

What would you charge us to do this? Call me with any questions you have.

----- Forwarded by Mary Hain/HOU/ECT on 05/23/2000 04:23 PM -----

To: Mary Hain/HOU/ECT@ECT, Susan J Mara/SFO/EES@EES
cc:
Subject: Out of Market

I sent this message earlier today. Sue suggested filing a discriminatory pricing complaint at FERC. If that is the proper channel to go through I am all for that. Especially while we are on a roll. Let me know your thoughts.

----- Forwarded by Tim Belden/HOU/ECT on 05/23/2000 12:30 PM -----

From: Tim Belden on 05/23/2000 10:34 AM

To: kfluckiger@caiso.com, zlazic@caiso.com, twinter@caiso.com
cc: kalmeida@caiso.com, David Parquet/SF/ECT@ECT, Susan J Mara/SFO/EES@EES

Subject: Out of Market

I just finished talking with Zora about the Out of Market activities yesterday and thought that it would be a good idea to put my thoughts into an e-mail. It appears as though the MW that you procure out of market end up suppressing the ex post price. For example, Enron sold the ISO 100 MW for \$750/MWh during hours 17, 18, and 19. It was our impression that the ISO was procuring large volumes of energy out of market during these hours. Yet the ex post price for these hours settled at \$379.29, \$300.00, and \$119.77 respectively. Every MW that you purchase out of market reduces the number of MW that must be procured through the BEEP stack. Reducing the number of MW procured through the BEEP stack naturally puts downward pressure on the ten-minute and ex post price. Yesterday's prices support this theory. We saw this happen in the summer of 1998 as well. The result is that you harm providers of energy in-state. This could be instructed or un-instructed deviations. Yesterday we had nearly 800 MW of uninstructed generation in the state (in the form of over-scheduled load). Your out of market calls, coupled with the way that you perform ex post pricing, hurt us and everyone else who provided energy within the state to you in real time.

If you value power at \$750/MWh in the bilateral market, then your BEEP price should be \$750 as well. This is the proper price signal as the marginal resource in the state is \$750. Because of timing issues and software inflexibility I understand that your BEEP stack can't reflect this. In essence, you are taking \$750/MWh power and pricing it into the BEEP stack at \$0. There is a simple fix here. You could simply set the Target Price to \$750/MWh in any hour that you procure energy out of market for reliability reasons. You have proven before that the Target Price can be changed quickly and unilaterally.

We know that you have to place reliability first on critical days. I have no problem with the ISO procuring MW's out of market when the need is there. There is a simple way to send the proper price signal to the entire market through the Target Price. I recognize that this is politically challenging. But these prices are real and are driven by scarcity. Your reliability problems over the next couple of years will be a direct result of too little investment in new generation. Prices need to reflect market conditions in order to incent new generation. I encourage you to stand up to your slogan "Reliability through markets" and adjust your target price methodology or your ex post pricing so that in the hours of the greatest scarcity the ISO pays generators the proper marginal price.

Thanks for your consideration of this matter. Call me at 503-464-3820 if you would like to discuss.

