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2 [dialing/ ringing]

3 ERIC: Eric [inaudible]

4 HOLLY: Hi, Eric, this is Holly Krebs from Enron again.

5 ERIC: Yes.

6 HOLLY: I've got Greg Wolfe here with me. Um, he had some other ideas that he thought
7 might be, um, workable for you guys, also. So, I thought I'd let him tell you about those and
8 see if you have any interest in that.

9 ERIC: OK.

10 GREG: Hey Eric.

11 ERIC: Hi.

12 GREG: Ah, yeah, basically what we do with a lot of the -- the QFs or QFs gone IPP --

13 ERIC: Right.

14 GREG: Um, is we have what we call a services arrangement where each day, you know,
15 assuming you're buying index gas, ah, which I assume that's what you're doing --

16 ERIC: Right.

17 GREG: -- and ah, so what we'll do is we'll look at the -- we'll look at the gas prices, and ah,
18 we'll use your heat rate and we'll basically create the -- your marginal cost of production and
19 -- and bid that into the, ah, the PX or the ISO -- well, mostly the PX day of -- day ahead
20 market. Sometimes we'll ah -- we'll make a decision to go into the ISO markets or even the
21 day of market, or possibly even the ancillary services market, but what, um -- the reason that
22 we've -- we've kind of ended up building a business out of that, and we do this for about
23 twelve generators right now, is um, ah, for the most part, y -- you know, anything long term,
24 we've had trouble getting done with, ah, with a, ah, project financed type entity --

25 ERIC: Right.

26 GREG: -- ah, for a couple of reasons: One, because you're unit contingent or your power
27 would be and -- and also, ah, it's unlikely you're going to want to go put up a letter credit that
28 -- that goes along with the typical types of power transactions that get done in the market
29 today.

1 ERIC: Right, right.

2 GREG: So, um, ah, basically, we just have these, ah, ah, ah, profit-sharing arrangements
3 where ah, we help determine when it, you know, the – the economic – the variable cost for
4 you to sell another 10 megawatts or 20 megawatts out of your unit, ah, using the, ah, index
5 prices. We get all that early in the morning and then, ah, ah, we bid it in and – and ah, ah, we
6 c – maintain daily, ah, daily records and – and, ah, just manage the whole deal, and we
7 basically share the profits.

8 ERIC: And how do you do that?

9 GREG: Ah, well, it's just a, ah, it's a percentage of value. So, the first thing we do is we
10 take out your cost. We take revenues minus your cost and ah, that's how we get to the – get
11 to the profits, and then, um, you know, when we get paid, ah, we take our share of that and
12 then we, ah, pass the rest on to you.

13 ERIC: OK, and so we just have an agreement on what that split is?

14 GREG: Right.

15 ERIC: *[inaudible]*

16 GREG: And depending on size, um, you know, it – it can range from anywhere from
17 about, ah, 8% to 30%. Ah, 30%'s a little large and – and that's ah, more typical of one where
18 we're bringin' ah, a specific piece of transmission into the – into the mix, which is what we
19 have with some of the northwest generators that aren't in California, ah, where we use some
20 of our COB transmission. But ah, you know, and –

21 ERIC: That's – that's your percentage?

22 GREG: That's our percentage – yes, of ah, of ah, the net profit.

23 ERIC: OK.

24 GREG: And ah, you know, so I would be thinkin' that we're probably somewhere between
25 the, ah, 10 to 20 percent range, with ah, the size of the units that you have. Um, if – if, you
26 know, if they were bigger generators, um, it might be d – doing something less, because
27 amount work and ah, the amount of ah, you know, w – if it's 100 megawatt unit, ah, that's a
28 lot easier for us to manage than 10 ten-megawatt deals so –

29 ERIC: Yeah. Yeah.

1 GREG: Um, so that's basically, um, how we manage those things. We do all the – all the,
2 ah, the bidding, the scheduling, tagging, settlements, ah, and I don't know how much
3 exposure you have to doing anything with the PX or the ISO whom I imagine – or I image
4 it's ah, little or none –

5 ERIC: Right.

6 GREG: But, ah, ah, most of our customers have looked at it and realized that that's not
7 something that they're going to be in the business to do, and then, throw in the economic
8 decision-making every morning that you have to do and – and I think if you saw how much
9 information we have at our hands, ah, and our offices, and – and how quickly we make
10 things happen, ah, it's pretty – you – you – you – you wouldn't even consider trying to
11 replicate the amount of information in the – in the processing capabilities that we have.

12 ERIC: *[inaudible]* you know, um, I think that's something that we're definitely interested in,
13 because, ah, obviously you guys control our gas price on – in a situation like this.

14 GREG: Well, I – I'm assuming you're buying gas at index, right?

15 ERIC: Yeah, wh – what we do is we buy at So Cal border, but um, right now we're not
16 burning it; we're a solar plant.

17 GREG: OK.

18 ERIC: Um, we – but we have a gas backup. And that's what we would be providing you?

19 GREG: OK.

20 ERIC: And so – so what we would do is just, um, you know in gas like that, you guys could
21 just pick your price. *[inaudible]* the price of gas *[inaudible]* I – I don't know if So Cal border's
22 the right index to use for something like that.

23 GREG: Well, that's where the gas would be comin' from. So, how much gas do you
24 purchase under your – you say y – you have an agreement with EES?

25 ERIC: Ah, yeah.

26 GREG: And is that – was that inherited from PG&E or did you do that with EES?

27 ERIC: No, we did it directly.

28 GREG: OK.

29 ERIC: Ah, with – ah, i – I don't know if it's EE – it's Enron Capital and *[inaudible]* or

1 whatever. I'd have to look at my agreement.

2 GREG: OK. So you did it with our um – our wholesale gas business?

3 ERIC: Right. Right.

4 GREG: OK. And ah, how long ago was that?

5 ERIC: Ah, we do one every year, every two years.

6 GREG: OK.

7 ERIC: Ah, I think ours comes up in, ah, like May of this year. *[inaudible]* that we don't have
8 a lot of gas nominated for, ah, the winter period, too.

9 GREG: So most of the time you're not – you're not, ah – you're not buying gas under that
10 agreement anyway.

11 ERIC: Right now we wouldn't be.

12 GREG: Right.

13 ERIC: See, um, if you got two minutes, I'll explain.

14 GREG: OK.

15 ERIC: We – you know, we have two plants – our solar plant – ah, the two plants that I
16 have – and I'll give you a – a little run-down on the five other plants that we might also be
17 bringing on board here on – on a deal like this, but my two plants – we use 80 – 90% of the
18 gas during the – the four summer months of June through September.

19 GREG: OK.

20 ERIC: and that's *[inaudible]* and – and we sell all our power to Edison and they're a long-
21 term deal. Ah, because of the California crisis you know, this waiver came out by FERC, um,
22 which would allow us to burn ah, ah, natural gas and sell into the market through a bilateral
23 agreement which this would – which this would qualify for *[inaudible]*

24 GREG: And when did that waiver come out?

25 ERIC: Came out last Friday.

26 GREG: OK.

27 ERIC: And we expected another waiver – a – a – and an additional waiver's going to come
28 out, um, on Friday.

29 GREG: Uh huh.

1 ERIC: So we're going to take a look at that even harder. There's nothing we can do before
2 this Friday, anyway. So we're going to look at that one, and there's going to be more
3 clarification in that, but it's going to be in the, um, California restructuring order.

4 GREG: Uh huh.

5 ERIC: So, it – what we've been led to believe is – is – is it's going to be buried in there and
6 it's a lot to take it out of – out of the California restructuring order.

7 GREG: Yeah.

8 ERIC: From that, um, you know, that will give us our rights that we need. We still need
9 Edison to agree, you know, hey we're going to do this, are you fine with it somehow, and –
10 and have them give their nod, I think. Um, so right now we don't have a lot of gas
11 nominated between here and really, June.

12 GREG: OK.

13 ERIC: Um, so that's why I was saying the gas issue's kind of open –

14 GREG: Well – well, when you do nominate it, you'd nominate it a – and you basically buy
15 it at index prices.

16 ERIC: Yeah, we buy it and so we just had to pick – pick the index that we want to agree to
17 use.

18 GREG: OK.

19 ERIC: [*inaudible*] for. U – under – under the deal here. And – and I'm sure Ron Menton can
20 help you out.

21 GREG: Yeah, we can probably talk to him about what – what your gas deal looks like. Ah
22 –

23 ERIC: And then um – and then the other – the other five plants are all 30 megawatt plants,
24 um, and again, I'm not sure they could give you all 30 megawatts, but they could probably
25 give you between ten and twenty, I'm sure, o – of each unit. Um, they do use more gas, um,
26 in this winter time-period, so they do have more gas nominated. Whether or not that would
27 impact this deal or not, I – I'm not sure, we'd – again, Ron is their contact person there too.

28 GREG: Yeah.

29 ERIC: But – but I – either way. You know, the option agreement sounds fine, or even this

1 agreement sounds fine, too. I mean, sharing the profits, um, you know, I think that's OK
2 with us.

3 GREG: Yeah. That's what we found. We've had deals where, um, you know, ah, w – a –
4 some people want these structures and stuff like that, but what basically this is is everybody's
5 incentives are aligned and ah, you know, we'd be happy to show you all the investment in
6 the – the people and the processes and the systems that we use to make everything run
7 smoothly.

8 ERIC: Most of the people have doing this in California are PG&E guys that are just a little
9 bit above contract, is that who you have?

10 GREG: No, actually we have some, ah – we have some biomass ah, plants that – that ah,
11 PG&E ah, you know, got rid of their contracts back in the mid-90's and then these guys are
12 now at market. We have some, ah – we have three generators that are outside California that
13 we actually, ah, not only do we bid in, but we buy the transmission every day and – and, ah –

14 ERIC: Uh huh.

15 GREG: -- bring them in to the ah, California market, and then we have ah, ah, some others
16 that were QFs that, ah, one way or the other either bought out or – or got relieved of their
17 ah, QF ah, agreements, and are totally at market. So it's not just an incremental amount. But,
18 ah –

19 ERIC: Do you think that 250 cap applies to us or not, or the soft cap or how does that –

20 GREG: Well, what happens – yeah, I mean it – it applies to anybody selling any power into
21 the market.

22 ERIC: Well, not really. Ah, not under our arrangement.

23 GREG: Um, well, I'll you what. It – under your, ah, Edison arrangement, that may be your
24 arrangement with Edison, but the arrangements with the ISO and the PX are ah, you know,
25 that's basically, ah, ah – if you're going to do business with them and those are going to be
26 the – I mean, you're in the – you're in Edison's control area, or you're in PG&E's?

27 ERIC: Right. Edison.

28 GREG: Yeah, so, um, you're interconnected to the ISO and if you're going to sell into that
29 market, you're going to play by their rules and –

1 ERIC: OK.

2 GREG: and ah, you know, the – the – so, wha – loo – but let me just tell you something. A
3 lot of – lot of our generators, you know most of them, well, actually all of them – we
4 generate, we bid in just slightly above their variable cost, you know, some amount of just
5 reasonable profit –

6 ERIC: Right.

7 GREG: -- that makes sense for them to run the – the incremental amount of output, or to
8 run at all. And um, you know, they end up getting paid the market-clearing price, so, a lot of
9 times we're biddin' in – I mean, barring these extreme gas prices, but you know a lot of
10 times over the summer, these guys'll be biddin' in 70, 80 dollar energy –

11 ERIC: Right.

12 GREG: --and get paid, you know two, three hundred, 400 dollars, so –

13 ERIC: Right.

14 GREG: -- that's just a function of this screwed up system they built. Um, I don't know
15 how long that's going to last. And then, ah –

16 ERIC: It might end on Friday.

17 GREG: What's that?

18 ERIC: I said it might end on Friday with this FERC that *[inaudible]*

19 GREG: Yeah, yeah, I – I think everybody expects a change in – in the market, but I don't
20 think anybody's got a quick answer to it, um, you know, other than ah, load programs, ah, -
21 um anybody that, ah, ah, ah, you know, that – that's – that's going to be the, ah – that's the
22 only n – ah, near term thing that can happen is – is figure out how to drop load. And then,
23 ah, build power plants, so –

24 ERIC: OK, well, our – our heat rates aren't the greatest, because we are, you know, we're
25 designed as solar plants and we have gas as backup so –

26 GREG: Yeah. So – what do you think their heat rates are?

27 ERIC: We're in the 14, 15,000 range.

28 GREG: Yeah. Yeah. And I'll just tell you right now, one of our generators is a twelve six
29 heat rate, and ah, they've been off the whole month of December, even with all this power

1 crisis stuff goin' on.

2 ERIC: Really?

3 GREG: Because, ah, with the gas prices where they are, they're um, they're – you know,
4 Southern California get – border gas prices, ah –

5 ERIC: Right.

6 GREG: -- let's say for today, they would need to make 425 dollars just to break even.

7 ERIC: Right.

8 GREG: And ah, with the, ah – well, with these caps being loosened, but – I mean, it's OK
9 to bid something like that in as long as you can justify your – your cost and we a – we have
10 actually sent those costs to the ISO and they have declined to buy the energy, um, showing
11 them the whole cost structure, but, um, you know, when we get into the summertime and –
12 and, you know, I don't know what's going to happen in the next couple of weeks. Right
13 now, ah, ah, there seems to be some, ah, lack of ah – lack of desire for a lot of people to sell
14 to the ISO, ah, and the PX as they're getting somewhat concerned about credit and –

15 ERIC: Right.

16 GREG: - ah, whatever's going to happen with Edison International and – and ah, so there
17 ah, so, I don't think you're missing out on a whole lot of opportunity right now with that
18 heat rate bein' in SP 15, because I've got a better plant that, um, has more megawatts and
19 they're not getting dispatched. And we've bid it in, we've – we bid it in every day, we've
20 contacted the ISO, ah, daily, saying if you guys are goin' out of market, you know, we've got
21 this right in your territory.

22 ERIC: Right.

23 GREG: The bigger problem for the ISO seems to be up in the north, ah, the NP 15 area,
24 the PG&E service territory. So, ah – so, you know, I wouldn't – and – and – and again, there
25 are some concerns. Until we get some clarity on these refund issues and –and some credit
26 and ah, ah, ah, concerns that – with the PX and the ISO, I don't think you're missing out on
27 a whole lot. And ah, until, you know, if – if things settle down in January, but that's the, ah,
28 Holly said you guys were going to – that you were going to get together with maybe some of
29 the other generation owners –

1 ERIC: Right.

2 GREG: You know, that's the kind of a concept, I think, that ah, you know, if -- if you're
3 going to talk about something that we -- that we can do, and the reason we --

4 =====

5 [REDACTED]

6 =====

7 GREG: -- all and -- and your unit not coming up when you need to ah, perform on it, or
8 ah, it, you know margin calls that that call becomes way in the money to whoever you sold it
9 to, which is all typical of the industry.

10 ERIC: Right.

11 GREG: Um, if you were -- if you were going to do that, um, ah, it would be, ah, I -- I just --
12 most generators don't want to get into that level of, ah, of ah, you know, financial issues,
13 because then you generally go look at your financing and your bond holders and -- or, you
14 know, your debt, a bank or whoever you have your debt with is going to have some
15 concerns, and --

16 ERIC: *[inaudible]*

17 GREG: Yeah, believe me we spent a bunch of time doing that, and all we do is waste
18 money on attorneys.

19 ERIC: Yup.

20 GREG: Um, so, ah, that services type of arrangement is something that, ah, is probably
21 more feasible for both of us, and -- and, you know, there are pre *[inaudible]*

22 ERIC: And we could make this for whatever time period we want, obviously.

23 GREG: Absolutely. Most of our customers we just have a 30 day notice on -- you know,
24 they're not -- they're not required to bid anything in. They can call us up and say, you know,
25 we don't have anything available tomorrow, ah, they're all perfectly happy with it and they've
26 been doing it for, ah, you know our oldest one's probably about a year old, now, and -- and
27 ah, like I say, we do it for about, ah, depending on the time of year and who has what
28 available, ah, anywhere from, ah, 9 to 12 of these guys.

29 ERIC: OK, and then if we get down the road on stuff like this, could we talk to a couple

1 those guys and just –

2 GREG: Yup, absolutely. I'll give you some contact names and – and ah, yeah, we'd be

3 happy for you to talk with them.

4 ERIC: Great. OK.

5 GREG: So. All right?

6 ERIC: Should I – should I talk to Holly then, or call you, or who should we follow up with.

7 Holly >> You can follow up with –with either Greg or I, I mean, usually there's one or the

8 other of us here. Sometimes both.

9 GREG: Yeah. Um, and I'll just give you my number. It's ah, [REDACTED] and ah, you

10 know, you guys talk it over tomorrow and ah, see what kind of level of interest you have and

11 – and we'll go from there.

12 ERIC: There's a few people I obviously got to run this by and see if it – you know it's

13 obviously it's a pretty major step to tell Edison to pound sand and we're going to go and go

14 out in the open market.

15 GREG: Yeah, well, if it's, ah – if it's of any, ah, consolation, ah, a couple of the parties that

16 we do this for are Edison Mission Plant, so –

17 ERIC: Right.

18 GREG: So, um, you know, I don't –

19 ERIC: Do you have Wat – do you have Watson?

20 GREG: Ah, no, we've got one of those over in Nevada and one in, ah, Southern California.

21 ERIC: See, 'cause that's one of the other ones that I'm tryin' to, ah, think about whether

22 that – they want to do it, I mean, they have a 400 megawatt plant and this waiver would

23 apply to them too.

24 GREG: Yeah. So, um, that's – that's kind of the program we've gotten. It's – it's, ah, been

25 working pretty well.

26 ERIC: OK.

27 GREG: All right?

28 ERIC: I appreciate –

29 GREG: So we'll look to hear –

1 HOLLY: Take care.
2 GREG: - hear back from you.
3 ERIC: Thank you.
4 GREG: Thank you. Bye-bye.
5 ERIC: Bye Holly. Bye.
6 =====
7 HOLLY: This is Holly.
8 BERT: Hi Holly, this is Bert.
9 HOLLY: Hi.
10 BERT: So! You guy – you guys hearing the news?
11 HOLLY: No.
12 BERT: About ah, FERC and California?
13 HOLLY: Um, what news?
14 BERT: Oh, they're trying to tell people they have to sell to California.
15 HOLLY: Oh, I...I mean, I – I, ah, there's lots of news about FERC in California, but
16 tellin' who they're going to have to sell to California.
17 BERT: Oh, even Northwest parties and stuff.
18 HOLLY: If they have to?
19 BERT: Yeah.
20 HOLLY: Under the price caps.
21 BERT: I don't know.
22 HOLLY: You have to sell me hundred dollar power, so just start 'em up!
23 BERT: *[laughs]* sounds like that.
24 HOLLY: No, I mean, I probably, ah, I don't know, Tim's on conference call, but I was
25 just talkin' to some IPP's in California about what they're able to do now, and interesting –
26 so, *[Emerald PD?]* – that's a new manager.
27 BERT: Frank Lamb?
28 HOLLY: Is he the guy that was from Grant?
29 BERT: Yeah.

1 HOLLY: Hmmmm.

2 BERT: I didn't know him, but that's what Grant told me.

3 HOLLY: Yeah.

4 BERT: One of their managers.

5 HOLLY: Yeah, cool.

6 BERT: Musical chairs.

7 HOLLY: Good for him! Ch – Director of Customer Service, Greg *[inaudible]* PD. That's

8 cool.

9 BERT: Yeah.

10 HOLLY: Nice opportunity for him.

11 BERT: well, you know that Grant has one of the E-PUDs people.

12 HOLLY: No!

13 BERT: Yeah.

14 HOLLY: Who are – who did they hire?

15 BERT: I think Lon Topaz is –

16 HOLLY: Oh, yeah, that's right, that's right.

17 BERT: So, round and round they go.

18 HOLLY: That's funny.

19 BERT: You take him, we'll take this guy.

20 HOLLY: Yeah, you take him, we'll take him. Interesting. So what is going on now?

21 BERT: That's kind of what I was wondering if you – if you guys are still selling Q2.

22 HOLLY: Ah, do I have any people left on the desk? Q2 Mid-Co, you're lookin' to buy it?

23 BERT: Mm hm.

24 HOLLY: On-peak, off-peak, both.

25 BERT: Either one, yeah.

26 HOLLY: I get no – just a second here. Let me see if I can find something. Let me call you

27 right back. I'm going to see if I can find somebody to make that market.

28 BERT: OK.

29 HOLLY: OK, just a minute.

1 BERT: Thanks.

2 HOLLY: Bye.

3