



Memorandum

To: ISO Board of Governors
From: Roger Smith, Senior Regulatory Counsel
Date: June 26, 2000
Re: ***Background Materials on Current Price Caps***

Attached are background materials for the Board Meeting on June 28, 2000. The attachments are:

1. the August 1999 Motion passed by the Board on price caps (***Attachment A***),
2. the August 1999 Board Memorandum on price caps (***Attachment B***),
3. the November 12, 1999 FERC Order on our price cap filing (Amendment No. 21) (***Attachment C***), and
4. the March 2000 Board Motion authorizing the ISO to keep the price caps at \$750/MWh through November 15, 2000 (***Attachment D***), (please note: the March Board materials had a substantial DMA analysis and an opinion of the MSC attached to it, these materials are not included; the criteria for raising or lowering the price caps was set by the Board in August of 1999)

Also provided below is a chronology of events (ISO filings & FERC Orders) regarding price caps in California.

Price Caps in California - Chronology of Events

- **May 28, 1998** - California ISO, 83 FERC ¶ 61,209.

Order on Amendment No. 7 to ISO Tariff - temporary price cap for BEEP authorized due to software defect (initially set at \$125/MWh)

- **July 17, 1998** - AES Redondo Beach, L.L.C., et al., 84 FERC ¶ 61,046.

July 1998 price spikes - Order on ISO Emergency filing. For interim period, "ISO rejection of bids in excess of whatever price levels it believes are appropriate for Regulation, Spinning Reserve, Non-Spinning Reserve, and Replacement Reserve are authorized as reasonable." Advance notice for market participants of any adjustment in price caps required.

- **October 28, 1998** - AES Redondo Beach, L.L.C., et al., 85 FERC ¶ 61,123 (Order on Rehearing).

Allows ISO to continue with the purchase price cap previously authorized, ISO has discretion to reject bids that are excessive. Price caps for A/S markets are authorized until structural changes in A/S markets are proposed and implemented (see, Amendment No. 14 filing made on March 1, 1999).

- **January 27, 1999** - California ISO, 86 FERC ¶ 61,059.

Order on Amendment No. 12 - ISO asks to extend price cap for BEEP (see item No. 1 above) based on market flaws identified in the Ancillary Service ("A/S") markets (see AES Orders). ISO proposed to keep price cap at \$250/MWh until ISO has made implemented changes in its' A/S markets (see Amendment No. 14 - filing to be made on March 1, 1999). ISO also proposed that price caps be raised to \$750/MWh when Energy and A/S market function effectively and a \$2500/MWh price cap to become effective 10/1/99.

FERC *rejects* the ISO's specific proposal on BEEP *but* says the approach used in the AES orders for the A/S markets should be used for real time Imbalance Energy market. Result: price caps for Imbalance Energy market approved. ISO can use the same approach "subject to the requirement that, in its March 1, 1999 filing, the ISO explain and justify its longer term plans."

- **May 26, 1999** - AES, 87 FERC ¶ 61,208, judicial review pending.

Order on Amendment No. 14 and Rehearing Request of AES orders. FERC allows the ISO to retain the authority to impose a purchase price cap through November 15, 1999. 87 FERC at 61,818.

- **November 12, 1999** - California ISO, 89 FERC ¶ 61,169, rehearing pending.

Order on Amendment No. 21 - ISO proposed to extend purchase price cap until November 15, 2000. ISO informs FERC that price caps were raised to \$750/MWh effective 9/30/99, and proposes to lower caps to \$500 effective June 1, 2000 if the Governing Board decided that any of the following conditions were met: 1) the markets are not workably competitive, 2) there are no practicable demand side management options in place, or 3) the IOU UDC's have sought and have not obtained from CPUC practicable options to self-provide A/S and to use hedging products in Cal PX markets.

Proposed price cap approved for an additional 12 months.

Rationale used is that the purchase price cap is not a cap on what a seller of A/S may charge, rather it is a cap on what the ISO as a purchaser is willing to pay. Also, FERC later explained in an order involving another ISO that a key factor in its approval was its recognition that the CAISO's price caps "are set on a predetermined basis," not applied after the fact. ISO New England, 89 FERC ¶ 61,209.

- **March 14, 2000** - ISO Governing Board Memorandum and Motion.

Authorized continuation of \$750/MWh price caps for Summer 2000.