

# Proposed Price Cap Resolution

Moved that:

The ISO Board rescinds the Motion on Price Caps adopted June 28, 2000. The ISO Board also makes the following findings in support of the action set forth herein:

- A. State officials and agencies have strongly urged that the ISO reduce the price cap applicable to the ISO markets to \$250 in an effort to mitigate the effects of price spikes on ratepayers.
- B. Absent the reforms described below, such reduction in the price cap will immediately increase the difficulty of ensuring electrical reliability in the state of California, will de-stabilize the markets for electrical power in California and may increase the occurrence of power interruptions throughout the state during periods of peak load, thereby harming ratepayers:
  - Entities that schedule load should immediately apply for and use appropriate risk management tools, including use of medium and long term forward energy contracts as a means to mitigate price volatility on behalf of consumers.
  - Generators should actively seek participation with loads in forward energy contracts as a means toward price stabilization for consumers. Furthermore, generators should bid all available capacity in existing markets, particularly during periods of high load.
  - Regulatory agencies and/or the Legislature should:
    1. Remove constraints on hedging opportunities for UDCs.
    2. Remove constraints on participation by load in demand relief programs.
    3. Enable consumers to receive real time price information, through real time metering or other enabling technologies.
    4. Expedite, within a target period of one year, the approval of projects to build new generation and transmission facilities where needed within California.
- C. The above reforms are viewed by the ISO to be essential to mitigate the near-term and long-term consequences of lowering the price cap as requested;
- D. The ISO takes the action described below with the expectation that the identified risks to reliability will be mitigated through immediate implementation of the reforms described above.

Based on the foregoing findings, the ISO Board directs management as follows:

1. Temporarily to reduce caps in the ISO real-time, ancillary services, and congestion markets to \$\_\_\_\_, effective for the period July \_\_, 2000 to October 15, 2000, subject to the following:
  - Such reduced cap shall not apply to OOM calls placed by management to out-of-state generator resources.
  - Such reduced cap shall not apply to the capacity payments in the Summer 2000 Demand Relief trial program currently in effect.
2. Reduce its purchases of replacement reserves and cap capacity payments at \$100.
3. Urge generators to bid and/or schedule in all of their capacity in periods of high demand.
4. Urge entities that schedule load to immediately apply for and use appropriate risk management tools, including use of medium and long term forward energy contracts as a means to mitigate price volatility on behalf of consumers.
5. Urge generators to actively seek participation with loads in forward energy contracts as a means toward price stabilization for consumers. Furthermore, generators should bid all available capacity in existing markets, particularly during periods of high load.
6. Explore alternative means for suppliers to recover their investments through some form of long-term payment.
7. To send a letter to the addressees identified below:

Governor Gray Davis, State Senator Steve Peace, State Senator Debra Bowen, Assemblyman Roderick Wright, Michael Kahn, Chairman of the Electricity Oversight Board, and Loretta Lynch, President of the California Public Utilities Commission.

Such letter shall advise them that action to reduce the price cap has been taken, shall further advise them of the findings set forth above and of the risks to reliability posed by the reduced price caps, and shall urge that they take immediate action on the reforms described above.