

1 25-20000804-7210337-7320079 (10:57)

2 TIM: This is Tim.

3 RICK: Hey, Tim. Rick Shapiro.

4 TIM: Hey, Rick.

5 RICK: How are you?

6 TIM: Good.

7 RICK: So, what's goin' on in California today?

8 TIM: Um, what's goin' on? It's ah, hot.

9 *[both laugh]*

10 TIM: It's hot and they don't have enough power, and they kill fish in the Northwest to -- so
11 the people of California can go enjoy themselves at a baseball game.

12 RICK: And then, what are we doin'? Are we exporting, you know, some of the, um, the
13 fish-kill power out of um, California?

14 TIM: We are ah, exporting some power from California to the, ah, Southwest.

15 RICK: Uh huh.

16 TIM: Yep.

17 RICK: How much are we doing?

18 TIM: Um, how much are we doin'? Today I think we've got, um, 400 megawatts.

19 RICK: Movin' out?

20 TIM: Movin' out. Um, I don't know what our net is in going in and out of the state, 'cause
21 we've got some, actually, probably -- that probably is our net, because um, the outside
22 markets are higher.

23 RICK: Yeah. You know we -- we were talking to Mary a bit -- little bit yesterday about the
24 um -- the -- the petition that -- actually she probably talked to you as well about the
25 emergency conditions --

26 TIM: Mm hm.

27 RICK: -- in California -- how they, you know, they have obviously enormous discretion,

28 TIM: Right.

29 RICK: and, you know, one of the thing -- one of the concerns that, um, we expressed to
30 Mary was just getting too, you know, too visible right now -- Enron --

31 TIM: Right.

32 RICK: -- at the Commission, given, you know, given the political climate in California, so
33 we were -- see I know she was going to go back and try -- try to find out, you know, who to

1 talk to at Morgan Stanley to see if they might be a vehicle for seeking, you know, some
2 clarification.

3 TIM: Right.

4 RICK: Or, maybe, you know, u – utilizing a trade association like [inaudible] you know, as
5 the vehicle --

6 TIM: Yeah.

7 RICK: -- to do it, and I think that, you know -- I think that is obviously a preferred route,
8 um --

9 TIM: Mm hm.

10 RICK: -- you know, 'cause I d -- right now, I mean, we don't, you know, us -- us going and,
11 you know, and making a petition like that I have significant concerns about. The other thing
12 I just--

13 TIM: Yeah, I agree with that and I think you guys are right on there.

14 RICK: Yeah, the other thing I just think, you know, and I -- you know, you guys, you
15 know, I know, I s -- I assume and trust are playing completely within the rules, but you
16 know, just be cognizant of the fact that come -- you know, I mean [FERC?] will undertake,
17 you know, an investigation, you know, this fall of everything that's going on in California, so
18 --

19 TIM: Right.

20 RICK: -- I mean I -- you just have to -- I think you just have to have that in the back of your
21 mind.

22 TIM: Yeah, w -- we are -- well, let me tell you a couple of things that we've done.

23 RICK: Yeah.

24 TIM: Um, there are um -- a -- and all of this stuff with -- there's really two -- two things that
25 happened -- two areas where we have risk with the ISO in terms of not getting along with
26 them or -- or things blowing up. Ah, one is our day-ahead scheduling practices and then the
27 other one is our real-time operations.

28 RICK: Mm hm.

29 TIM: Um, we've been doing and have been doing for two years a lot of activity in, you
30 know, there's black, there's white and there's gray. Um, we have been endeavoring into the
31 gray area when opportunities present themselves --

32 RICK: Mm hm.

33 TIM: -- to make money in real time. We have now moved out of the gray area into the
34 clearly what's legal area, a -- and I'm -- not even legal, but what's, um, there's like the letter of
35 the law, the letter of the rules and the spirit of the rules. Um, we've been exploiting the letter

1 of the rules, or – or literally interpreted – interpreting the letter of the rules, um, in California
2 when we can make money. And – and an example is ah, non-firm -- non-firm wheels. Ah,
3 there's – there are ways that you can go and run through the congestion process, ah, get paid
4 for congestion and then cut your power and just collect money and have no obligations. Um,
5 completely within the letter of the rules, not within the spirit of the rules. So, we have ceased
6 doing that, and we've ceased doing every – there's like two other minor things that we're
7 doing that – that were gray. So we've stopped that in real time. Um, the other thing that we
8 have done is ah, on the day – on a day-ahead basis, we are, um, scheduling power – you
9 know, we – we schedule power out, in and out of there all the time, as we have before. Um,
10 we're doing larger quantities now, because, um, the ISO charges you about ten bucks to
11 wheel out and the – the price differential between Southern California and Palo Verde is 40
12 bucks, um, and we've got a long position in Southern California and a short position in – in
13 Palo Verde and so – so, you know, there's 30 dollars there.

14 RICK: Is that – is that a long term, I mean, is the short position in – in the Southwest – is
15 that recently established or --

16 TIM: It's been on the books going into the summer.

17 RICK: OK.

18 TIM: Um, so ah – so we're doing that, um –

19 RICK: Are we – are we establishing additional positions, though, to exploit that?

20 TIM: No.

21 RICK: OK.

22 TIM: Um, the ah, um, then when those positions go to real time, the ISO has, ah,
23 procedures that they go through to cut firm exports.

24 RICK: Mm hm.

25 TIM: Um, and we are, ah – we have sat with our real time group and trained them on
26 exactly how to behave when they are cutting firm exports, including, you know, talking
27 about, um, you know, we need – we'll do whatever it takes for reliability, um, we will – but if
28 they go to cut our export, we will offer to sell them, you know, rather than cut our export
29 and buy it for 250, which is essentially what they'll have to do –

30 RICK: Right.

31 TIM: -- um, we will endeavor to sell them power at whatever the market – market rate is.
32 Um, we've also instructed the real time people that there – if there are cuts related to ri –
33 reliability, that that is not in -- a profit-making opportunity, um, that it is a – just a break-
34 even loss mitigation. So, for example if they try to cut our power that's going to Palo Verde,
35 um, and the Palo Verde price – so the California price is 250, 'cause that's what the new cap
36 is, and the Palo Verde price is 700, um, we would offer to sell them our power for, ah, 700,
37 but we wouldn't offer to sell it to them for 701 or 800 or 1000. So we will always have a

1 contract, you know, if there – if it ever comes down to, hey you guys were um, exploiting
2 California here, we can say, no, look at this deal; we purchase power for 700 at Palo Verde,
3 um, to fill our cut and we sold them our cut power for 700 and we made no money, we
4 broke even.

5 RICK: Yeah, no that's good. That's good.

6 TIM: Um, so –

7 RICK: That sounds like if – y – you – you – you've already incorporated, obviously, the –
8 the sort of the political situation into your, um, commercial strategy.

9 TIM: I mean, we could do no exports. You know. That's the safest thing, but we're kind of
10 in a jam –

11 RICK: Yeah.

12 TIM: And ah, they changed the rules on us in the middle of the game, and you know, it's a,
13 um – it's – I – I want to export *[laughs]* so, if you're – if you're saying, ah – and I know that
14 there's a lot of political risk there, and I know that we got a ton of money in our book and
15 then – and if Jeff Skilling ah, has to go in front of some commission and explain the
16 activities of the West Power Group, that's probably not so great for my career. Um –

17 RICK: Well, I mean, are you getting any push-back right now on any of the exports?

18 TIM: No. No. In fact, well the other thing is, we have, um – we have very – we have figured
19 out when the – when we think that, um, oh – we were exporting all this week –

20 RICK: Uh huh.

21 TIM: And it was pretty tight this week.

22 RICK: Right.

23 TIM: Um, and they didn't cut us. And so, we know exactly when they're going to cut us and
24 we know, um – and so any time that the loads are not as high as they were this week –

25 RICK: Mm hm.

26 TIM: I mean, basically, the West is going to break if it's hot in the Southwest, California and
27 the Northwest.

28 RICK: Right.

29 TIM: If it's hot in two out of the three, it gets really tight. If it's hot in one out of the three,
30 everything's fine. If it's three out of the three, you know –

31 RICK: Forget it.

32 TIM: Save often, because your computer might blow up.

33 RICK: Yeah.

34 TIM: Um, so w – we have only been exporting – and so far the Northwest has been mild –

1 relatively mild, so Bonneville can come and save the day.'

2 RICK: Yeah.

3 TIM: And so we're sitting there looking at all the conditions and um -- and -- and before
4 we're deciding to export a material amount, we're making sure that -- that the Northwest
5 supplies are healthy and that California loads are less than the loads that they've seen so far.

6 RICK: So -- So I -- what I hear you saying is that if you -- if you saw conditions moving to,
7 um, something that looked like three out of three --

8 TIM: Mm Hm.

9 RICK: -- you probably would, um, you would f -- forbear, with respect to your exports?

10 TIM: We'd figure out what to do, but the likely case would be to, um, export a lot less.

11 RICK: Yeah.

12 TIM: Ah, and it just -- I mean the risk, you know, talking to lawyers -- I'm not real
13 comfortable exporting all this, because if they take our power, there's a decent chance we --
14 we don't get any compensation.

15 RICK: I think that's right.

16 TIM: So, um, I'm not just f -- trying to do this to -- to, ah --

17 RICK: No -- yeah, pushing the envelope probably doesn't make sense because you know, I
18 mean, they -- they'll sit on you at some point.

19 TIM: Right. Um, and you know I -- I would also add that, um, they're going to be -- you
20 know, every s -- the external control areas, and just 'cause a lot of people are being mean,
21 doesn't mean that it's right for us to be mean --

22 RICK: Right.

23 TIM: because people might point out -- point to us, but ah, but anyway, every control area
24 that's interconnected with California is -- is essentially exporting from them on the
25 superpeaks.

26 RICK: Yeah.

27 TIM: Because they're willing to sell for 250. And so California's created this systemic
28 problem --

29 RICK: Yep.

30 TIM: And PacifiCorp is a great example. They interconnect at four different points and
31 they -- they, ah, peak off of California at all four points now.

32 RICK: Yeah. Man well, this, ah -- I mean this, ah, the pro -- you know, f -- ah, you saw the
33 San Diego petition or heard about it at -- at the seller's camp?

34 TIM: Yeah.

1 RICK: I mean, that'll just – that'll just exacerbate the problem significantly won't it?

2 TIM: Yeah, well, that – that would be a f – a firm cap, you know, um, rather than a, ah –
3 and we've got a – we've gotta stop that.

4 RICK: Yup. Yeah, yeah, and we – and we will. That one we'll weigh in on.

5 TIM: *[inaudible]*

6 RICK: OK, well, I appreciate the time.

7 TIM: I'm being cautious.

8 RICK: Yep.

9 TIM: See ya.

10 RICK: Sounds good.

11 TIM: Bye.

12 RICK: Thanks.