, or two or three month kind of contracts that might look like intermediate things, and then you have the small amount that you use for peaks, and that would be equivalent of basically our day ahead market, all day ahead market structure. But the two big tiers below that, probably eighty to ninety percent of your load, would be if you are trying to do the same thing as was done before, deliver power at a predictable price, which is what ESP's are going to have something to offer to customers, you'd have to have these long-term things in place. And so my point about talking about this is one of the critical pieces to make this work is the ability of loads to hedge forward in all available markets, and to put contracts in place, giving them the ability to offer that price stability over a long period of time. That means that we have, I know that July 1 some limits go up for edits and then on March 1 some limits went up for PG&E, but there are

still significant numbers of megawatts that can't be hedged forward on a long-term basis and are exposed to the kinds of volatility that we've seen.

There's one other piece of information that's useful, and that is when clearing prices are used to calculate the total cost of energy, and we say we had a billion-dollar day, that is, I believe, significantly misleading nor is the underlying hedging ability. Before money may move around, the actual cost is limited because of the contracts for differences _____ to the underlying prices that were struck ahead of time. So calculating the cost of energy at the total clearing price is not correct. All that is really exposed to that price are those unhedged marginal megawatts. And the rest of it is just in circular money flow. And it's important to know that in terms of keeping a perspective on the cost of a billion-dollar day or week or whatever. In the interest of time and not repeating things that were repeated earlier, _____ do a couple of other things here.

This is a picture about resource age. This underlines what Dave mentioned. We have old plants. Old plants means they break more, they're harder to keep on line when it's hot and we're running them flat out. They get tube leaks, their equipment breaks down, feed water pumps, and a bunch of other equipment, it's just older, and the older they get the harder this stuff is to keep on line. That's a fact of aging and a fact of the _____ underscores the need for replacement and renewal of that capacity. Even under-- Given the continued economic conditions that we have, which are good, it's likely that we are going to see significant load growth that I believe, even with the generation that's proposed, I mean we've seen a thousand megawatts a year growth in our peaks, if we had a hot day and did anything like—in the whole State like we saw in the Bay Area, we'd see a couple thousand or three thousand megawatts of peak load growth. The total generation that's planned to come on line in the next couple of years is barely enough to keep up with that, which means a year or two from now, even 2002 and some of that generation starts coming on line. This is going to be a difficult summer; next summer's going to be worse; 2002 will, with its additional capacity and the load growth between now and then, 2002 will look about like this summer. And so you can project. You know, load growth can do whatever it does. But if we continue with sound economic growth, we don't have enough capacity additions planned, and so all of the words that have talked about and part of our job here in terms of, I think, moving forward is to take up the offer by Senator Peace and others to expedite these processes to get the generation resources transmission done, streamlined, and in place as quickly as possible, because we haven't built significant capacity for many years, some would say twenty. In the 80s maybe there was some significant generation added somewhere in the Western United States. But in most of the West we haven't had any significant capacity additions for twenty years. Any excess capacity that we had is long since gone, and being less available by transmission limitations and by the aging of units.

Terry, unless you can think of something else, I think that's probably all. This is just some pictures. This is in your slide—pictures to show the resource deficiency that we had during those couple of weeks.

I'll stop there, and that's-- My basic premise was just to set some background and to give you some additional information that would help in terms of considering this whole process holistically. Any questions for me before I sit down?

MR. SMUTNY-JONES: Any questions for Callen? Karen has one. Anybody on the phone? Okay, good.

MS. JOHANSON: Callen, it was mentioned that on May 22 the actions that you took didn't punish those who underscheduled loads, but the actions we took on June 14 did. Were there reasons for not taking the same action, or what were the circumstances to have a different, uh—

_____ : Let's get the two-- Thank you for the question, Karen. Let's get to whether or not we use replacement reserve purchases, and then this may be the one other thing I probably should have talked about a little bit.

Out of market calls, they're calls that the ISO makes to the beyond-the-market structure, out-of-the-market structure, bypass the markets, and we simply start making phone calls and making deals, primarily to neighboring control areas. That's been how we managed resource-deficient days our first two summers. Part of the ancillary service redesign thing that was put in a year ago initiative was to buy replacement reserves for those shortages and allocate the cost of that replacement reserve to those who underscheduled. May 22 we did not buy more than the normal few hundred megawatts of replacement reserve, those underscheduled megawatts. Instead, we managed that shortfall by making out-of-market purchases. Out-of-market purchases are allocated across all of load; they're not allocated specifically to any particular—the imbalance energy price does what it does, and those that are underscheduling pay the imbalance energy price. On the other hand, when we make—and out-of-market purchases, I need to explain, and you've heard this before, has significant impact on the market. The minute I make my first phone call at 8:00 in the morning, or 7:00 in the morning, or 6:00 in the morning, saying, "Gee, the ISO needs to arrange some megawatts in out-of-market purchases," the supplemental energy stack disappears, and everyone waits for the emergency call. They do that for two reasons. One, it is much more economically favorable for a seller to sell a block of power for six or eight or ten hours than it is to do one-hour blocks at a time. So when we make out-of-market purchases, we tend to buy, and we have to or we can't buy it, we tend to buy for the whole afternoon from maybe 10:00 or 11:00 o'clock to 7:00 or 8:00 o'clock at night. So maybe six-, eight-, or ten-hour blocks. So the minute that prospect becomes available, everyone that has bid into the supplemental energy market offering one-hour service disappears and waits for the phone call to buy six or eight or ten hours. So that's one of the reasons that we don't like to go out of market. Another reasons is as soon as we do that, everyone knows that we're in trouble, and so their expectation is, no only will I sell a six-, eight-, or ten-hour block, but I will sell it to you at capped prices. So we immediately go from whatever the bids were to the caps. Not always, and we do the best we can negotiating that, and are successful sometimes in getting those prices not at cap or grading the prices over the peak and so forth. We do the very best job we can negotiating that. But everyone knows you're in an emergency, and everybody knows you're over a barrel or you wouldn't be

on the phone at all. So it's difficult, and we have been somewhat successful, but it does immediately give people the ability to say yes, we're going to sell it to you for six or eight hours or forget it, and two, we're going to pay a lot of money. So that happens the minute we start making out-of-market calls.

The replacement reserve process was designed to do two things. One is to get out of the auto market business and use the market structure that we have, which is just reserve product to replace those megawatts. The allocation of that capacity cost goes to the underscheduled megawatts, so it says if you have underscheduled a hundred megawatts, and I have to go by capacity for you, then I'm going to charge you whatever the energy price was, plus I'm going to charge you a piece of that capacity cost. Now there's a difficulty with this, and the difficulty is if you use \$750 price caps in both the capacity and energy market, then the effective price or opportunity cost of the generator is now \$1500, and they find that, of course, very attractive, because that's higher--significantly higher--than \$750. So as soon as we started buying replacement reserve, lots of megawatts started showing up in both the day ahead and hour ahead replacement reserve markets. We do not go out and buy all of the missing megawatts as replacement reserves, because we're trying to do the very minimum that we can and just barely stay out of the out-of-market. So what we do is we look at the day ahead schedules, we look and see what the hour ahead schedules have been in previous _____, we look and see what real time has been, and say okay, now what's still missing after we do whatever we have, plus whatever we expect to have? And then, we say okay, now we have to look at that pile in terms of getting replacement reserve. So when we do buy replacement reserve as we did in June, then the cost of that replacement reserve will be allocated to those who underscheduled.

Now another peripheral effect that this has is because replacement reserve is one of the capacity markets. It also has a tendency, as you saw the graphs that were presented before, to raise the cost in other ancillary services markets. So on June 14 when we had high replacement reserve costs, the cost of regulation also went up significantly and the others, because you thin out those markets by buying a lot of capacity in replacement reserve. So it has some peripheral or secondary (?) order effect in terms of raising service prices. Those increased prices go all load. So on the one hand we have a situation that says, manage emergencies or underscheduled load or missing load by doing out-of-market purchases with all of its attendant issues. On the other hand, one says go out of mar—or not go out of market but go to the replacement reserve and buy it in a market, and that has other consequences also. It changes ancillary service prices, it puts the potential \$1500 opportunity cost in play, and then it also allocates that capacity cost to those that underschedule. Now with a \$1500 opportunity cost, it's going to raise the cost of forward markets as well, because generators are going to bid different in a forward market when they can see a potential opportunity, at least in real time that's \$1500, so that has the effect of affecting forward PX prices or all forward market prices as well.

So that was the difference. We bought replacement reserve and that's going to be allocated to the load that underscheduled. In the May situation we managed it in an out-of-market way which has the other bad effects that we talked about.

MR. SMUTNY-JONES: Jack and then Camden.

MR. McNALLY: Now, Callen, I'm trying to get a better picture, I guess, about what the situation in California is relative to generation and transmissions. Last week when we talked about the problems that occurred on the 14th and 15th and what have you, a statement was made that basically the problem in the Bay Area was not necessarily a shortage of generation but the ability of transmission or substations to transport generation to the Bay Area, and I guess what I'm trying to figure out is is the ISO established all these areas throughout the State, and I'm taking the Bay Area as an example, they don't have generation in the right place always, or if you have some generation shut down for whatever reason, then you have to transport in, and that is what caused the problem that we had in terms of last June 14th and 15th. Looking at the rest of the State in the same way, we have areas where we don't have the generation in the right place and/or we do not have transmission in the right place to prevent, in other words prevent what happened in terms of the Bay Area a week ago. I need a picture of what the situation is in California.

_____ : Okay, that's a good question, and what you heard last week was correct. Given the Bay Area as a separate— A minute ago I talked about resource constraints all over the West, and I said assuming certain things, and you have perfect interchange ability of megawatts, and you can support a certain load, the State is like that too. What you heard last week is exactly right. In the Bay Area as a separate bubble, we don't have infinite ability to move megawatts. It's limited by the transmission system. So when we add about 800 megawatts of generation in the Bay Area bubble that was missing, we could not support a load in that bubble of more than about 8600, 8800 megawatts with that generation missing. So when the load got above that, we had to shed load in that area, even though there were enough resources in the State or in the West to have served that 100 megawatts of load. So the outage, the blackout in the—the rotating blackouts on that day were a function of two things, generation inside that bubble being unavailable, _____ broke off line units were down for different reasons, going back to the age and other things that I talked about earlier. And then two, the fact that we've had so much load growth inside that bubble that the transmission system couldn't support that load given the generation that was already out, even though there were megawatts that were available. And your question: Are there other areas like that in the State? The answer is yes, given particular generation outages that the transmission is limited so that they couldn't be served. The answer is, certainly.

_____ : Jan, will you put me in the queue, please?

MS. COLLINS We saw some places at Columbia that were higher than our cap, and it's also been suggested to us that the ISO's presence in the marketplace with its known cap has been increasing prices in the region outside of California. Kind of like the Hisenberg (?) principle. Since we are California, a lot of times we don't know what the prices are outside of California if we had been buying outside of California, because the only place we buy is to deliver here, but do you have any information just as a buyer in the regional marketplace that supports this suggestion that by us doing out of market we

are raising the prices in the region either one way or the other, putting aside, of course, what you pointed out, which is when you play poker with someone who knows what your hand is, you know, you have a hard time cutting a deal above that hand. I mean, put that issue aside. Are we, to your observational abilities, seeing our influence in the regional prices outside of California?

_____ : _____ that in two ways, Camden. One is, if I have a price cap of \$250 like we have and we're competing for generation with someone who doesn't have a market structure but basically has—PX, for example—you're going to serve load past your interruptibles, your firm load at any cost. You're going to go buy it whatever. So, if they're looking at my price cap, and they're saying \$250, fine. I'll pay \$260. And that way I can get it, or \$280, or \$300, or whatever it is.

MS. COLLINS: _____ asking for theory, I'm looking at any practical information that you have as a buyer in the marketplace that people have told you that. That they're not going to sell to you at \$750, because so-and-so will give them \$751.

_____ ?

_____ : Yes, we've made some contacts in the last two or three weeks where people have told us, we're not selling to you because your offer is \$250 out of market because prices are trading up here at a thousand. Whether or not we caused that thousand because we have a \$1500 opportunity cost given replacement reserve capacity and energy, so that would be the theory speculation. I don't know. We do know that in response to phone calls that we made offering \$750 for out-of-market energy, that we were told we were \$250 out of the money in terms of getting those megawatts. Whether or not those prices have been driven there because of our forward capacity energy market combination, I don't know.

MR. SMUTNY-JONES: Okay, Marcie and then Dave. Marcie--

MS. EDWARDS: Yeah, I'm trying, but somebody's panting in their microphone.

(Laughter.)

MS. EDWARDS: There we go.

MR. SMUTNY-JONES: I could speculate.

_____ : That's like speculating on the price caps, Marcie.

MS. EDWARDS: That's a frightening thought. Just a quick comment. One, just back to Camden in response to that last. I have received calls in the last week that tell me regardless of what I am paying to the ISO, that they will pay more because of the situation in the other utilities running short. That having been said, the question then becomes if the ISO was capped at \$250, what would then be the result? The only

comment I'd like to make at this time is, we've heard a substantial lot of information from the various stake holders, and large blocks of it are very true. Some, I think, are spun a little toward their individual perspectives, both from a load and a generating standpoint. I would just simply ask that people pay very close attention to what staff is saying in terms of the overall supply picture and what they see coming down the road. And I'd like to ask Helen (?) the question of, let's assume we put that \$250 price cap in July 1. What do you think you'll see?

_____ : On the fly, what I think if you put the \$250 price cap in July 1, it's going to be-- It's going to be _____. I have seen evidence that, to me, convinces me that we are seeing actual shortages of generation in multiple regions in the WSCC. If we put a price cap in place at any level, it will make us an easy target for the competition. At \$250 it will simply make it cheaper for the others to buy stuff away from us. As to whether or not that's going to actually make me curtail more load more often is really going to be a function of weather patterns all over. If a permanent cloud moves to Phoenix for three months, and, you know, lowers temperatures there thirty degrees, and we didn't have any 112-degree days out there for a week in a row, Arizona public service _____ because the revenue _____, I could probably get some megawatts.

MR. SMUTNY-JONES: Maybe we could have the legislature do that.

_____ : Yeah, right.

_____ : Is Mr. Rosier here? Can we get a-- You know, Marcie, it would-- I expect it to have an impact. As to whether or not it would make us shut more lights off more often or not be able to buy stuff, it's really completely dependent on things that go on outside of us and internally--unit outages, failures, how long, how hard to run things, and how hot it is everywhere at the same time.

MS. EDWARDS: I realize all the variables. The question I'm asking is, between now and October, we are no doubt going to experience additional days where we have unit line outages and under super peak conditions. That's a given.

_____ : Yes.

MS. EDWARDS: And I understand all those at a degree of variability, but if we put this in place and say that happens a day or two days later, we're in the same circumstances. I'm just asking for your projection given that you don't have such a strong investment in one of the three or four existing areas of perception here.

_____ : I think that offering—I think that it would make it more difficult to get . . . Make it easier for others to buy megawatts away from us and make it more difficult for us to get the supply we need.

MR. SMUTNY-JONES: Anything else, Marcie?

MS. EDWARDS: No, that pretty well did it.

MR. SMUTNY-JONES: Now you know how Allen Greenspan feels.

MS. EDWARDS: Jan, can you outline how we're going to proceed from here. so I know whether to drive home or to sit here, or what you want.

MR. SMUTNY-JONES: You probably should-- Well, here's what I would like to do. We are at this point, Mr. Parquet is going to say something. We have a motion put forward. I think the Board may want—at some point want to— Yes, Barbara?

(Inaudible.)

_____ : I can't hear her.

MS. BARKOVICH: Based on the pile of paper that we have, I'm assuming the staff has not completed its entire presentation.

_____ : _____ standing behind you. That was my oversight. So, let's-- All right. All right, you just stay tune for a few minutes. I'll come back.

MS. BARKOVICH: No problem.

MR. SMUTNY-JONES: Terry, do you support what Carolyn indicated?

_____ : I was going to have the same question that Marcie asked very eloquently. Put Carolyn on the spot. Can I do the same to you?

_____ : I was going to leave that off, Jan.

_____ : Now you've been in the utility business for a long time. You know how megawatts go around.

_____ : This is the question you never want to answer, because no matter what you say you're going to give the wrong answer.

I would like to hedge my answer to that until you get the point of asking me my recommendation. Because it is a qualified answer, I will tell you right now that I am very, very concerned that it will make it more difficult as much the way _____ did. He hedged because we've had this discussion, and better him hedge than me, because I probably won't be able to in the end. Yes, I'm very, very concerned. If we go to \$250, I just don't know whether we really control that market, quite honestly.

MR. SMUTNY-JONES: Angelique?

MS. SHUFREN (?): Good evening. My name is Angelique Shufren, Director of Market Analysis. I will make my presentation short, because I realize you're all very hungry and maybe grouchy as well.

(Laughter.)

MR. SMUTNY-JONES: Those are actually not related at all.

MS. SHUFREN: What I'd like to do is given you the market picture on the issues before you. I think you've heard different parts of that picture, depending on what people may have wanted you to do. I'd like to just paint the picture without any obvious desire to have you take a particular course of action.

What I'd like to do is cover four items: review recent market performance, cover the key issues which need to be addressed with your decision, identify some of the potential short-term options which are on the table, and I'm sure you will create more, and then identify the possible policy criteria that you may use as you deliberate and decide on a course of action.

The two key issues before you are in the areas of reliability and cost. Under reliability the concern is high real time imbalance. What can we do to address that _____? Second, scarcity of supply. We've heard a lot about that. The other area that you have to deal with are concerns with cost, the high of energy in reserve and market power concerns. So as you identify solutions to these key issues, you need to make sure you've identified solutions that will deal with both of them.

In terms of reviewing market performance for you, we've had very high load growth as pointed out by many of the speakers, and we've had an increasing number of load days with that load growth as well as with high temperatures which have met 40,000 megawatt load and higher in the ISO control area. The other market performance summary or observation that I'd like to share with you is we have had high PX prices and real time prices, and I will try to give you some understanding of why that's been. We've seen underscheduling. I'd like to remind you from my perspective as an economist, it's not just one party. It's underscheduling of load and generation. Both of those are not clearing in the day ahead market, and they both appear together in real time and have to be dealt with.

And finally, one of the key things that I think you need to try to address is part of the high cost is the high price for replacement reserve. If you want to target your solutions, that's one of those areas that you need to look at.

Looking at load conditions, comparing this year with last year. Last year we had very moderate weather, and so the loads are in red. This year is in blue, as you can see. We've had a significant increase in load. We've seen increase in peak of 6.2 percent and average energy of 10.9 percent. Again, about 5 percent of that is due to robust economic activity that's occurring in our economy. Another 5 to 10 percent occurs deviate because of high temperatures. So, we have seen significant increases in load. In terms of what

you can look forward to this summer, we took a look at some of the historical data. In June of '98 you had zero hours of load over 40,000 megawatts. I'm sorry, I put it at 40 gigawatts, but it's 40,000 megawatts, same thing. Now in June of '99 you had twenty-six hours in which load exceeded 40,000 megawatts. In June of this year we have fifty hours so far. So as you can see, those higher load growths and higher temperatures have meant higher frequency of these high loads that we have to deal with.

As you take a look at just June and try to extrapolate for what might be the— what we can expect for the entire summer, we took a look at two experiences. Summer of '98 was a hot summer. We had 82 hours over 40,000 megawatts. Summer of '99 was a cool summer. We only had thirty-four hours. As we project into the summer of 2000, and again these are very rough projections, we can expect anywhere between 142 to 241 hours of loads over 40,000 megawatts.

In terms of what's been happening to prices, this is the real time price and the day ahead energy price in the California market. The blue is the PX, and the day ahead energy price, and the red is the imbalance price in the real time market for the ISO. As I always tell you, you'll expect greater volatility in the red, the real time imbalance price, because we're having to deal with actual conditions that occur on the system. A generator may go down, a hotter than expected load may appear, a transmission line may go out. All of those cause us to react, and prices shoot up. So there's greater volatility, but in general for efficient markets we expect the real time price and the day ahead price to on average follow. And that's borne out. The PX price is \$110 were the average for June so far. Real time price for NP-15 also \$110, so _____ may diverge on specific days because of specific incidents, but on average they track well. One of the things I want to note to you is the NP-15 price for yesterday, for today's trading day, went to \$1100. You may ask, well, I thought we had a \$750 price cap; how could that be? The reason is we had south to north congestion, so all the generation that wanted to generate and go to the north could not, so the day ahead constraint price and NP-15 _____ at \$750 for the energy, plus \$750 for the congestion, for \$1100. This explains to me a lot of what the data you saw as what Mid-Columbia was trading for. It was trading when they saw these prices.

MR. SMUTNY-JONES: I think, as a clarification there, that's the PX price.

MS. SHUFREN: The PX price, right.

MR. SMUTNY-JONES: There's no \$750 cap in the PX price.

MS. SHUFREN: No, no.

MR. SMUTNY-JONES: I thought that's what—

MS. SHUFREN: Right, right. The PX price was \$2500.

In terms of underscheduling, again I would remind you it's both by load and generation. Both of them are choosing to appear in real time. Load is doing it because

it's rational for them to buy across several markets. Generation is doing it because we are rewarding them with a \$1500 payment to be in real time. So for both of those reasons, the day ahead and hour ahead did not clear at significantly high volume, and we were looking into real time with 8000 to 10,000 megawatts of potential imbalances that the ISO would have to deal with. Again, this gives you an idea of what the operators are seeing and what's happening to the real time price as a result of these very high imbalances in real time.

The other issue that you need to focus on is what's happened due to the underscheduling. As Callen explained, one of the policies we instituted was to cover the amount that we didn't—weren't confident would be appearing in real time by eyeing replacement reserve. Whereas normally we buy about 500-700 megawatts on the on-peak hours, zero on the off peak, that average, a daily average of that is about 250. Because of our lack of confidence, we went out and bought significantly more. As a result replacement reserve prices were very, very high, and these are daily average prices. So they didn't hit 750 for the entire day, but certainly there were a significant number of hours at which they were that high. So those large replacement reserve purchases resulted in very high cost for ancillary services. Again, normally when they're about a million dollars a day, they shot up to \$50 to \$60 million a day. So that policy needs to be looked at and reevaluated because of its impact in causing the high prices.

The Board asked and constantly struggles with these issues of market power and scarcity rents (?), so what I did for you is dig up a definition of market power for your use. This is based on the DOJ and FTC merger guidelines. There market power is defined as market power to a seller is the ability to profitably maintain prices above competitive levels for a significant period of time. Scarcity, well, from my definition, scarcity are deserved high prices when, in fact, there is so much demand such that it uses up all the available capacity on the system. Currently we have seen incidents of both of those in the California market. You know, we need to do further analysis to tell you what conditions and when and how often market power occurred, because we have to take a look at what the system capability and capacity was and what the opportunity costs were for the generator. Both have to be factored into equation because we decide if it's market power or scarcity, and that's an exercise that is not a minor one to do and would have to be done later.

So what factors contributed to the high cost? I showed you load growth and unseasonably warm weather. I showed you it was underscheduling by both load and generation in the day ahead markets, and when I say day ahead, I mean day ahead markets as well as any bilateral schedules. We consider all of those forward scheduling. And also _____ part of that was the current ISO replacement reserve purchase procedure, which again we think that you can target _____ and significantly impact cost. There were very high natural gas prices as well in May and June, where we had a doubling of natural gas prices from the levels that was saw last year. We had a significant amount of outages, both maintenance and forced outages, causing very tight supply conditions. We also had very tight supply conditions in neighboring control areas. And those conditions, you know, are the prime conditions for market power to exercise itself.

_____ : Aren't they the prime condition for scarcity as well?

MS. SHUFREN: It is, but not all the hours that we had scarcity did we have the price fight (?). In terms of potential short-term options that are on the table, again these are just a listing. What I would like to do is just identify the options that we've heard about. There are many others available to you for your consideration. Of course, one option is to lower the price cap to \$250 or \$500. Another that's been suggested is pay as bid for ancillary services and real time instead of a uniform market _____ price. That's a major change in our market design and has some implications as to the way purchase _____ were bid. Another idea that's been floated is to impose price caps of \$750 for the PX market and raise the real time market price in the ISO to \$2,500. Certainly that would deal with the underscheduling. It may have some significant impact on cost. Another is scheduling restrictions. You know, require that loads schedule at least ninety percent in the forward market. The other is allow the ISO to forward contracts for services. Or as Frank Woolock said, let them buy if they need some reserves in the PX. Another _____ is a big cap of \$250 for in-state generators and allowing out-of-market purchases, but if we were to make those out-of-market purchases, let them set the real time price. So even though in-state generators would be price takers, they would be able to earn the price set by any out-of-market purchases.

A very targeted approach would be new replacement reserve procurement. One of those might be to drop the price cap just on replacement reserve to \$100 and to reduce the amount of purchases that we make. A consequence of that would be we would see more out-of-market calls to meet emergency situations. Another would be an agreement with in-state generators to bid their full capacity into the market whenever loads are above 38,000 megawatts. You heard where generators legitimately keep stuff off line to "physically hedge their positions." Well, one of the reasons they're hedging it is they don't want to—they may end up to be net buyers in the market, and they may have to pay that high replacement reserve. So they could be a beneficiary if we drop that price, and also if we ask them—so they might not have to keep this physical hedge, which withholds capacity from the market. It isn't available. We're already holding reserves in the market; they're holding reserves in addition for their financial concerns. If we could get all of that into the market, that would be useful.

MR. SMUTNY-JONES: Can I just ask a quick clarifying question? So what you're basically saying is with that option they would not have to pay the imbalance cost if, say, one of their units went out?

MS. SHUFREN: They wouldn't have to pay the double, the replacement reserve and the imbalance cost. It's a very expensive way for the system for people to keep a physical hedge and not for full capacity to be available to the market.

If you take a look at the options and try to formulate a solution, some of the suggested policy criteria might be, you know, ask yourselves first and foremost, how it would impact reliability. Does the solution help, add to system reliability or not? What impact will it have on total energy costs? Does it help promote proper price signals for

new investment and out-of-state supply? How does it impact the ISO's role in the market? Does it promote demand responsiveness and hedging so that load can protect itself from high prices? And finally, how does this help in the mitigation market power yet recognizing true scarcity conditions in the market? Thank you.

MR. SMUTNY-JONES: Well, everybody's waiting here. Angelique, I'd like— a couple of questions from— You know, I'm not sure I'll be able to ask them crisply, but I hope to get the idea. A while ago we restructured the ancillary services market, and every Board meeting you present basically a continuous graph showing what happens as a percent, I believe of the PX price. Is that what it is?

MS. SHUFREN: Of total energy prices, PX and real time total.

MR. SMUTNY-JONES: And that has steadily been going down until the recent anomalies. Is that what you're saying?

MS. SHUFREN: Right.

MR. SMUTNY-JONES: Part of that— And so even in the face of price cap being \$750 total price of ancillary services, the percentage of total energy has gone down, and with _____ out until the most recent—and I think one position could be scarcity. You offered a number of other comments. Do you fundamentally agree that the system isn't broke?

MS. SHUFREN: I think there are a number of things that we're doing that are contributing to the problem such as the purchase of these—these high purchases of a replacement reserve. I think that if we moderated those and corrected the way that we allocate the cost for those that that would help some of the spiraling costs and underscheduling that's gone on. It's a very targeted solution to a problem.

MR. SMUTNY-JONES: So let me put it in my words, and that is that we've had a recent anomaly. In the face of the _____ that was down.

MS. SHUFREN: Right.

MR. SMUTNY-JONES: Because of the continuing working on structuring the market so that we visualize, see, and react to and change these anomalies. You're now pointing out some additional anomalies that we could change. And if we change those, it seems to me that if you put the chart up that you have been showing all along, that ancillary services as a percent of total energy, we continue to be well below what it was when we changed the price cap.

MS. SHUFREN: Right. But they are higher than last year, and the trending (?) out then. I guess, you know, the message I have is I think we can do some things to correct that as there are some recent actions that helped contribute to that problem.

MR. SMUTNY-JONES: Okay. Let me ask another question that relates to what

_____ : Okay, just one reporting record-keeping thing that's important about that is, when we go out of market and make out-of-market purchases and whatever those impacts are, those are not reflected in any graphs that we do of ancillary services. It's simply a function--

_____ : No, they're not reported in there at all.

_____ : Oh, then they're put in at zero.

_____ : Right.

_____ : No, I don't mean that. I just mean, whatever happens because I go out of market and do anything, and its impact on prices, isn't reflected in the ancillary service graph. It's simply a function of the fact that we call replacement reserve ancillary service. That's _____ reflected in the ancillary service graph, and the fact that it's at capacity peak, and so I just didn't want you to have the idea that going out of market somehow led to this pretty little--

(end of side 1, tape 3)

whatever's causing the problem, we now have a new problem we have to deal with. The question is, is the problem the structure, or is the problem the cap, or is it both? And that was the nature of my question, and that is that before we saw these really hot days in the face of our economic growth and all these other things that have already been talked about, things were trending down on an absolute dollar basis, even with the high cap that's three times higher.

MS. SHUFREN: Right. No, I think my answer would be I would favor that targeted approach to deal with the problem.

_____ : Now my related question, and again it has to do with just to make sure that, let's say the audience gets the right perception. It relates to Gary's comment. You indicated, Gary, that, you know, there's a justifiable issue in San Diego relating to calls from rate payers that prices are going up. I'm glad that I'm not taking those and you are. My question is, of those prices that you related, which I believe are probably just the PX piece, not including all of the other pieces that probably would double or triple that, this is just the energy piece that you presented. Of _____ something going to nine point something, what percentage of that is something that we have control over? And that it relates to what percent of 4.9 cents is ancillary services' piece that the ISO can do something about and what percentage of that is a general increase in price that we might be contributing to because of some of our policies? If it's really a PX price or a general aggregate increase in market prices, and we haven't got our hands on that accelerator, so I--well, I'm-- Is the percentage of ancillary services priced, I mean if it's

four cents, what's the number of ancillary services like seven percent, or three percent is ancillary services?

MS. SHUFREN: Yeah, the ISO's cost—shoot.

_____ : Something like five percent.

MS. SHUFREN: Yeah, yeah, five percent, right. Five percent, the total energy cost.

_____ : Two-tenths of a cent is our—correct me if I'm wrong here. but we're contributing two-tenths of a cent, now going to some bigger share. That's what I'm looking for here. Two-tenths of a cent of the issue or what? That's what I want to _____ about now. Do we know what that is?

_____ : If you know it, yeah.

_____ : Part of the problem, Dave, is that the way some of the ancillary service costs gets handled by the ISO is they end up getting spread to a zone as opposed to going to the _____ transmission owner, and in that regard some of the costs that our customers are seeing, okay, are coming because of things in the total zone. A lack of RMR contract in Edison's PO area is one that's causing increased cost—millions of dollars to our customers. So I can't break this apart piece by piece. What I can tell you is from a customer standpoint, okay, when there's no reason for higher bills, no reason for interruptions, we're interrupting load. The way they think about this happens when it's 95 degrees on the coast. When it's 75 degrees on the coast, they don't understand this. And they don't understand the higher bills. Put your hands in the position of a commercial customer. Say he's got a thousand-dollar-a-month bill, small commercial customer. That's now \$1600. Another \$600 to his monthly bottom line. This is big time. I mean I'm trying to tell you that this is very serious.

_____ : Let me assure you, I feel your pain. As the energy service—probably the next to PG&E, we probably have the next largest energy services load, and we feel your pain. However, what's the right thing to do here?

_____ : Well, the problem is, the part of the market that's not working is the energy service part. The customers are coming back. They're leaving the energy service providers every day. We have less customers that have gone to energy service sites (?) today than we did six months ago. These are big customers.

_____ : What portion can we do something about? I guess that's what I'd like to-- What portion does the ISO-- Oh, I didn't think about that. That's valid. I agree with that.

_____ : Well, you know, I think you have to take a good hard look at the cost we are imposing upon the consumer and how we design things and how we go forward and implement what we do so that we don't increase this kind of—this level of

impact on a consumer. Whether it's residential or business, these are major impacts to people that we can't just say, well, gee, what should we do about it? I mean, I think we have to look at it and say, hey, we better solve this or things are going to get unraveled.

_____ : I agree. But is it a PX issue or an ISO _____

_____ : It's both. It's both. It's everybody.

_____ : That's what I wanted to get to. Okay.

MR. SMUTNY-JONES: Mr. Fielder, was this a question on the staff presentation, or-- Okay, go ahead, please.

MR. FIELDER: Two questions that I need some clarification on, I don't know whether it's Callen or Angelique or Terry. The issue about power going out of state. If you have a situation, and let's take Callen's example, in the Arizona Public Service or in SMUD, where the utility owns the generation, and it's serving at maybe load. For one reason or another there's generation that's down or its loads are higher than its supply, it has to go into the market and buy power somewhere. And as a control area operator or responsibility for the load, it's going to try to keep the lights on at any price. I think somebody said that, right? The difference is that APS, for example, or SMUD, when it's looking to go buy whatever incremental power it has to buy, it's buying just the incremental power and paying a high price for the incremental power because it's got this generation fill under cost _____. I think Callen or somebody made that point. So, if our cap is \$750 and they know the California market's only going to pay \$750, and they need power, they're going to go to wherever they can and say whatever they have to. And if it's above \$750, they're going to pay above \$750 and be left out of the hunt. Right? If it's \$250, they're going to go wherever they can, buy it for whatever they have to, and we'll be left out of the hunt. Now, if there is a supply shortage in the region, I think this is the implication that I took away from what Stacy said and Callen. If there is a supply shortage in the region, so there's just not enough generation to satisfy the total WFCC loads, somebody's going to have a blackout. With our prices the way they are, somebody in California is probably going to be the first to have the blackout. But I think that's the case no matter what the price caps are, because other control areas will have an incentive to buy—since they're only buying on a marginal basis, Marcie or Dick would probably pay whatever they had to keep the lights on, and we won't, because we're going to have a cap of some type, whether it's \$2500 or \$750, or whatever. So my question is, is it reasonable to think that there's going to be less power in the State because we have a price gap at a different level, higher or lower than what we have today.

_____ : Let me give you an answer to that, and then Callen you correct me if I'm wrong.

One of the problems that we have in California is, if I look at our control area, and we do the price thing, and we get down to a Stage 3. At that point, all bets are off. Then, you know, maybe Reliant has a contract with APS for firm power. If I'm ready to go down, I will under emergency conditions, order them to give me their power and cut

Arizona off. What is the result of that will be that every control area that has in-control area generation will take care of themselves when they get down to the one percent margin. So what does that mean? That means California, as an importer of nearly 7000 to 10,000 megawatts to meet our 48,000 megawatt load, is going to be dropping load. Arizona, who may have contracts, who will then in their control area not be willing to send it to California, will serve their load. Now, Callen, am I right or wrong?

_____ : I'm half—clearly we're _____ significant net importer, and the tariff under emergency conditions does contemplate taking whatever actions are necessary whether or not other control areas would do exactly the same, and the nature of that, I don't know. So I'd say you're right. I'm not going to disagree. But as a net importer of the number of megawatts that we are, we're very exposed.

MR. FIELDER: Thank you. I think that answered my question.

My second question was on Angelique's chart that—on point number six, Angelique, the one that said set the cap at \$250 but let the OOM calls go to—I can't remember the--\$750. In your opinion, or somebody's opinion, is that a doable strategy? Because wouldn't it create the incentive, then, that in-State generators, for example, would just stay out of the markets and wait for an out-of-market call? Because we've got that incentive, to make sure they show up. Or they would sell out of state, and we'd be buying it back at \$750.

_____ : Clearly all of these are going to have some risk, which I think people are getting tired, so I'm ready to tell you what I think somewhere along the line.

_____ : Dave!

MR. SMUTNY-JONES: Let's see what you think, and then—we've been—John and I have been sort of talking about procedurally how you want to proceed here just in terms of, you know, voting, taking a straw poll, and to talk, and seeing whatever, so—Anybody have a bright idea, I want to hear about it when Terry's done.

MR. FLORIO: This is Mike. Can I ask Angelique a specific question first?

MR. SMUTNY-JONES: Yes, you may. Angelique?

_____ : Yeah.

MR. FLORIO: Okay, on this issue of replacement reserve and how the costs are allocated, I heard a couple of different things. One was that allocating the cost to generators who can't meet their forward commitments may be incenting them to have physical hedges that are counterproductive. We also have this issue of the costs being allocated to load that underschedules, and in either case it seems like if replacement reserve is purchased when we're going into the day short, the generator is going to have an incentive to chase that double price. I guess I'm trying to get a picture of what our options are here. It seems like there are two allocation issues, and there's also a how

much do we buy and do we cap replacement reserve with a different level. Have I captured the options appropriately on that issue?

MS. SHUFREN: Yes, Mike.

MR. FLORIO: Okay, thank you.

MS. SHUFREN: I just wanted to clarify. Mike asked about the capping. Mike, the one thing that was on the slide was having a lower cap for the capacity or availability payment for the ancillary service and for the energy. I just wanted to make sure you had picked up on that distinction, since you didn't have the slide in front of you.

MR. FLORIO: Right, this is a little tricky over the phone. I guess what I'm wondering is, since I believe FERC doesn't consider replacement reserve an ancillary service, whether our authority with respect to replacement reserve is different in any respect from our authority with respect to regulation and operating reserve.

MR. SMITH: Mike, this is Roger Smith. The answer is no to that. The authority applies to replacement reserve.

MR. FLORIO: Okay, but if when our authority expires in November, will it expire for replacement as well?

MR. SMITH: Yes.

MR. FLORIO: Thank you.

MR. SMUTNY-JONES: Jerry. (Terry?)

_____ : There are a few things that keep me awake at night, and this happens to be one of them. And I have been giving this a lot of thought because—and in my simple mind, this comes down to two issues, and they're pretty simple. One is cost and the other is availability of the resources. And so when I look at those two, I drop back and say, well, what was the responsibility of the ISO? And I think when we began this, ISO was going to be the provider of last resort with very few responsibilities, just get a few ancillary services and everybody would self-provide, and we would go into replacement reserve or other parts of the market, and it would be a very small thing that we would be dealing with and taking risks. That has not been the case by a large fact. So, as I look through the options, the first thing that seemed to me that if we are going to control the cost is that we have to get this replacement reserve market under control _____. And as I looked at that price, I said, well, how can I do that? What is a reasonable thing? And I was compelled to think that the reasonable thing is that we do cap how much we will pay in the capacity market. In other words, whether it's \$100 or \$150, or whatever, I think that is something that we need to do to get those costs under control. I think that we allow people to get the energy, so if we keep the cap at \$750, if it's a hundred, we would pay \$850. I think along with that, the ISO, with everybody's understanding, has to take more risk to rely on the market. So, you know, I'm willing to

try and cut the cost of the replacement reserve by number one, buying less of it, and number two, putting a cap on the capacity portion of it so that people would be somewhat constrained from getting 1500. I think that gives us some risk, and one of those risks is, I'm not sure I can compete in the Western market at \$850. If I cannot, then I think we move into the out-of-market calls. Now, I think it is grossly unfair for me to cap a generator in the State at whatever cap we decide today and then turn right around and pay out-of-state people, you know, \$750 or \$850, or a thousand dollars. So I think there is something we've got to do. The easy solution, of course, is say if I buy out of market, then very clearly I'm going to have to pay the inside people the same price. That just drives them to want to go out of market, and we'll see a lot of people selling into Arizona, and we'll buy back at out-of-market prices. So I think to handle that problem--

(Inaudible.)

Well, I have to tell you, I'm suffering from malaria, typhoid, and yellow fever today, but at the end of this, I'm going out of here. So nothing, I'm sure, she's got would get to me.

So how do I handle that situation where I have to pay those additional prices for the out-of-market calls? I think that's something that I have to work with the generators on. I think that there is a necessity to mandate that the generators bid in all their capacity. The idea that they're withholding physically, and I'm trying to not buy in the market at the same time is just at counter odds to each other. I think there's a way to work out with the generators some kind of agreement to protect them for that. So I would say that at any capacity over 38,000 that we ought to mandate generators in the State to bid into whatever market they want to bid into.

Now we get to the big issue, and that is price caps. The price cap issue to me is one that if you would--this morning I was fully prepared to come in here and say it ought to be \$750, because that's the only way I can compete, and quite honestly, I feel very strongly that a deal is a deal, and I feel we made a deal with the financial community and all forward hedging markets that the cap would be \$750 this summer. However, I also was involved in what we negotiated which was a \$750 with a priced reduction to \$500 if this didn't work. So I'm not overwhelmed by the argument that this would undo everything, because clearly the agreement would go down to \$500, and everybody should have read that and recognized that if we had unworkable competition, that that's where we would head.

What has really raised doubt in my mind is that I heard Senator Peace talking about a lot of things that we truly do need to hear, and one of those is additional generation, and the other is transmission. And if in fact, because I'm a great believer in taking people at their word and what they will and will not do, if we could sit down and work with the PUC, the Oversight Board, the generators and the IOU's, I think that even if we go to an interim \$250 cap, well, yes, the munies, I would never, but they're just helping me out in Reliability now, so, I don't know I want to upset them. They're good guys. I think that there ought to be something that we can hammer out, because I believe that the ISO should not be in forward markets, I believe that that is load, and whoever

wanted to build a generator, or whoever wants to buy in Arizona could make that hedging agreement. I think that takes the PUC to recognize that Gary needs more than 800 megawatts if he's trying to hedge the load outside. And I right now don't know what the hedging opportunities are. I do think it's very inappropriate to say that the cost of the rate payer is \$2 billion if, in fact, hedging is going on. I don't know what that hedging is, and I don't think I need to know. But maybe the PUC does it they're not willing to allow you to hedge a hundred percent. Because the way this ought to work, and Callen laid it out very clearly, this base amount ought to be paid for in a long-term hedging contract that gives the generator some rate of return that he can rely on so that he doesn't have to get into these markets and have his prices jump up to \$5,000 to pay for it in one day that it's hot. I think also, I guess I don't totally agree with Gary, because I think that the IOU also has a responsibility to look at this and try to buffer the prices for their rate payers. And I think another thing that concerns me about the \$250—I know how the \$250 was developed, because I was sitting in the room when we came up with \$250. And it had something to do with what the natural gas price was. And I think if you were to look at the natural gas price today, people don't want to accept this, but the curves Angelique gave me showed about \$210 in June of 1999 and about \$495 in June of 2000. That tells me that that base price, to ask somebody to go in at \$250 knowing how it was developed, reasonably should rise to some level. And I don't know what that level is. However, I am not naïve to the pressure that politicians wish to apply, and rightfully so, because they are, in my opinion, protecting what they perceive as runaway costs and, in fact, they may be a little bit runaway. I just think if we're going to go to a lower price _____, that is the decision of this group, then we need to make it very clear that we are doing so under the guise of two things. Number one, if I have to go to a Stage 3, which means I start dropping two, three, four thousand megawatts in the State of California because somebody bought 4,000 megawatts from the L.A. Basin and is sitting fat in Arizona, and believe me, I'm not saying anybody has done that, although today net imports from outside the State at 7:30 this morning were 258 megawatts. Now that tells you—it gives me—somebody had one of their slides. I'm buying some peace of mind. Yes, I am buying some peace of mind, but with those kind of numbers I've got to buy some peace of mind or we're going to be all shedding loads, and everybody's going to look in the rest of the Western United States and say why. So, I guess if you all want to go to \$250, I want you to do it with the full understanding that I may not be able to compete in the market out there and bring resources into California. I have not been able to test. This would certainly test whether California drives the market or not. And I think that's something we need to know, but, you know, Jan's idea of keep this meeting open, I think we need to, because we're going to have to respond in literally hours to what we see out there. But I am willing—would be willing to go to the \$250 if we really got a commitment out of the legislature, the PUC, and whoever else oversees us, and I think that just about everybody as nearly as I can tell, are willing to work together to number one, take care of Gary and the IOU's problems on hedging, number two, allow _____ to go into longer term contracts that give generators the certainty of returning on their investments so that they don't have to feel that they go into price spikes. Number three, we will reduce the amount of replacement reserves we buy, but they've got to be willing to step up when we get above 38,000 and make those units available to us here in the State and bid into the market so as the ISO I can tell what I'm really dealing with and how much I really have to go out and recognize that having said

all that, and the reason I would want to work together with the agencies is when I go to the Governor's office and tell him that we're going to drop 4,000 megawatts in California, I want to have everybody else agreeing that that's what we have to do because we have not sent the proper signals for getting generation in the State. Now through mandate they can break down the barriers and give me transmission lines and generators, but I'm willing to pay a lot for that, because I think in the long-term we're either going to do that or we're going to be facing this every day. And the stress we have put on the people out there running the system trying to do all the best things they can with the rules we've got in place have been unbelievable.

I probably have rambled a lot longer than I should have, but I'm really concerned about the message we're sending. On the other hand, I am equally as concerned that we not take the customers and run them through a roller-coaster that is going to get us both legislative and _____ - in the workplace, because, you know, I went through San Diego as Gary did when the prices went from four cents to fourteen cents, and I know how impacting that can be, and I don't think we want to do that with this market. Neither the generators nor the IOU's, and certainly not the ISO. With that I'll shut up.

_____ : I wanted to ask—I have been, as you know, very troubled by the lack of progress on demand responsiveness and the fact that the customers aren't able to participate in supplying this market at these prices, and I think that's one of the reasons that I felt coming in today motivated to do something about that inequity with regard to lowering the price cap. But I'm troubled by the fact—I'd like to know the effect—we haven't talked much about the effect of these changes on the—what I understand, it's a rapidly evolving demand responsiveness initiative that is being worked on intensely by the staff and the Energy Commission, and the PC, IOU's, hopefully all together and hopefully with a proper sense of urgency, but I'm wondering how would this change affect that situation, and should we consider differentiating between demand bids and what they're eligible to receive versus generators.

_____ : My natural instinct is demand ought to look just like generation; therefore, I would pay them the same price. But maybe this is one of these cases, and this is why I'm saying I think the PUC and the Oversight Board and everybody has to work together, because it may be that to get demand side started and send the right signals, we may have to for some reason allow them to have more for a period of time. So I'm not here making judgments on the PUC's programs, but I can clearly see if we're going to do that, you may have for some time frame make a differentiation between the two different programs.

_____ : Jan, when you get a chance, I have a question.

MR. SMUTNY-JONES: Okay. Mr. Blue, before I recognize you, I have a quick question because you addressed something that I naively assumed was going on. What's going with the self-provision of ancillary services from a load? I thought that that was something that we spent a lot of time with talking last year _____ came up. What's going on, does anybody know?

_____ : The answer is that the vast majority of what was bid, and I understand all that's remaining in that program since the West went to the demand release program, at least that's what I've been told, is interruptible customers who are waiting for a decision from the PUC in order to be able to participate in that market.

MR. SMUTNY-JONES: Well, let me follow that question up. If self-provision of ancillary services was available on June 14, what would be the price impact here? I mean, would a party have been able to—

_____ : Jan, self-provision of ancillary services is not the same thing as what Barbara was talking about. She was talking about that new summer program for ancillary services. Self-provision is already available, and people can do that. And—one of the things that—

MR. SMUTNY-JONES: I guess my question then is, are they? And if they aren't, why not?

_____ : Well, I'll tell you what I've heard. We don't have very much self-provision of ancillary service going. We have some, municipals and others do _____. We don't have a lot of it, and the reason we don't, I have heard, is because with _____ involves bilateral contracts and the assumption of risks by two counter parties and that with the rational buyer program the ISO's purchasing has been fairly efficient. The market hasn't developed because of lack of ability to have a good—to beat the price, basically. That's what I've heard. Haven't done any research on that, but that's what I've heard.

_____ : I think Jan was talking about load participation in ancillary services, weren't you?

MR. SMUTNY-JONES: Well, I guess what I was _____. The question, let me be very specific. I mean, you know, the market was developed here, we were supposed to be the buyer of last resort of this stuff, and if you showed up in our market and you didn't sell providing ancillary services, and the price was \$10,000, shame on you, because you had the opportunity to basically cover that risk. I guess what I'm perplexed about is what I'm hearing here is that on one hand our market is really efficient, I think we should pat ourselves on the back for that. And if people aren't self-procuring these ancillary services yet we have these huge real time prices, and for a simple mind like mine, the dots aren't connecting.

_____ : Jan, one of the things that's important is that even in this replacement reserve stuff that we've buying, you can self-provide your replacement reserve obligation. So if I decide to underschedule 5,000 megawatts, or schedule it at a real time, basically, because I elect to do that. If I had made a bilateral deal with Greg, I can hedge my replacement reserve costs by having him, by making a deal with him. In other words, you can self-provide even your replacement reserve obligation. So that mechanism is in place. I don't know in terms of regulatory approval. I'm saying the market structure supports that.

_____ : Can I get clarity on if the IOU's can do that?

MR. SMUTNY-JONES: Let's go on up left and right, so I need to recognize Blue. If anybody can answer the question, then I'll take you in order. Callen—

_____ : If you can give it a try, and I'll give my answer to the—

_____ : Yes, I just checked. The PX _____ ancillary service market is up and running in the _____

MR. SMUTNY-JONES: Do you have anything to add?

_____ : No, _____, never mind.

MR. SMUTNY-JONES: Okay.

_____ : Terry, I was trying to write as fast as I could when you were talking, and I wanted to go over what I thought I heard just so I can make sure I have documents. What I thought I heard you say was that if you don't _____ you could see a way to go into lower caps undefined right now, maybe \$250, and I thought I wrote down three conditions, there may have been a fourth one. That's what I'm trying to find out.

One, we do that with the full knowledge that under a Stage 3 he may not be able to bring the resources into California. Is that correct?

_____ : Okay.

_____ : Number two, with the understanding that the regulatory and legislative agencies could work together to help solve the hedging problem for the UDC, giving them more tools. Is that correct so far?

_____ : (inaudible)

_____ : Three, allow _____-term contracts with generators. I wasn't quite clear. Are you referring to our marked (?) contract? What kind of contracts are you referring to?

_____ : I'm referring to hedging contracts. In other words, Gary comes to you and says, you want to repower at NC, and I'll willing to pay a certain price for five years or whatever it is.

_____ : To me it's a hedging contract that I don't—

_____ : Why can't it do that now? I don't understand.

_____ : Because I don't think—

_____ : Oh, because of the PX—

_____ : The PUC would not allow him to do that.

_____ : Wait a minute.

_____ : Okay, was there another one that I missed? I was trying to write—I thought there was a fourth one.

_____ : Yeah, the one you missed was I would reduce my purchase of replacement reserves and put a cap on the capacity payment of \$100 over whatever the bid price cap is. So I'd be limiting the amount I would pay for replacement reserves. And then the other one you didn't get is that I would mandate in-State generation to bid in all their generation any time the load got about 38,000 megawatts.

_____ : Okay, then would there be a mandate on scheduling load versus your forecast?

_____ : Yes, yeah—

_____ : _____ really be symmetrical, I guess. That's my question.

_____ : Yeah.

_____ : It would have to be.

_____ : It would have to be.

_____ : And I guess I'm—one question. From an operator's point of view, and I can Mr. Dettlers (?), I can ask Callen, I can ask you. Do you care if you see load or generation?

_____ : No, the only thing I'd like-- When you say load, I mean if I—

_____ : The _____ load

(Two people talking at once—unintelligible.)

_____ : ... lights on. Do you care if its load or generation?

_____ : No, I—

_____ : Load reduction, thank you.

- _____ : Yeah, load reduction.
- _____ : Thank you.
- _____ : I was trying to figure, yeah, load—
- _____ : Load reduction or generation.
- _____ : I would really like to see the load into that ancillary services market ahead of time.
- _____ : I'm talking about what to keep the lights on. Forget the markets. Keep the lights on.
- _____ : Do you care if it's load reduction or generation?
- _____ : Yeah.
- _____ : Thank you.
- _____ : Okay, I—
- _____ : With one qualifier, Attorney, and that is that I be able to see it and measure it. A lot of people say different.

MR. SMUTNY-JONES: Ferreira, Fielder, Barkovich, Collins.

MR. FERRERIRA: I agree with much of what Terry just indicated in terms of trying to stretch (?) your liability. I think we all share this concern right now. The facts are we are in a transition. We don't have a competitive market. The problem that I see, given the current _____ price caps (?) is I think right now the consumers are really taking a bigger hit, and the sellers and generators are profiting while we're in this transition phase. Looking back at the previous resolution when we raised the price cap to \$750, there was a provision that you reduce the price caps if the markets are not workably competitive or we don't have comfortable (?) demand side option or some other conditions. And so from that perspective the issue is are we better off keeping the price caps the same or lowering them? And the price _____ we're talking about. Even if you were to raise the caps hypothetically, that's not going to solve your problem this summer. It's not going to solve it next summer. It's not going to solve it two years from now. I think even if the current caps are a lower cap, it's going to incent folks to build generation. I don't think you need a \$750 cap all the time to keep power in California. I am concerned about certain times when you have to go out of market what happens, and I support your concern there, Terry, but I don't think we need the \$750 cap all the time. Every time there's a power watch, every time you announce a power watch, I can tell you where prices are going. They're going right to the caps, and our customers are paying substantially more while we're in this transition period, and I don't think they should take this big hit until we solve and come up with the fixes that we'd need in the

program, but I think we all have to work together, both the load side, the generation side. I understand Senator Peace is concerned about consumers' confidence and trust and expectations. I'm dealing with that with calls that have been coming in to our utility as well. So I'm in favor of reducing the price caps, but I'm also concerned about the reliability, because no matter where the price caps go, if the lights go out, then we're all in big trouble. So I favor a lot where you indicated, Terry, but I tend to support and will support lowering the price caps while we're in this transition period.

_____: (Unintelligible)

_____: Yeah, I think, Dick, that's the reason that I think we really have to take up Senator Peace on his offer to work together to solve this, because I think it's totally unfair to expect the generators to not make a fair return on what they're doing, whatever a fair return is. On the other hand, I don't think the people ought to be suffering these high prices.

_____: I'm not out pointing my fingers at the generators or sellers. From business decision they're doing what I would in the same situation. And these higher prices aren't simply due to generators and sellers. We're paying double what we paid for gas prices a year ago, and so part of the price increase is due simply to the gas prices. But that's a far cry from seventy-five cents a kilowatt hour when our average retail rate is eight cents. I mean, to ask the customers to pay a hundred or two hundred times more while you're in the transition period, I think is unreasonable.

MR. SMUTNY-JONES: Mr. Fielder.

MR. FIELDER: Jan, with Gary Cotton's concurrence, I'd like to offer some modifications to my motion and then call the question _____. But, okay. That's a bit after some discussion. _____ to the discussion, two or three things strike me. First of all, if I understood, Terry, your suggestions, I think that they are consistent with everything that I've suggested up here in this motion, the \$250—go ahead and make the changes to the replacement reserve, make the changes to the—if they get the 38,000 require the generators to bid, and I think that solves the out-of-market problem, doesn't it? I mean, if, if you could then—then could we take the cap—the \$250 cap—off of the out-of-market calls so that if you're at 38,000, you know in-State generators are running, and if you have to go to Arizona to buy power, you can pay more.

_____: But what am I going to do with the in-State generator who bid in at \$250 if I'm paying \$750 in Arizona.

_____: Well, then I-- Is there a solution to that out-of-market problem? Because I don't—I don't see how you solve the out-of-market problem without distorting the whole market. And I don't-- On the other hand, if you do have emergency power every time, instead of making an out-of-market call, you call on your emergency power, because there's only one choice at that point, then maybe that's the solution. I think that we-- Certainly everybody would buy in to the commitments to

work with, jointly with everybody to get the siting process streamlined, get these plants built, fix the hedging, the limitations on hedging and long-term contracts, and so all those things that you said, I think I can incorporate into this motion. I don't have the words, but we can work on that. And one additional thing is I think that John White raises a good point in that from a demand program, I think that it would not be inconsistent to leave the \$750 cap in place for demand response program. Because we're just not getting the kind of demand response that we should, and I think it would be consistent with the overall intent that if we have to pay a little more to get some more load to reduce that it is probably worth it.

MR. SMUTNY-JONES: John, just so I'm clear on it,
_____ paying people who are generating out of state more than in-State generation.

_____: Terry just told me that that won't work. And so I guess what I'm saying is that if you can't—

(Two people talking at once.)

_____: I couldn't think of a quick way to discourage people from building in California, then telling them they—you know—

_____: But I think what I what I heard Terry saying is that since there's no good way to handle out-of-market situations other than declaring an emergency and calling on generators to deliver the power to California.

_____: In-State generators, I guess, right?

_____: (?)

MR. SMUTNY-JONES: Okay. Sorry, I didn't mean to interrupt you. Barbara.

MS. BARKOVICH: At this point I have more to comment on than I expected to have to at this point, but bear with me, please.

I think that capping-- I was going to address the issue of capping the out-of-market unless Mr. Fielder has withdrawn that as part of his motion. So first of all, I'll ask him about that.

Well, while you're thinking—

MR. FIELDER: I don't think I did. Because I think if we-- Unless I misunderstand something, but if you don't cap out a market, then in essence you've distorted the market, and everybody's going to wind up being an out-of-market call.

MS. BARKOVICH: Okay, then I will go on with that part of my comments, which is if you cap out of market and everything else at \$250, what you're basically

saying is the ISO has no options if market prices go over \$250. And that strikes me as being, with all due respect, idiocy, because if we have a really high couple of days in the Western United States, prices could easily go over \$250, and what you've now done is eliminate every single option that the ISO has for procuring power. And I think that's nuts. On the other hand, if you say, well, yes, that's okay, but in an emergency I'll let the ISO go over \$250, then the ISO gets to define the emergency—great. I really envy Terry being the one to explain to legislators why he chose this particular occasion in order to go over \$250. So, I mean, I think you just boxed yourself into a corner that you can't get out of. I think there are a couple of things we really need to remember here. One of them is we have a couple of people saying they believe, they hope, maybe they think that if we cap at \$250 that we have enough influence on the market in the Western United States that we'll be able to get everything we need. Now, I consider us all to have a fiduciary responsibility to this organization in terms of reliability, and think and hope and believe ain't good enough for me, even if they're good enough for you. I will also point out that with respect to the issue of high prices, we are in a situation right now where with the exception of San Diego, those high prices are eating into your ability and PG&E's ability to recover CPC. At least until the end of the reg freeze they are not being passed along to customers, and you took a risk when AB 1890 was passed, that either because of high fuel costs, which are also definitely a factor, or because of market prices, that you might not be able to recover those costs. So if we have a cost problem, it's only affecting San Diego. It is not clear to me that we have to completely undo everything and drop the price cap to solve that problem. There's probably a trust that we could set up for San Diego customers to deal with the problem.

I want to point out something else. While we're talking about price caps and the fact that we hope and think and believe, but we're not sure, that if the prices go over—you know, that if we drop the cap to \$250 we'll be able to take care of customers that an outage costs a heck of a lot more than spending \$750 or \$1500 for a certain number of hours in a month. A month has, as I recall, about 720 hours, and we're talking about, let's say it's forty or fifty hours. Okay, you tell me what happens if we have a statewide blackout and we knock all the business and the chip making _____ in the State of California out for some significant period of time, and I'm going to tell you that I don't believe that it's better to drop the cap to \$250. Thank you.

(End of Tape 3)

... _____ responsibility to set rates because they are not requiring that the generators bid, so it's okay for the ISO to have discretion on where the cap is. You can't both have discretion on where the cap is and tell the generators they have to bid. First of all it wouldn't work, because markets are voluntary, and so people— You have to actually run around and hire two hundred people to make sure everybody behaves the way they are supposed to behave, that's not going to work. Markets are voluntary. But FERC can't defend itself, and they've basically boxed themselves in by saying, "If sellers were required to bid into these markets, the ISO's purchase price cap would have the effect of setting the maximum price. However, that is not the case here. And that's their

explanation why they can _____ their appeal. That FERC, you know, didn't exercise its authority.

The other solution I would like to suggest that you can consider as a condition is that the UDC is going to give you a significant underscheduling of their load. But they also, at that same time, you know, ninety percent is something that Angelique suggested _____ I identified _____ customers that you're supposed to cut when you get to a \$250 cap and don't have any options left. Because if they're going to underschedule _____ megawatts of load, they ought to be handing you by name firm customers that are 7,000 megawatts that you will drop when you run out of \$250 power. It's their obligation to schedule it.

MR. SMUTNY-JONES: Mr. Blue.

MR. BLUE: I like that laugh. I guess, you know, this has all come up in the last four days, and, you know, here we are trying to take a vote tonight, 8:20 or so. You know, there's a lot of other ideas out there. I'm kind of _____ on what Dick said earlier. You know, Dick said it doesn't have to be \$750 all the time. That's right. It doesn't. Maybe there's some other ideas out there. We haven't had time to talk about other ideas. _____ slide here with some _____. That's all the discussion we as a Board have had on this. There is ideas like sliding cap for fifty hours, maybe it's fifty hours a year, on a calendar year it's \$750. Okay, we've already hit that this year, so we're done. Another hundred hours is \$500, and after that it goes to \$250. That's an idea. There's another idea. Let's talk about incentives. Another idea is to _____ to schedule their load according to the ISO forecast load. If they forecast ninety percent of their load in the forward market, and if they reach this ninety percent compared to your forecast, maybe it's a lower price cap for that day. If they don't maybe it's a higher price cap. There's a lot of ideas out there. Equalizing the caps between the PX ISO. So I'm just saying, we're rushing into something. I think there's a lot of good ideas out, I think, if we just take a little more time. I understand the tremendous pressure to do something. We're not saying we're not going to do something. My point is I think there's some ideas that we as a Board have not had a chance to go over. _____

_____ : Well, it's starting to get light here in London, and I'm ready to vote.

MR. SMUTNY-JONES: Let us know what the day looks like, then. Dede, Fielder, Carolyn, and John.

MS. HAPNER: They're going to throw me out of the building.

_____ : I thought you were boss down there.

_____ : Is it starting to get light in L.A., too, Marcie?

MR. SMUTNY-JONES: Okay, Dede.

MS. HAPNER: Just a couple of comments without getting into the heat of the debate. I just wanted to clarify. The ISO does have the ability under the tariff to require anyone who has a PTA to provide that load, so it's not going against the FERC order. The issue with out-of-market was a totally different story, and I've got the citation--I'll be glad to find it for you--but that's only with respect to generators that have a participating generator agreement. My understanding is that most _____ generation that Terry is referring to, but not all of it, I don't know if you were thinking about something more emergency than that, but with respect to the generators that are sitting around this table, I think that there are participating generating agreements which would give you that responsibility.

The other point I wanted to make in terms of issues that keep me awake at night, I'm concerned about in the month of June, May and June, having called on interruptible customers five times knowing that next November a lot of those megawatts are quite likely to opt out of the market, and we will then have an even bigger problem. So clearly to me the paramount challenge is focusing on the demand and supply problem and not just pointing fingers at one side or another. There are very rational reasons. We heard from two generators why they don't schedule all their load. Most load schedules everything in the PX market, it's just at different prices. So that may be for a variety of reasons, including phantom congestion. So there are a lot of reasons that contribute to people's behavior. I totally support the notion of working collaboratively with the legislature and the CPC to change the requirements that are basically hard-wired into the buy-sell agreement. I think that really influences the ability of people to hedge in the market. The block forward market is still in its fairly early stages, and the ancillary services block forward has gotten up and running, so I do think there are a lot of things that are very much in transition. I also think that as a general rule, and it's certainly been our corporate policy, we don't support caps. We don't think they're good for the market, we don't think that they provide the right price signals. If you look at the problems we already have in California with getting generators to go through the agonizing process of doing business in California, any deterrent is going to make a difference. And I'm extremely sensitive to that. And I think that we can do a lot of things here that are very short-term, but if we want to do something really responsible, we'll look at the dynamics that occur for siting generation and transmission, this problem is not going to go away. It's going to get worse, and the same is true with demand side. We've had a lot of success this year with demand side biddings on every day we've had more megawatts in the market, and I think that a fair amount of attention and perhaps different prices though from a—I don't know. I'd have to think about that one. But definitely I think there are things we can do. But we can't just go out and do those things, John. Getting to the point where we could do them at all took almost two years at the CPUC, and it took us a fair amount of time to get 180 megawatts here. So my concern is that if we are in a very volatile situation in California, and I think several various _____ legislators think that we are, that looking at these longer term problems are going to take some time.

(Inaudible.)

Yeah, anyway. So I think we have to separate the long-term issues from the short-term issues and really focus on what we can do right now. To me the cap discussion is whether or not we are really going to give ourselves a time out from craziness, not make a commitment that is something that we have to hold onto for a very long time.

MS. EDWARDS: How does the price cap do that, Dede? I'm confused.

MS. HAPNER: I—I—

MS. EDWARDS: _____ that's not facetious. I'm asking if we put the price cap in place, we cap at a market and we run out. I'm having a problem defining that as other than crazy as well.

MS. HAPNER: Yeah. I'm glad, actually, you mentioned that, Marcie. I wanted to call attention to that, and I forgot. I really have a problem, John, with that portion of the motion. I don't have a problem with lowering the cap as long as it's for a very, very short period of time which this is. I do have a problem given all the discussion we've had with really hamstringing the ISO when it comes to out-of-market. As Barbara said, I think we leave the ISO with no tool. So, I don't know if that answers your question, Marcie, but—

MS. EDWARDS: Yeah. I was just-- I couldn't get crazy out of my mind by taking away their options. Thank you, Dede.

MR. SMUTNY-JONES: Mr. Fielder, by happenstance you're next.

MR. FIELDER: I just wanted to respond to Barbara and since Dede brought this last point up. Barbara, I agree with you. I think we have a reliability problem no matter what level the cap is. I don't think the difference between \$750 and \$250 makes the reliability problem worse or better. I just think, well, now, I think—I just think that the surrounding regional utility that have cost and service generation, \$750 is nothing, and they'll always outbid us at \$750. And they'll always outbid us at \$250. And we're going to be last in line as long as we have either one of these caps. And I'm not suggesting that we do away with caps.

(Laughter.)

With respect to-- So—

MR. SMUTNY-JONES: It's getting late, isn't it, John?

MR. FIELDER: _____ you have a problem, a legitimate problem, and I think the lights could go out or are probably equally likely to go out regardless of what the price cap is. With respect to Dede's point on out-of-market, I mean, I'm troubled about that too, and I'm open to suggestions. If there's a way that you could-- I mean, we have that problem today. You could, don't make out-of-market calls paying more than \$750, at

least that's what you tell us. Right? And yet we got, we hear about Mid-C prices of \$800 and \$1100 and \$1300, and somehow we get the power.

_____ : Well, but remember, John, it's \$750 for capacity, and then they get the energy price, so they really get

(Two people talking at once.)

_____ : So it's really _____

MR. FIELDER: Well, if there's another way, I mean, if it doesn't destroy the whole market and make everybody get perverse behavior, though there's some other way that we could mitigate the perverse behavior to leave the out-of-market flexibility for you at a higher cap, I'm open to that. I just don't know what the construct is that lets us do that.

_____ : I've got a question when you get a chance, Jan.

_____ : I wanted to start off by saying that I really appreciated a lot of the facts that _____ shared with us early on tonight. I think it was the same day. And I realize, I mean, I think it was Marcie put—said that everything gets spun one way or another. But there still is a lot of good information. For me, I mean— The liability is key. Barbara made a very good point that how much does one blackout cost the State versus what we're paying right now. It's immeasurable. I mean, the one versus the other isn't even in the same ballpark. And even the rolling brownouts have a significant cost to customers. So we are responsible for liability, and that is the first thing we've got to consider.

There are some hedges. When we discussed this last week, there's some hedges that were ignored. I'm glad to see that they got put up there, which is at the utilities, do you own significant amount of generation still that offsets the billion dollars. And we talk about the billion dollar week. Start backing off the money that they put in one pocket into the other pocket, it wasn't a billion dollar week. Then you take more money out for those who had done hedges in the block forward market, an even smaller number. And another fact is that a lot of this dollar isn't going to the customers. I mean, I'm sorry for PG&E's and Edison's shareholders that have used some tools like block forward to mitigate it, and one of the things we need to do is help you guys have more tools, but we've got to get the market right. And right now there is not a lot of risk to customers of getting the market right because eighty-five to ninety percent of the customers in the State are insulated from errors. We could also get right now in a finger-pointing battle. There is one really good point that was made last week by our Chairman about the auction getting stopped and what would have happened if we'd had more generation in the State, but I won't look that direction. I'll look this direction. When I say that, and we won't point any fingers anyway, for being involved—

_____ : That's FERC, by the way.

_____ : But it's who protested it.

_____ : FERC _____ it.

_____ : But you protested it. I saw being involved in the metering process. We got these meters in a lot slower than we could have. What would have happened if customers could have gotten the meters in quicker, we got more people able to install them quicker? The demand response of this program, I'm not—you know, we could have done it sooner. There's other programs that ESP's could have got if they had the meters. People either didn't hedge maybe to the extent they possibly could have or didn't request enough of a hedge, or didn't make a good enough argument on the hedge they requested. Then there's all these mistakes. There's regulators that maybe should have known that there should have been bigger hedges. We could just keep throwing stones, but rather than doing that, I'd like to talk a little bit about what happens to the markets if we change the cap.

The first thing is we send a really big signal to people out there that are trying to decide whether they put it _____ in South America or anywhere else on the East Coast. Whether they do it here or do it there. And people think that us acting like we can't make a decision and stick to it isn't going to have an impact. And it will. Also, there's people that have made—taken reliance on our decision. In March we said the caps will be \$750. Back in November we said they would be \$500 or \$750. There's people that have relied on that and done bilateral contracts. We talked last month about the block forward market and, you know, okay, so the people that were on the short end, the buyers are all okay with that. Well, what about all the bilaterals we don't know about? And we're having an impact on those people also.

The impact on the demand responsiveness program. I like the fact that both of these gentlemen said maybe this doesn't apply to our demand responsiveness program because right now we're starting to have a fledgling demand responsiveness, both "regulated and regulated". I hate to see that go the wrong direction. There are also other programs that are starting that help with self-provision and other things that if we do this might not actually happen. And other markets and programs developing that we stifle. And I'm just saying we need to consider all these things when we look at the caps.

The other thing is, what we're trying to do in my mind is make a decision: Do we improve things now and keep a continual problem later? I saw the graph of, you know, how much generation we need to have built just to keep up with growth, and are we going to save ourselves some money now and continue paying it out for the next eight years? I'm concerned about that, especially considering that our insurance policy's customer goes away in less than two years. And by customers, I mean all the rate payers in California. So that the people that we're supposed to be here for, their insurance goes away in two years.

There are other ideas that we've been shown but potentially have less of a negative impact and might solve the problem. I think the idea of working collaboratively to work on the demand responsiveness, to streamline the siting, to increase hedging

programs, to do something for San Diego's customers if we think we need to do that, to fix the replacement reserve problem, all are things we ought to examine before we make an irreversible decision to go to \$250. One of the other things the \$250 is going to do if we go down there is it takes the pressure off and the urgency. We have seen a whole lot of energy come in to us from people that are very powerful suggesting we move the cap down to \$250. What if all those people and all their energy was put at doing the other list of things? We're going to take the pressure off them. I'm not saying we need to leave the pressure on them for that long, but I think we need to work collaboratively and try and come up with some of these things before we make an irreversible decision tonight. I'm not saying we can't make this decision on Friday if, you know, Terry goes out and tries to do his collaborative stuff, and everybody tells him-- Then Terry can come back to us on Friday and say, hey, this stuff didn't work, and we've investigated three of the eight ideas that are still left, and those three of the eight that are still left don't work, but I think we need to investigate the ones of the eight that make sense and keep pressure on people, and I realize this may be like one of my last speeches as a Board member, because I made it. Jan, when you get a chance, tell me where I am in the queue.

MR. SMUTNY-JONES: Right now you're number four. I've got White, McNally, Parquet, Edwards, and Blue. Mr. White.

MR. WHITE: Mr. Chairman, I have a couple of process questions or observations. First of all, this has been a very important Board meeting, and I'm very uncomfortable with both acting and not acting at the moment. I also feel the need personally to disclose a substantial amount of ex parte contacts that I as a Board member have received. We don't have a formal process for this, but I have a feeling that we're going to need one. So I'd like to disclose my ex parte contacts, some of which I initiated, some of which were initiated by the parties. John Rosier with Senator Peace's staff, Loretta Lynch, the President of PUC, Mandy Chin of Senator Bowen's staff, Jeff Dosovich from Enron, David Freeman from LAWP, and Ralph Cabana.

MR. SMUTNY-JONES: All of the above.

MR. WHITE: Not all of the same views being expressed. Secondly, I have a personal commitment. I need to go home to my wife, who just had surgery today and needs me to pick up a prescription, so I'd like to ask permission to open the roll and cast a vote. I am—with the changes made and with the idea that this is a work in progress. I'm prepared to vote for the motion with a great deal of reluctance, and also a feeling that the people are saying that they'll be with us to share the responsibility if the lights don't go on. It's really not their responsibility. They may get rid of the stake holder board as a result of what we do or don't do tonight, but for now it's our decision. I wish that—and I hope that this is an action that we'll all not regret, but for myself I feel the merits of protecting the customers and some of Dick's points provided also with openness and demand responsiveness market, I'm prepared to at least act on the motions now knowing that it's probably something we're going to have to revisit.

_____ : A point of order, what the motion changes after he votes alone. Can we do that?

MR. WHITE: Well, maybe by the time I get home you'll still be here and I can call back in.

MR. SMUTNY-JONES: You want to call the question?

MR. WHITE: I'd like to call the question.

MR. SMUTNY-JONES: Okay. Anybody have a problem with that? There's cards still up, and I would like to— I think it's important if we have thirteen votes for this thing, the way it's structured let's go, if not, let's start

_____: _____ changes that Terry talked

MR. SMUTNY-JONES: Okay.

_____: Changes that John—

MR. SMUTNY-JONES: Oh, I'm sorry. Right. Those need to be clarified.

_____: Can people use the mike?

MR. SMUTNY-JONES: Hold on. Who is that that needs to speak?

MR. WOYCHIK: No, this is Eric asking for people to just use the mikes. I can't hear.

MR. SMUTNY-JONES: Okay, thank you. Yes. Please use your mike.

_____: I'm not sure we know what the motion is.

MR. SMUTNY-JONES: Okay, we have a motion up here. Okay. And what Mr. White is suggesting is that with the specific details that were laid out by Terry that we vote on that.

_____: Terry, why don't you just—

_____: With the modification on the demand bids not--

_____: Right, with the modification on the demand bid.

_____: There's only one-- I don't know what we're voting on.

MR. WINTER: One really major problem that I have with that is, as Barbara says, if we pass that in this form and I get to the day when I am going to a Stage 3, and I'm going to have to turn off the lights, I have no ability to go out and buy power with

that motion the way it is. I don't know how I'm going to take care of the internal people. That's something I've got to sit down with them and negotiate.

_____ : But Terry, you have, you have the same authority you have today, just less price.

MR. WINTER: No, I don't think I do. I don't think I do, John, because today I can go out of market and buy. Here you say if I go out of market, the highest price I can pay is \$250.

_____ : But I thought you can't pay more than \$750 today out of market.

_____ : You can't.

_____ : You can, but you have—

_____ : I have not, but I could.

(Inaudible.)

_____ : Yeah, I think I would.

_____ : What?

_____ : Again, what?

_____ : Take out out-of-market calls.

_____ : Okay.

_____ : So it's out. _____

_____ : Gary, is that okay with you?

_____ : Could somebody read it to me when they get done?

MR. SMUTNY-JONES: Yes, we will do that. I apologize to those of you on the phone. You know how this works. We have a screen up here, language is going on.

_____ : It isn't any better if you hear more.

MR. SMUTNY-JONES: It actually isn't. This is, I think everybody's feeling the same way, that this is a decision we'd rather not be making one way or the other. So, all right.

_____ : I'm okay with the _____. Does this give you, then, if you feel kind of the emergency power you need?

_____: Yeah, (inaudible)

_____: Scary, because what I've got to do, though, is I've got to work with the generators and find out what we pay the in-State people, because I'm concerned about that. I also think that we really need something in there that if we go to \$250 and I start calling on the interruptibles four hours every day because we can't get in the market, that's unworkable, and we've got to—

_____: No, I just—

_____: (Inaudible.)

_____: No, _____. The _____ saying is that we give you the emergency powers you need, you know, to avoid those kind of things where you _____ and, from your recommendations, one of your recommendations was to work with the in-State generators to try and find a way to deal with some equality here. That's part of the most—

_____: I'm okay.

(Confused and/or inaudible section here)

_____: Can you kick off again the other things that you have on your list?

(Two people talking at once.)

_____: We need to see this all in writing before we vote on it.

_____: Yeah, not the bottom line.

_____: Sorry.

_____: Can we take five minutes? We need to take a five-minute break and write it up.

MR. SMUTNY-JONES: All right. Here's what I'm going to do _____. I'm sure that food looks real good right about now.

_____: Don't you dare.

MR. SMUTNY-JONES: Now what we will— Yeah, hold on a second. How much time _____ fifteen minutes? Because I know somebody needs to race to the airport.

_____: (Inaudible.)

MR. SMUTNY-JONES: Huh? You're not going to make it. Do you have a cell phone with you? Can you call in?

_____: (Inaudible.)

MR. SMUTNY-JONES: What number do they-- Okay.

_____: (Inaudible.)

MR. SMUTNY-JONES: The one thing I don't want to do is _____ Unless there's-- The only reason that I want you to leave right now is if you have a dire emergency to get anywhere, because the problem right now is that, you know, I think we have-- I don't want to set everybody loose and then only have half of you come back. We'd lose a quorum, and we'd look like a bunch of idiots sitting here for almost six hours and not being able to make a decision. So what I would like to have done is I would like to break for fifteen minutes, till 9:00 o'clock. I would like to reconvene at 9:00 and vote on whatever the motion is. This will give us some time to put some language there so people actually know what they're voting for. Mr. Blue.

MR. BLUE: Doesn't affect the motion, but I'll just reflect one thing. Last summer we were told--just this summer, _____ this summer. Today I was told just this summer, we got to get to this summer. You know, going back to Dede's concern if this has got to be temporary, I'm just putting that out--

MR. SMUTNY-JONES: I understand that. Mr. Parquet.

MR. PARQUET: I--I would direct everybody to kind of follow up on what Terry indicated, page 20 of the presentation that I put together. If you look there is an exact direct track, almost right on, between gas prices when the price cap was lower and the gas prices today and PV prices.

_____: Jan, I realize there's a number of comments, but can I ask just one small question?

MR. SMUTNY-JONES: Go ahead.

_____: In the evolution of this document, as you guys go off line now and kind of manipulate it as a group, will someone keep in mind that we could potentially do this, but we could, in fact, put in language given how long it would take to implement a number of the fixes that both Terry and Angelique outlined, we could set a week deadline and then say if prices continue for X number of hours back to--at \$750, despite these fixes, then we will go to such and such. And I think that way you're going to at least satisfy the largest number of these issues that are on the table. That's it. Thank you.

_____: Now, what's--what's

_____ : Five hundred.

_____ : Two fifty.

_____ : Stacy. What?

_____ : If you do that, then the market's going to react accordingly. You're going to send the wrong market signals. If you're going to make a decision, you make the decision, and that's the way—

MR. SMUTNY-JONES: I think we need to do that. I also, if you recall when we started the meeting, I suggested that what I'm going to want to do is recess this meeting, not adjourn it, because just in case—I know this would never happen—that we've done a major screw-up here, I need to be able to call a Board meeting and have you all back together quickly, A. B, I would also think that given whatever we end up doing one way or the other we end up noticing this price cap issue for every subsequent Board meeting just so if we have to talk about something or have to fix something, we have an old precedent of doing this that we're able to handle this. Charlie, you _____

_____ : My only comment is that in order to recess you're going to have to recess to a particular date and time to be announced now. In other words, you can't recess and do it on standby basis.

MR. SMUTNY-JONES: Okay. Let me think about that during the break. I know you-- Mike, are you still awake? Florio! Did you talk to anybody about—

We will break for ten minutes. _____

* * * * *

MR. SMUTNY-JONES: Let's actually come back to order so we can-- _____ carry on conversation. Who all do I have on the mike here? Obviously I've got Mr. Wiseman, Mr. Florio, who else is out there?

MR. WHITE: John White.

MR. CARNAHAN: You have Bill Carnahan.

MR. SMUTNY-JONES: Okay.

MR. MCGUIRE: John McGuire.

MR. SMUTNY-JONES: Thank you, John. You're still there. Okay, good.

MR. WOYCHIK: Eric Woychik.

MR. SMUTNY-JONES: Thank you, Eric. Anyone else? Okay, thank you.

_____ : Marcie's there, isn't she?

MS. EDWARDS: Yeah, I said I was here.

_____ : Oh, okay.

MR. SMUTNY-JONES: We were worried that—

_____ : _____ hasn't let me participate yet. Why should—

(Laughter.)

MR. SMUTNY-JONES: This is very important, because if your votes are to count, we have to know who's out there. And so we've got Wiseman, Florio, , Woychik, Edwards, McGuire, and Carnahan. Is that—

_____ : And White.

MR. SMUTNY-JONES: And White. Okay. Mr. Parquet.

_____ : Jan, can I ask you a quick question?

MR. SMUTNY-JONES: Yes.

_____ : Those of you that are there have been able to access staff interpretation of the workability of this proposal. Is there any way that those of us on the phone can have that _____ as well? As opposed to you just going directly to the vote?

_____ : That goes exactly to my question. I've got to say I'm reading it, and it's a nice Christmas tree, but I'm not sure what gifts are presented to anybody. I mean, I-- You know. The question, management, sellers, generation, and load. There's four opportunities that enter into forward contracts. What does that mean? Is this motion contingent upon whether that's successful or not? Do we wait until they are successful in order for that to go into effect? What if we fail? Does that mean the bargain wasn't struck in the motion? So I echo what Marcie's indicating, and that is—

_____ : Does that require a legislative act or a PUC decision on the authorization to hedge?

MR. FLORIO: Well, it's been PUC up to now. They've defined the limits of what the utilities can buy forward.

_____ : I think you're right, Mike.

MR. FLORIO: Um-hmmm.

MR. SMUTNY-JONES: Okay. Something else?

_____ : Yeah, I—well—

_____ : Obviously I'm having a real hard time with this motion, but, uh, John, would you accept one of two friendly amendments? Number one, change the \$250 to \$500, or number two, ask the whole thing and we'll work with the legislature to get your CPC's back some other way.

(Inaudible.)

MR. SMUTNY-JONES: If you please use your mike, John.

_____ : I think in light of all the letters we got and everything, I think we have to vote on this motion.

_____ : What about having the effective date the 15th of July instead of the 1st?

_____ : What does that do?

_____ : Gives time for the PUC to act on their hedging issue.

_____ : I don't think so.

_____ : Okay.

MR. SMUTNY-JONES: Okay, Jerry and then Barbara. I'm sorry. He did not accept the amendment. At least that's the way the chair took it, so. Correct me if I'm wrong. John, you didn't accept the amendments? Jerry and then Barbara and then Greg.

MR. TOEYNES: As the motion stands right now, I can't support that. There's a couple of things need to be changed before I can. We've talked considerably about— There was three things that were effective _____ on the market. The first one was the withholding of generation from the market. The second one was the underscheduling of load, and the third one was— What was that? The opportunity to be able to hedge. And I don't see anything in there about the underscheduling of load which is one of the three stools (schools?), and I think there's got to be something in there, and there is a proposal that I think the ISO management put out about being able to schedule at least ninety percent of the load, and I think that needs to be there for us to go forward on this. We've got to look at all the thoughts, not just part of them, if we're going to resolve this.

The other things that I've been weighing is what should the price cap be. Should it be \$250 or \$500. There's a couple of things that _____ needs that should be at the \$500 level. The first one is that's what we said we were going to do. We said we want to take a look at \$750 and if wasn't going to be \$750, it was going to be reduced to

\$500 if the market _____. I think we should stick with what we said we were going to do. The second part of that is what Terry said earlier on about how the \$250 was created in the first place and where the price was at the time that the \$250 cap was created. The price of gas I'm talking about. In fact the price of gas has more than doubled since then, so I think that argues for the cap being at \$500 over \$250, too. So with those two changes I could vote for it, but until then, I can't.

MR. SMUTNY-JONES: Mr. Blue and then Barbara.

MR. BLUE: Jerry said everything I was going to say, so I concur.

MR. SMUTNY-JONES: Barbara?

MS. BARKOVICH: Uh, with respect to Item a, I'm curious as to when you have an emergency, what happens if you try to get together an emergency Board of Governors meeting and you can't get a quorum for a week and a half. Is one just supposed to wait for the Board meeting and allow the emergency to proceed, or what?

_____: (Inaudible.)

_____: No, I think clearly, just like now, Barbara, I mean if there's an emergency, I believe I have the authority to do what I feel is right and then get the Board to either support that or correct me.

MR. McNALLY: Yeah, I wanted to-- I'm going to support the motion as it's written, and the reason why is that first of all I think that there is a problem. That's why I asked earlier about the infrastructure in terms of generation and transmission. I look at that as the hardware of this, of this monster, and then we talk a lot about market design and the flaws and the problems, which I call all of that the software, and I think, Barbara, with all due respect, I think or I believe that we have a limping computer here. And I think that, as I said, a number of things that need to be fixed, and a lot of it has to do with generation and transmission. In the meantime we have--what we have now, we have a high-- We have the spikes and we have the dramatic increases in the bills a la San Diego. I can remember back some years ago when the pitch was that in California we had very high prices for energy, and the reason was that the utilities didn't know how to manage it, and what we needed to do was to bring in competition. That competition will get the lowest prices that we can get by introducing competition, and that's what we've done. Now I don't necessarily see those lower prices. And it doesn't look like we're headed for lower prices, at least in the short term. I don't think there's really, truly, honestly competition, because we don't have generators in the right place in this State. And I think that there's going to be _____ system until that is straightened out. And so I guess what I'm looking at is saying, okay, well, we'll tolerate the higher prices for that period of time that it takes to fix the system. And I think that that is what's going to send Senator Peace and his group up the wall because of those prices, and so because of all that I think--I don't agree that should have caps forever. I don't agree-- Quite frankly, I don't agree we ought have any caps at all, but I don't think anybody would go that far, because I think that would only cause some re-restructuring if we had no caps. So I don't

necessarily like the idea of caps, but I think it's probably a necessary evil for the short term here, but there's a lot of work that needs to be done. We—we spent two meetings arguing over whether to build transmission or build a power plant. And all we really did was waste time. That's all we did. We just delayed. We need to build transmission, and we need to build generation, and we can't decide over—about how to do that over a couple of small situations, and that's the kind of problem that we're going to continue to deal with. We're going to have problems with the total system, and so I think that this is a move at least to protect the rate payers to some degree, and then I think we have a lot of work to do to fix the system. But anyway I intend to support the motion. Thank you.

MR. SMUTNY-JONES: Blue and then Mr. Roscoe and then Mr. Parquet. Anybody on the phone want to speak?

MR. BLUE: Can you scroll up to the first, the very first _____ and the very first _____? I guess, let's see. Oh, excuse me. Number one. In Number one there we basically are-- The motion makes a statement that there are factors (?) considered as a failure at the market. I'm not sure that-- I wouldn't agree that we have a failure of the market, so I don't mind investigating the factors whether we have a workably competitive market. I don't-- That's predetermining if there's a failure, and I'm not sure we've determined that, so-- John, would you kind of-- would you agree to reword and _____ that part of it?

(Inaudible—static.)

MR. SMUTNY-JONES: At least he was smart enough to get everything he needed in the motion last year and then voted _____ Yes. Parquet and then _____ . Static here.

MR. ROSCOE: I've got an approach that I think is just very simple to a complex issue, just as a comment. Because I think we're at the point where we've got plenty of attention, we've got a sense of urgency established, we've got plenty of offers of help, and a very complex situation. The thing that bothers me, I think, is this is exactly the time when we want a sense of stability and base. I mean, just a simple problem-solving approach. We know where we are right now with the \$750. Even if it's exactly the wrong direction, we know where it is. We know where some of it is going. And my concern is you make a ship, put you in an unknown position, and then start trying to work the long-haul issues, work some changes on top of that. I would much prefer seeing us work from a known base, even if it's a base we don't like. Make the surgical corrections for the long haul and get on with that and capitalize on all the attention and all the offers of help we've got to do that rather than throw the thing into disarray. And I think it's just kind of a fundamental approach thing I'd like people to think about it.

MR. WOYCHIK: This is Eric. Jan, can I say something in response to Stacy's comment? Or you got a queue going or what?

MR. SMUTNY-JONES: Can you wait, because we've got—I've got two other people in front of you.

MR. WOYCHIK: I'm sorry. Go ahead.

MR. SMUTNY-JONES: Thank you. Mr. Parquet, Mr. Fielder, and then Mr. Blue.

MR. PARQUET: I guess I wanted--mostly I think everybody knows where I stand on this. I think the deal was is that reluctantly I'll agree that the deal was that if this didn't work for whatever reason or the Board believed it didn't work, the deal was \$500. The deal was not \$250. We're not _____ reducing it, we're reducing it precipitously, and we are changing the deal. Second in relating to Jack's comments on hardware and software or generation transmission and markets. Um, I guess just let me say, Jack, that doing something like this, what you are doing is sending a shock through the markets and saying that the ISO has not got the staying power to let the markets work. So the cause and effect I don't think is correct. Similarly on generation, that kind of a change to the market changes the whole context under which generators are built. If you _____ a financial statement on the generator, you could probably make \$250 work. However, that's not the issue. The issue is, in the face of these kinds of changes to the market, on this kind of precipitous basis, what's going to happen next year? How about the year after that and year after that? It takes years, as you know, to develop these power plants. How do we do that and expect that those kinds of investments of billions of dollars we can sustain those _____. We can go to our management and say this market is stable enough to do it. So—

MR. SMUTNY-JONES: Fielder, Blue, and then Woychik.

MR. FIELDER: Terry, I wonder if we just—some language that's not on the motion but I think you said when you read your points off, I just added point c up there where it says, "Management shall work with responsible agencies and the legislature," and then I add this language: to streamline and accelerate the construction of power plants and transmission lines—and then go on and to eliminate constraints the hedging opportunities for UVC. I think we talked about when you went through your list that we needed to do something about the licensing process and break through all this _____.

_____ : Just eliminate the UDC's?

MR. SMUTNY-JONES: Okay. Mr. Cotton, do you-- That's okay. All right. Who was up? Mr. Blue and then Mr. Woychik.

_____ : I'd like to call the question.

_____ : Okay, I'll just make one more comment. I told Dede, this probably won't change the _____, but I guess, you know, _____ there has-- The _____ law and regulation. I don't know what that means, but, "Mangement shall direct generators to bid in all their capacity," I don't know what that means, "when the _____ load exceeds 38,000." I know what that means. I guess I'm a

little unclear. You know, you heard tonight generators tell you that these are old units. Okay. And when you're forcing people to— You know, we take _____ because of the risks we face in something happening to one of our units. So by doing this, of course, everybody should realize you're adding more liability. There's more liability there for us. _____ point that out.

_____: Well, not to sound like a broken record, what I hear you saying they're doing is they're self-providing ancillary services. Okay. Going back to my earlier question, what I sure don't want to do is start punishing people for self-providing ancillary services. I mean, if you're basically saying if, you know, you're two—you know, if your largest unit goes off, you know, too bad we'll hold you harmless. I mean, we're kind of wandering into an area here that I'm not sure how this works, but I think your point is that if, in fact, it's being held back simply as, you know, a self-provision of ancillary services—

_____: _____ of _____, too, is another question.

_____: Well, it does say to the extent permitted by law and regulation.

MR. WOYCHIK: Jan, this is Eric.

MR. SMUTNY-JONES: Yes, Eric, I'm sorry. Go ahead.

MR. WOYCHIK: I want to support Stacy Roscoe's comments and particularly the whole idea that we have everybody's attention at this point. Again, pardon me for saying we've discussed _____ the fundamental structure problems that the ISO has had since it started. The FERC has pointed us to a set of those. I think we need to integrate the congestion management issues. I don't think we need to put that into the motion, but it seems clear to me that the market is broken, and we do have to take advantage of this, and so one of the other ideas that's very important, obviously, is Terry's proposal that all _____ be bid in if it's more than 38,000 megawatts, which will mitigate at least the physical withholding. The problem is we still have the economic withholding. And the economic withholding is the high prices. There's another fundamental issue which we've never discussed, we've always dodged. The question is whether plant should bid their incremental costs or whether they should bid their opportunity cost. If they bid their opportunity cost, they can exercise market power. If they bid the variable costs, they can always be assured, if we could—if they bid their variable costs we'd never have problems with market power, and they would get scarcity rents. We obviously need the other major _____ like management, and I'm going to suggest that priority service pricing scheme, there is a lot of literature on that. In short, I think we do need to take advantage of everybody having a focus on this now that we have what we hope is a manageable crisis.

_____: I think I called the question.

MR. SMUTNY-JONES: Can we just go forward here?

_____: (Inaudible.)

MR. SMUTNY-JONES: Ask the question.

_____: Okay. Um—

MR. SMUTNY-JONES: Sorry, Dede.

_____: Sorry. But on d, from listening to what—

_____: I can't hear you.

_____: I'm listening to what Frank and Terry and said. Didn't-- We were talking about forward hedge contracts, not necessarily contracts. No, they're not.

_____: _____, please, I have enough trouble _____ with my Board.

_____: Did Dede call a question?

_____: Dede did, thank you.

MR. SMUTNY-JONES: Okay. Do you ask the question? Clarifying, thank you.

_____: _____ Generators show direct generation bids in all their capacity when system load exceeds 38,000. Does that mean we just wholesale or renege on all of our bilateral contracts that we got in place with our customers?

_____: No, no.

_____: That's what it says.

_____: Scheduled.

_____: I don't think it does.

(Several people talking at once.)

_____: We asked that the question be called. Shouldn't we go to that?

_____: This is really complicated what we're doing here.

_____: I think Dave is right. What you really want is it scheduled. It doesn't have to bid into an ISO market.

_____ : To answer your question, he said he didn't know. Is that what you said to the question?

_____ : (Inaudible.)

_____ : Bid or a schedule.

_____ : All right.

_____ : (Inaudible.)

_____ : All right, the question has been called. We're going to have to do a roll call on this, obviously. All right, everybody, you know, quiet. Okay. It has been moved by Mr. Fielder, it's been seconded by Mr. Cotton. _____ the motions with the one change that was agreed to. Please call the roll.

_____ : John Fielder. Mike Florio.

_____ : We can't hear. Can we speak into the microphone. I'm not hearing that on the—

_____ : Fielder voted yes.

_____ : Oh.

_____ : And maybe Elena, if you just would then repeat what the vote is so we can hear it.

_____ : Okay, thanks.

_____ : John Fielder, yes. Mike Florio.

MR. FLORIO: Yes.

_____ : Yes. Dede Hapner.

MS. HAPNER: Yes.

_____ : Yes. Karen Johanson.

MS. JOHANSON: No.

_____ : Stephen Kashiwada.

MR. KASHIWADA: Yes.

_____ : Carolyn Kehrein.

MS. KEHREIN: No.

_____ : No. John McGuire.

_____ : John?

_____ : John McGuire, are you there?

MR. MCGUIRE: I voted yes.

_____ : John McGuire, yes. Jack McNally. Yes. Dave Parquet.

MR. PARQUET: No.

_____ : No. Stacy Roscoe. Jan Smutny-Jones.

_____ : Wait a minute. Stacy what?

_____ : Stacy was no.

_____ : Thanks.

_____ : Jan Smutny-Jones.

MR. SMUTNY-JONES: No.

_____ : No. Patricia Swanson. No. Jerry Toeynes. No. John White.

MR. WHITE: Yes.

_____ : Yes. Terry Winter. Yes. Ken Wiseman.

MR. WISEMAN: No.

_____ : No. Eric Woychik.

MR. WOYCHIK: Yes.

_____ : Oh, I'm sorry. I tried to-- Barbara Barkovich.

MS. BARKOVICH: Despite the fact that my confirmation by the EOB may very well be at risk, no.

_____ : She votes no. Greg Blue.

MR. BLUE: No.

_____: No. Bill Carnahan.

MR. CARNAHAN: Yes.

_____: Yes. Camden Collins. No. Gary Cotton. Yes. Marcie Edwards.

MS. EDWARDS: No.

_____: No. Dick Ferreira. Yes.

MR. SMUTNY-JONES: The motion fails.

_____: The final count for those who don't see the Board is twelve to twelve.

MR. SMUTNY-JONES: Uh, Dick.

MR. FERREIRA: Yes, I'd like to make another motion. I still think we've got this issue. I'm going back to the previous Board resolution. Indicated that when we raised the price to \$750, it was provided that the Board shall reduce the cap to \$500 if it determined that the market is not workably competitive among some other things we just discussed today. So I'd like to revise the motion to change the reduction of the cap to \$500.

_____: I'll second that.

_____: _____ Carolyn.

_____: No, she seconded it.

_____: Oh, okay.

MR. SMUTNY-JONES: Any discussion on this? Change the number from \$250 to \$500.

_____: Are you talking about the same motion?

_____: If they can offer a friendly amendment. It's not-- To that first, number one again. Investigate the factors contributing to the failure of the market. _____ investigate factors to determine if the market is workably competitive.

_____: I don't agree with that myself. Mr. Blue, this is Eric. I think—

MR. BLUE: I'm not asking you, Eric, I'm asking the author.

_____: Are you voting for it, Greg?

_____ : _____ the fact. Please don't argue.

_____ : It's up there. Investigate the fact that—

_____ : Are you voting for it with that—

_____ : I want to say need to investigate if the markets are workably competitive. We're not . . .

(End of Tape 4)

MR. SMUTNY-JONES: Hold on just a second, please. There was an amendment requested as a friendly amendment.

_____ : I'm willing to make this change is to investigate the factors, the factors that contribute to the lack of a workable competitive market.

_____ : The second approved (?)

MR. SMUTNY-JONES: Who was the second? Carolyn, are you all right with that?

MS. KEHREIN: Yes.

MR. SMUTNY-JONES: It's been approved. Okay.

_____ : Call the question.

MR. SMUTNY-JONES: Accepted. There's a couple of clarification questions here. Barbara.

MS. BARKOVICH: I'd like to return to a question that was asked about the last motion, and that is what f means, the language about management _____ generators to bid all their capacity when system load exceeds 38,000 megawatts. The issue of what that means, what it does to bilateral contracts and forward commitments still has not been resolved, and I think it's nonsensical.

_____ : It should be _____. I think it got lost before—

MR. SMUTNY-JONES: _____ as a question. Isn't it true that if there's a bilateral deal there, it gets scheduled through the ISO. It may not be, you know, in the PX market, but it, it's scheduled. So as long as the ISO—as long as we know that everything out there is out there, the question is, and they're telling you that they're self-providing their _____ ancillary services, is there a problem.

_____ : It seems to me that the word bid means what the word bid means, and that's not the same thing as scheduling a bilateral contract, and I don't think you can change it to the word scheduled, because scheduled basically means so they can schedule it out of State, and I don't think that's what you're encouraging, so I think you have something that doesn't make any sense.

_____ : My recommendation would be to take it out, but I realize that that won't make other people happy.

_____ : Barbara, I mean, if you read it _____, management tells _____ generators to bid or schedule all their capacity within the California market or within something—or—

MR. SMUTNY-JONES: Sometimes the less words the better, folks. How about—you know-- Isn't the issue you wanted to be able to account for all the capacity. Isn't that correct?

(Inaudible.)

_____ : Are these changes able to come through on the website? I'm not getting any.

(Inaudible.)

_____ : One way of dealing with it would be to say not already subject to bilateral contracts or other market commitments or something like that. That at least would be clear.

_____ : When we were aiming at this, discussing this, we were addressing particularly a situation where there were a number of times in the last two weeks where we would look over the capacity in the control area, look over what was bid, scheduled, and bid in real time, supplemental energy, or other ancillary service powerhead (?) markets, and there were sometimes thousands, three, four, five, six thousand megawatts of capacity that was uncommitted, unbid, and unscheduled. And so—

_____ : (Inaudible.)

_____ : I understand that. I understand that. I'm not disagreeing with your comment. I'm telling you what we were thinking when we said this because we end up with capacity that's sitting there waiting for prices to get high to do uninstructed deviations in I don't know how many megawatts, and I don't know how many quantity at what time, and that's what we were aiming at in terms of this particular provision.

_____ : Is it solved that you put the word available in front of capacity?

_____ : Mr. Chairman?

MR. SMUTNY-JONES: Yes.

_____: We can—we can pick this thing to death in terms of available capacity and we talk about direct generators, both are direct generators who in effect have signed PGA-- We can go through and clarify this. I think we understand what the intent is is pretty much in line with what, uh, Terry indicated. All I wanted to do was to change the cap. I'd like to call the question.

MR. SMUTNY-JONES: Okay. Question called.

_____: Am I to understand that you do not want the change currently reflected in this?

_____: Was there an agreed change on one?

_____: And we also need to check on—

_____: Yeah, _____ on one—one I agreed to, we changed to \$500. What's the request on 2f? _____ permitted by law or regulation and preexisting contracts, management shall direct generators to bid all their available capacity.

_____: Wasn't it generators and load?

_____: Hang in there, _____.

_____: That's what we've been talking about.

_____: Okay, so those of you on line, we put it up again on the web, only they're now looking at one-- No, we're going to put the most recent version up. Never mind. Wait ten sec-- There it is.

_____: I'm okay with the proposed changes.

_____: Does that include that addition of generation and load? Because I can't see from here.

_____: No, just the generation.

MR. SMUTNY-JONES: Okay. Extrapolated (?) from the amendment. Extrapolated (?) by Carolyn Kehrein _____ second as _____ amendment. Okay, the question has been called.

_____: Does everyone on the phone know there's a motion in front of them?

_____: Close enough.

_____: Yeah, I think I got it.

_____: All right.

MR. SMUTNY-JONES: _____ vote.

_____: Dick Ferreira. Dick Ferreira, yes. John Fielder.

MR. FIELDER: No.

_____: John Fielder no. Mike Florio.

MR. FLORIO: Yes.

_____: Yes. Dede Hapner.

MS. HAPNER: Yes.

_____: Dede Hapner yes. Karen Johanson. Yes. Stephen Kashiwada. Yes.
Carolyn Kehrein.

MS. KEHREIN: Because of the fact that I have been able to make a comment on
either one of them, I'm abstaining.

_____: Abstention. John McGuire. John McGuire. John, where'd you go?

_____: John McGuire votes yes.

_____: John votes yes. Jack McNally. Jack says no. Dave Parquet. He wants
to come back: Stacy Roscoe. No. Jan Smutny-Jones.

MR. SMUTNY-JONES: Yes.

_____: Yes. Patricia Swanson. Yes. Jerry Toeynes. Yes. John White.

MR. WHITE: Yes.

_____: Yes. Terry Winter. Yes. Ken Wiseman. Ken Wiseman?

MR. WISEMAN: Sorry, yes.

_____: Thank you. Ken Wiseman is yes. Eric Woychik.

MR. WOYCHIK: Yes.

_____: Yes. Barbara Barkovich.

MS. BARKOVICH: Because I still think the wording is idiotic, I'm going to abstain.

_____: Abstention. Greg Blue.

MR. BLUE: I never got to comment either. I still— We haven't solved the underscheduling problem. That's a major problem, and we're screwing up by not dealing with it. I guess I'm going to abstain.

_____: Abstention. Bill Carnahan.

MR. CARNAHAN: Yes.

_____: Yes. Camden Collins. No. Gary Cotton. Yes. Marcie Edwards.

MS. EDWARDS: Yes.

_____: Yes. Dave Parquet.

(Mike noise covered voices here.)

_____: Dave Parquet abstains because we're not dealing with underscheduling, but I don't think you can hear. The vote is sixteen, four, four. It carries. Mr. Blue.

MR. BLUE: Uh, I'm not sure if I can get this worded right. I'd like to put a motion on the table regarding Terry's requirement or request that the load bid ninety percent into the day ahead market.

_____: Ninety percent against your forecast? We have—you know—

MR. BLUE: I don't have the exact words, but we can—I can give you some words in five minutes if you want.

_____: What happened to that last motion?

_____: It passed, sixteen, four, four.

_____: Thank you.

_____: I think the way Angelique wrote it, Angelique _____ sufficient for what you wanted to say, _____ schedule at least ninety percent of load in the forward market?

_____: That's how I heard it. I was just listening down—

_____: With—

MR. SMUTNY-JONES: Mr. Parquet, while they're sorting that out, you have a point, please.

MR. PARQUET: I think I can do this. I'd like to make a motion to add the words load into that section _____.

_____ : Actually, we have to—

_____ : _____

_____ : Well, we have to wait until the pending motion.

_____ : Oh, there's a pending motion.

(Several people talking at once.)

_____ : I was making a new motion to add the word and load

_____ : We've already passed this one.

_____ : I was making a separate motion, but if you want to add it onto this one, that's—

_____ : Okay.

_____ : Now let me see if I understand this correctly. You would be saying, Mr. Parquet, that to the extent permitted by law, regulation, preexisting contracts, management shall direct generators and _____ to bid all their capacity, I guess, and load when the system's load exceeds 38,000. _____? Okay.

MR. SMUTNY-JONES: Okay. Got the motion. Is there a second anywhere?

_____ : Who made the motion?

MR. SMUTNY-JONES: Okay, it was Mr. Parquet that made the motion. Karen Johanson seconded. Yeah, if we could have it quiet in the back, we're trying to—

_____ : If I may—

MR. SMUTNY-JONES: Yes, you may. You are the General Counsel.

_____ : I really think that we need some language in there that withdraws the previous motion if you're not-- Well, but what we'll have is two inconsistent motions, and management will be faced with the task of trying to resolve two inconsistent directives from the Board.

_____: I, uh, my motion—

_____: I would move reconsideration of the previous motion.

_____: Yeah, I would-- The motion can be to withdraw this one and add those—

_____: That's what I meant. You can do that. And if it's voted down, it stays.

_____: You can put language in there that's

(Loud noises over voices—microphone squealing?)

_____: Okay, I agree.

MR. SMUTNY-JONES: Let's-- Let me do it this way. Are we all together here?

_____: My motion is to withdraw this one, number one. Number two, create a new Section G that—sorry, it's getting late—parrots back Item number 4 on the ISO's chart. Scheduling restriction load must schedule at least ninety percent of the load of the forward market.

_____: Can I just clarify? Are you—you're referring to scheduling coordinators.

_____: Yeah, I—

_____: I'll withdraw my _____ attempt at a motion so that you can proceed.

_____: _____ many more?

_____: Terry, Terry?

_____: Yeah, I-- If I could have your attention just to _____ on that. What I am concerned about that on the load and asking them to put ninety percent in there, with the generators it's very clear to me that I'm trying to find out what they're doing and protect myself from-- To the load, I know what the load is. Now if we're going to tell the—the load that they've got to put ninety percent into the forward market without allowing them to have hedging mechanisms and a way to protect themselves, I guess I don't understand why we're doing that or how I would—

_____: So that the PX will drop its cap, which is something we can't otherwise encourage them to do than to give them a motive to do it.

MR. SMUTNY-JONES: Okay, let's get some order here. I need to—

_____: I withdraw it. I withdraw it.

MR. SMUTNY-JONES: It's withdrawn.

_____: I think it's a problem with the whole thing, and that is there's a lot of uncertainty and clarity, and we're getting all wrapped up in our _____

_____: Let me—let me just—

_____: We haven't solved the underscheduling problem.

MR. SMUTNY-JONES: And let me just say that, you know, from a standpoint of—I would like the, you know, Market Surveillance Committee or for Angelique's group to be looking at this underscheduling problem. There's been a lot of stuff floating around. As tempted as I am to offer my own opinion as to what's going on out there, it is obviously troublesome. And I think part of what we're trying to do here was address that—that, in fact, we need, we need that looked at in terms of, you know, what's going on—in terms of _____ scheduling what's going on in those markets and if, in fact, it is true that there is insufficient cover there for the UDC to figure out what somebody can do about that. Dave.

MR. PARQUET: Mr. Chairman, can I ask a question whether or not the underscheduling problem is included within the items to be investigated in the previous motion?

_____: That's the point I was going to make as John pointed out that point number one up there indicated something to the effect of investigate factors contributing to the failure of the markets to be workably competitive, or whatever it says right now.

_____: The lack of a workably competitive market.

MR. SMUTNY-JONES: Let the record show that John read the motion. Okay. This has been a very difficult decision for this Board to make. I think it's very clear that there are significant concerns with the fact of basically keeping the lights on in California. That is our number one issue. I've scoured AB 1890 twenty-three times as it talks about reliability. I think that is our number one issue. I think a lot of what was proposed in this motion does two things. One, as I think Mr. Ferreira indicates, this is what we told everyone we would do if the markets were not workably competitive. I think it does recognize the fact that there have been significant changes in the market, specifically the doubling of natural gas, and I think that some of management's changes put into this, I think, also helped mitigate high ancillary services costs, which I believe Senator Peace and the legislature and other policy makers were concerned with. I hope that that's the case. Huh? I appreciate that.

So with that-- You need-- Or recess. Huh?

So are we covered on that? Okay, here-- Okay, well here's my concern, and this is why we've got a problem with these bylaws in terms of being able to, you know, react quickly to stuff.

The question I have for you, Terry and Charlie, is if something happens, okay, with this—we guessed wrong, and in fact ancillary—you know—ancillary service prices go through the roof and the lights go out, and, you know, _____, do you have sufficient power right now to act? Okay. Call a meeting and then ask for forgiveness, or—

Yes, Elena.

_____: I do believe that there is something in the emergency part that there is an ad hoc executive committee that can be called together if the full Board cannot be pulled together.

MR. SMUTNY-JONES: So we're all right on that.

_____: The Executive Committee is the Chair of all the committees and you.

MR. SMUTNY-JONES: Oh, gee, I'm looking forward to that.

_____: _____ the power to go out of market if he was in trouble?

_____: That's included in the motion, I think.

_____: So, I'm not sure what else he needs that he didn't have as of yesterday. Unless I'm missing _____

MR. SMUTNY-JONES: That's the only reason I'm asking. I want to be sure that we don't have to have, you know-- I think all of us are tired of this issue. Okay. I'm _____ expecting someone to bring FTR's back next. We haven't argued about that in awhile, so Gary, why don't—

Okay. So, you covered? With that, any new business items for the next meeting?

_____: Is the meeting recessed?

MR. SMUTNY-JONES: Okay. Thank you.

_____: Motion to adjourn.

MR. SMUTNY-JONES: Motion to adjourn.

_____ : Second.

MR. SMUTNY-JONES: All in favor.

_____ : Aye.

MR. SMUTNY-JONES: Thank you, then. Hey, Mike, thanks for, you know, spending the evening with us.

MR. FLORIO: Hey, it was a pleasure.

MR. SMUTNY-JONES: Yeah.

_____ : Not.

MR. SMUTNY-JONES: Good night.