

1 25-20000804-7592738-8192738 (19:49)
2 [dialing/ringing]
3 JOHN: Eh.
4 TIM: Hey, John. It's Tim. Hello?
5 JOHN: I'm here, I'm here.
6 TIM: Oh, OK. Hey I was just checking on the, um, the options that you had talked about
7 for April.
8 JOHN: We just got 'em approved. I was just signing the notes.
9 TIM: Oh, good.
10 JOHN: So, unfortunately, ah, you owe me big-time, because ah --
11 TIM: [laughing] Yeah, I know.
12 JOHN: -- your strike is 76.
13 TIM: Um, hey, over five years that's going to be fine.
14 JOHN: Yeah, that's right. Um, so --
15 TIM: That was one of the luckiest timings you could ever imagine.
16 JOHN: It was -- it was good. You -- you did better than me. Um, oh, that'll get processed in
17 the next little while, ah --
18 TIM: OK.
19 JOHN: I'll -- I'll let you know, ah, when I got the list, and I -- I might just call the folks also.
20 TIM: OK, that'd be great.
21 JOHN: So, ah, yeah, that's comin' up in the next little while.
22 TIM: OK.
23 JOHN: All righty? How's it goin'?
24 TIM: Oh, it's goin' fine, you know, it's pretty stable now. The balance of the month has like
25 stabilized right around 200 bucks. Um, the ah, term is goin' up. Term is up two bucks.
26 JOHN: Really?
27 TIM: Everything except, ah, Q3, but the Q2's are up two bucks, Q1 is up two bucks, Q4s
28 are up a couple of bucks. [inaudible] with gas.

1 JOHN: K.

2 TIM: Um, k -- one other thing that, ah, the regulatory's all in a big concern about is we're
3 wheeling power out of California.

4 JOHN: I know, but I guess -- yeah, I know. But he -- ah, I -- I mean you -- you talked with
5 ah --

6 TIM: Shapiro.

7 JOHN: Shapiro -- he sounds like he's OK with what you're doing, so.

8 TIM: Yep.

9 JOHN: I mean [*phone receiver picked up*] you know, I've become such a wooss on this stuff,
10 too, because of this -- with this Alberta thing, right?

11 TIM: Yeah.

12 JOHN: And ah, it's just fuckin' unfortunate -- we're going to have repercussions of all this
13 stuff, and not necessarily 'cause we do anything wrong. Just because these fuckin' -- you
14 know.

15 TIM: Yeah.

16 JOHN: You take this much money out of a market, I think that there's um, you know, they
17 just fuckin' like try to find somethn' and -- and I think you guys are -- he thinks you guys are
18 doing everything a -- right, and being cautious, and I think that's fine.

19 TIM: OK. Yeah, I just wanted to make sure you -- you know, we are -- we're -- we're -- in --
20 in time when it's not -- we're basically looking at whether we think they're going to curtail
21 our exports, 'cause if the curtail 'em it fuckin' blows, 'cause we're short the 250 call.

22 JOHN: Right. Right.

23 TIM: Um, and ah, so we've got a big economic incentive not to abuse this thing.

24 JOHN: Right.

25 TIM: Um, but if it looks like they're not going to curtail 'em, we're doing some size.

26 JOHN: Right. Right. Um, -- I mean, if you don't do the things you're allowed to do in a
27 market-place, well, it's going to be hard to make money over time, so, it's kinda hard to say,
28 well, we should be, you know, we shouldn't do this even though it's allowed, because, you

1 know, I mean, that's what we do. [*chuckles*]

2 TIM: Right. Right.

3 JOHN: So, but I guess there are certain times when you can – you know, you just make sure
4 you do everything on the up and up.

5 TIM: Right. I'm trying to balance things and we're – we've cleaned up our act on ah, um,
6 anything that was gray, we're not doing that any more.

7 JOHN: OK.

8 TIM: So –

9 JOHN: OK.

10 TIM: We're – you know, we're working it, but we're s – trying to find that right level.

11 JOHN: I'm just ah – fuck, I'm just trying to be an honest camper, so I only go to jail once.

12 TIM: Well, there you go. At least only in one country. [*laughs*]

13 JOHN: Yeah. [*inaudible*] fuck, this isn't a joke. I'm a little -- nobody else seems to be
14 concerned anymore about it, except for me.

15 TIM: Yeah.

16 JOHN: Um, um, fuckin' auction's pretty cool, eh?

17 TIM: Yeah, it is.

18 JOHN: Ah, I don't know what the fuck these people are doing, but ah, I don't know if – I
19 think people are just waitin' around. I think it's going to g – I don't think we're going to get
20 any – we're going to switch pretty soon to another unit, um, but I just think it seems like
21 there's more people willing to – you know, we're completely missing something there.

22 There's more peo—or they're – they're going to pull out of those other units or – or w – or
23 people are just willing to pay out a lot more than we are, but –

24 TIM: Yeah, I mean, the ah, -- some of the – you know, [*inaudible*] – that one gas unit is like
25 under water.

26 JOHN: Well and the – well, and then there's the billion dollar coal unit that's – you know,
27 there's somebody who's a minus 300 dollar bid on the coal unit that we think is –

28 TIM: Yeah.

1 JOHN: -- worth minus a billion? *[laughs]*

2 TIM: Right.

3 JOHN: That's a minus a billion to our bid. It's minus 400 to our *[inaudible]*

4 TIM: Jesus.

5 JOHN: Like, I don't know if they're just fuckin' around, they're going to pull. The penalties

6 are based on, ah, to the minimum bid, so they could actually waffle.

7 TIM: Mm hm.

8 JOHN: Um, but they really, I mean, you know, the other thing is they're capital constrained

9 and they want a unit that it's a minus and –

10 TIM: Yeah.

11 JOHN: A – all the power to them.

12 TIM: Yup, yeah, it is funny.

13 JOHN: *[simultaneously] [inaudible]*

14 TIM: *[inaudible]* some money.

15 JOHN: Some time today we're going to switch, probably to *[inaudible]* probably a little early

16 even –

17 TIM: Mm hm.

18 JOHN: Ah, just to kind of fuckin' say, hey, pick one and let's get this thing –

19 TIM: Yeah, yeah –

20 JOHN: Get this thing over with.

21 TIM: But – but the, ah, whatever that – that free ride is – what's the – the waver? That –

22 JOHN: Yeah, we got some wavers, yeah –

23 TIM: But that kinda, you know, the – all this stuff at the beginning is – is just dancing

24 around, posturing and – and burning your wavers.

25 JOHN: Yeah, except you don't know, but nobody's used any, because if you're leading, you

26 don't have to use a waver.

27 TIM: Right

28 JOHN: So, the last two units the only unit that's been bid on is Sundance B, and I'm just

1 wondering when these three or four people move around a bit and everybody's got a unit, is
2 just – that the best thing would be to slow down, but the logical thing is that some of these
3 other clowns who are, um – some of these other clowns are on these units, so they're mis-
4 priced, you know, switch 0:05:46.3 –

5 TIM: Right.

6 JOHN: So I don't know. We'll – we'll see, but it's – it's the fuckin' coolest thing I've done
7 in a long time.

8 TIM: Yeah, yeah. And it's actually at a nice pace, because you have a lot of time to think
9 about it.

10 JOHN: Oh, I wish – I wish it was slower, I mean, I wish they weren't doing four, um –
11 they're doing four rounds today –

12 TIM: Mm hm.

13 JOHN: So we should get a pretty decent idea today of what's going on.

14 TIM: Kinda feels like the, ah, you know if you ever play, like chess or something –

15 JOHN: I do –

16 TIM: Over the internet, or if you play at ah, like, you know, the old days you'd write a letter
17 to somebody and send it to 'em and – and you'd each have chessboard at your house –

18 JOHN: With your move?

19 TIM: Yeah. Yeah.

20 JOHN: That's funny.

21 TIM: Yeah, so ah, yeah, that's kinda what this is like.

22 JOHN: [*chuckle*] a little bit! Although, it's not quite, I mean every – everybody's saying that,
23 but at the end of the day, you've – you can always just at the last minute flip to another unit,
24 so I'm not convinced, you know, Derek's trying to bring a lot of game theory and stuff into
25 this. I'm just not convinced it's really there, ah, because you know, until nobody bi – I mean,
26 you could do whatever you want, but – but as long as they have wavers –

27 TIM: Yeah [*inaudible*]–

28 JOHN: -- but as long somebody bids, they can still switch.

1 TIM: Right. Holy fuck – gas is up at hundred.

2 JOHN: Oh, my god! I think we're going to make budget for the rest of our lives, apparently.

3 TIM: Yeah.

4 JOHN: We caught this one a little bit.

5 TIM: Wow, yeah, another 14 cents today.

6 JOHN: Yeah. Unfortunately I think it's hurtin' SOCAL Basis but –

7 TIM: Yeah.

8 JOHN: Fuck is – is California gas situation's interesting, though, eh? They're fuckin'

9 withdrawin' like a banshee, and there's nothin' they can do about it.

10 TIM: Right.

11 JOHN: And, you know, if they don't get in stuff in September and October, it's going to be

12 an interesting winter there.

13 TIM: It's going to be – let's see 'em put the price caps on gas now.

14 JOHN: *[laughing]* they might!

15 TIM: Right.

16 JOHN: *[chuckle]* it's – it's going to be interesting. I mean, it's amazing, 'cause they just won't

17 acknowledge that So Cal winter maybe should be worth a lot more than it is.

18 TIM: Uh huh.

19 JOHN: You know, it's worth like plus fifteen, and – and I'm just wondering whether that

20 needs to be plus a hundred.

21 TIM: So, what um, -- I gotta give Phillip a call, because we've ah – I think we've got to, um,

22 it – I mean we've got a lot of money ridin' on this thing, and um, making sure that he's got

23 all of – doing the right analysis on the fundy's side. He's talkin' to our fundies, um, be he's

24 got – I gotta call him, 'cause he's got ah – he needs some analytical horsepower down there,

25 I think. Not like Phillip needs, you know, I'm sure he's doing just fine, thanks, but –

26 JOHN: Oh, you just need some bodies – y – you need –

27 TIM: Well –

28 JOHN: Say, it. Go ahead.

1 TIM: Well, like we can – I just was talking with [*inaudible*].

2 JOHN: Yeah.

3 TIM: We know all of the California imports. We know all of the California load –

4 JOHN: Right.

5 TIM: And we've got a slag at um, California Hydro.

6 JOHN: Yeah?

7 TIM: The Hydro's our weakest thing.

8 JOHN: Yeah.

9 TIM: So, load minus imports, minus hydro e – equals gas demand.

10 JOHN: Right.

11 TIM: And we – we can just – and we have all four of those numbers.

12 JOHN: But we get gas demand every day.

13 TIM: Um, but we can do power related gas demand.

14 JOHN: Oh, OK.

15 TIM: And um –

16 JOHN: [*inaudible*]

17 TIM: And I think ah, and then I think we can do that and build that forward. You just take

18 each one of those variables and – and the imports will become hard at that point, and the

19 hydro's uncertain, but I still think you can get a forward curve for each one of those

20 variables, and – and calculate power-related gas demand through, ah, the next year.

21 JOHN: Oh, really?

22 TIM: Yeah.

23 JOHN: But – ah, right. And I think we should do that. I think one of the issues with

24 California, though, a little bit, is it's not like forecasting Alberta in the gas side, because the

25 supply side, especially in the winter, is a bit unlimited. They can take more. The question is,

26 how does the pricing, you know, affect the rest of the country? Can the rest of the country

27 give them more and do they give them more?

28 TIM: Right.

1 JOHN: So, it's -- it's not like Alberta where it's kind of a plug. You can predict field receipts
2 whereas California you've got this pipe which right now is reasonably full, but clearly won't
3 be in the next months and so you've got all these -- it's -- it's kinda like ah, you got too many
4 plugs to get a firm, firm forecast --

5 TIM: Right.

6 JOHN: -- but, you know, but --

7 TIM: Well, 'cause then you'd say, what's California demand relative to all other gas demand
8 and is it *[inaudible]* --

9 JOHN: Well, you'd -- you'd say -- you'd say, yeah, you'd say basis is plus 40 now, because
10 they don't have enough gas, well, San Juan is minus 40, they'll just move more gas *to*
11 California --

12 TIM: Right.

13 JOHN: -- ah, so maybe the -- come Sept/Oct the basis is capped, or November the pro-
14 basis is capped a little bit, I'm not sure. Um, but then again, if -- if they're fuckin' out of
15 storage in February, they won't have the storage supply that they normally have, right?

16 TIM: Right.

17 JOHN: So, they -- they need to -- in my mind they need to do a little more work on it
18 *[inaudible]* here's the fore -- Phillip does it in five minutes, but --

19 TIM: Um, all right.

20 JOHN: You should get with him, but I think -- I -- I think -- I'm hopin' that some of that
21 stuff's bein' done by Hunter's group now, essentially --

22 TIM: Yeah --

23 JOHN: *[inaudible]*

24 TIM: -- but I -- I don't think they're quite there yet.

25 JOHN: OK.

26 TIM: So, anyway, I'll call Phillip.

27 JOHN: All right, All right.

28 TIM: Take it easy. Bye.

1 =====

2 TIM: This is Tim.

3 GARY: Hi Tim. Gary, how are you?

4 TIM: Hey Gary. Hey you got – what did you get, ah, 5 hours sleep, right?

5 GARY: Just about. Just about the same like you.

6 TIM: Yeah. Um, mine's just a little earlier in the night, but that's OK. The total's still the
7 same.

8 GARY: Yeah, the world looks a little bit better than it did at four AM. I tell you that much
9 right now.

10 TIM: Um, so this powwow that you're havin' on Monday.

11 GARY: Yeah, let me tell you what's goin' on –

12 TIM: Can you speak up a little bit, I'm –

13 GARY: Sure.

14 TIM: *[inaudible]* thanks.

15 GARY: Yeah. Yeah, I can help you out with this. Because of the price cap, and because of
16 the fact that the ISO operators are going to – are in a corner, ah, when they're going to have
17 to resort to out of market calls, thinking more ahead for next year, 'cause this year might be
18 too late to do a lot, um, we've always had an – oh – let me put it – let me put it this way: The
19 ISO is thinking about starting their own day of capacity market. Ziad was telling me of, ah,
20 an idea he had a couple of weeks ago, where he was dreaming that went up, and I said, no,
21 don't do that; let me see if people are interested in doing it themselves. So, I talked to Slodje
22 and I talked to *[inaudible]* and they both indicated an interest in doing something like that.
23 That was before the price cap vote. But with the price cap vote and the FERC order on – on
24 Morgan Stanley that came out a week ago, it became very obvious that the ISO's going to
25 have to resort to out of market calls to make up the difference in the short schedules, ah,
26 because y – nobody's forced to sell to the ISO, period.

27 TIM: Mm hm.

28 GARY: So I – after that vote I saw – *[inaudible]* was standing right next to me. I said, you

1 know, wouldn't it be a good idea to start something right now and see if we could pull it
2 together and ah, I explained to him briefly what I just explained to you and he said, yes,
3 sounds like a good idea, and I talked to some of the other generators who were at the
4 meeting, and um, then I called Slodje and I called, ah, [inaudible] and they all said yeah, let's
5 do it; let's try and design something that'll provide out of market, ah, order to what
6 otherwise would be chaos – chaos, being of course that the generators and suppliers and
7 anybody else who would want to schedule resources into the ISO, out of market would have
8 to go to another control area and, you know, sell it out to get it bought back in.

9 TIM: Right.

10 GARY: It just seemed like it would easier, quicker and more efficient to have our own bid
11 stack for capacity, where people could provide, you know, a – a bid for capacity and then we
12 could figure out how to schedule in the energy per the buyer's request. But it's not a
13 balanced schedule; it's just a – a standing order that could be updated at any time. A firm
14 offer kind of thing.

15 TIM: So, um, how do you get around the im – just the obvious thing to me would be, here's
16 the capacity price and here's the related energy price if you were to call on the energy.

17 GARY: If – if y – yeah, you could do the – you do the energy a lot of different ways. Either
18 – you can either bid it, or you could say, we'll – we'll take some index.

19 TIM: Take index?

20 GARY: Index could be the ah, [inaudible] energy price at the ISO.

21 TIM: Right. Um, but that's really, like, um, in this circumstance that would be the cap.

22 GARY: For the energy, which would affect the way you'd bid to capacity.

23 TIM: Right. So now, um, you are, um – it's just another – I mean i – it's really an ancillary
24 service that ah, is cloaked as an option, which I'm fine with.

25 GARY: It is. Because what Ziad wants to do is basically buy something ah, after the day-
26 ahead market schedules are in to see how short he's going to be.

27 TIM: Right.

28 GARY: Ah, ah [inaudible] from one to 7 p.m., kind of, or one to 8 p.m. We're not sure. Y –

1 you know, that's what we're thinking about [inaudible]
2 TIM: [inaudible] replacement reserves though.
3 GARY: Yeah, it'd be -- except for one hour it'd be a block.
4 TIM: Oh, OK.
5 GARY: That's the difference.
6 TIM: Right.
7 GARY: And ah, some people might want to say, look -- I've already heard some people say,
8 why do we have to do it just day [inaudible] let's do longer term. Let's post what we want to
9 post. I mean, I'm not going to tell you how -- how to do it, but that's what the meeting was
10 for, to put up the ideas for a design that we could work with and anybody could buy from it,
11 not just the ISO --
12 TIM: Right.
13 GARY: -- and we could park the, ah, stack at either COB or PV or both, and that way we
14 could avoid some of the political hassling we get of well, you're just trying to get around the
15 price cap, well, yeah, no shit Shylock, that's exactly right, but FERC said we could do this,
16 and, ah, it's very clear that we need to do this if the IS -- if the ISO's going to survive on hot
17 summer days.
18 TIM: Mm hm. Um, OK, there's a -- and what's the purpose of this meeting? To see the --
19 GARY: Design, commitment from the vendor, which [inaudible] be APX or PX -- we'll have
20 two separate meetings. One will be PX, one with APX.
21 TIM: Could Enron online be the vendor?
22 GARY: Yeah, I thou -- I told Sue that. What I would prefer to do now is just have Enron
23 show up as -- as ah, sort of a participant --
24 TIM: Mm hm.
25 GARY: -- and then you could throw your hat in the ring at a later time, or any time.
26 TIM: As the vendor.
27 GARY: Yeah. Yeah, I have no problem. My job is just to get the thing moving along.
28 TIM: Yeah.

1 GARY: Why do I care who wins?

2 TIM: Um, I guess what I would, ah – if you wouldn't mind, um, doing me and – you don't
3 have to do it at this meeting, but over the next weeks or the month as this thing's unfolding,
4 um, gauge the interest of the participants for what they're looking for in a vendor?

5 GARY: Mm hm.

6 TIM: Um, because I, you know, some participants might say, or I would be surprised if
7 some participants didn't say, well, we wouldn't want Enron Online to do it, because we don't
8 want them seeing what our bidding –

9 GARY: Yeah.

10 TIM: -- behavior is like.

11 GARY: B – true, or course everybody's going to be able to see the facts, so it doesn't really
12 matter.

13 TIM: Um, everyone will see the –

14 GARY: The bids and quotes 'cause they're – but they'll be – in my mind, they'll be there.
15 You know, it's like a – it's like a stack where you can see this – this offer is bidding this
16 capacity at this price.

17 TIM: Um, you know, that would be – I actually like the op – ah – where you make it more
18 open, you just say, yeah, here's all the stuff that's in there, put your – put your thing in there
19 and – and then the ISO can buy whatever they want.

20 GARY: Right. Well, I'll tell you where I –

21 TIM: Did you pay his bid or do you pay his, ah – ?

22 GARY: Pay his bid. Pay his bid.

23 TIM: Right. OK.

24 GARY: So, I mean, here's what I'm – I mean, Tim, I think the problems I have is – and I
25 don't know if it's a, ah, a failed problem or not is – this is a highly political, sensitive thing,
26 because already, you know, like for example, just between you and I, Duke energy said they
27 were afraid of showing up at this meeting. They're afraid that every time they touch
28 something to try to make things better, it comes back to bite 'em in the ass, and –

1 TIM: Right.

2 GARY: -- and then, you know, this market's almost dead anyways and that'll -- that could
3 just kill it. But other people don't feel that way, and ah, they're going to be sending people to
4 this meeting. I think what we need you guys there for is to help us design something that
5 makes some sense.

6 TIM: Mm hm.

7 GARY: And whether you want to compete in that market or not, I think you should -- you
8 could take -- you could take all the design information that comes out of our meeting, but
9 you'll be participant in that as well --

10 TIM: Right.

11 GARY: -- and -- and you could say -- you're a prospective buyer, I believe, from this kind of
12 stack. You might say as a trader, I want to look at that stack and see what it offers me that I
13 might want, too.

14 TIM: Right.

15 GARY: As to opposed to maybe a supplier. So, I think it has a lot of benefit both ways.

16 TIM: So, but are you meeting with the PX and then the APX and then everybody together,
17 or -- ?

18 GARY: It -- no, just -- I -- I thought it was smarter just to say, let's -- let's meet with the PX.
19 Then APX said they'd fly down to Pasadena, so we just walk across the street to a meeting
20 room at the Hilton in Pasadena and meet with the APX and I thought, that's good enough.

21 TIM: So, who all is -- who -- who would Enron be meeting with?

22 GARY: Both the PX and APX if you wanted -- that -- that would, I think, be the best way to
23 do it.

24 TIM: OK, so you're just -- you're bringing your band of ah, meeting-goers and walkin' -- the
25 whole band is walkin' into the PX, then the whole band is walking across to the APX.

26 GARY: Right. And j -- I think it'd be smarter at this juncture, just because nobody really
27 knows what it looks like or how it's going to work -- to just leave it like that and then
28 afterwards you guys can decide, hey, this is something that you well might want to throw their

1 hat in the ring. But I – I just think it would be a good idea to do it that way –

2 TIM: Yeah, no I agree with that.

3 GARY: -- and it keeps people's, you know – I – I gotta keep people calm, because
4 everybody's a little jittery right now.

5 TIM: Right. Um, so who all's coming to the meeting?

6 GARY: So far I have Southern, Reliant, Dynegy, I'm sure Williams is going to send
7 somebody. I'd like to see you guys send somebody, ah, PGE, National Energy Group, and
8 Calpine.

9 TIM: OK, it's a good group of people.

10 GARY: Yeah, that's why – I think from the WPTF point of view, that's what we really
11 should be doing, you know, pushing this – and oh, between you and I too, when I told
12 Elena Schmidt at the ISO this is what I was thinkin' of doing, you know, if there's such a
13 thing as tears of gratitude over the phone, that's what I got.

14 TIM: Yeah.

15 GARY: Because they know they're in deep trouble and they don't know what they're going
16 to do.

17 TIM: Right. Um, well, all righty. Ah, and what time's the meeting?

18 GARY: One o'clock, first at the PX in Pasadena

19 TIM: OK.

20 GARY: And then 3:30, three or three-thirty, whenever we get done –

21 TIM: *[inaudible]* at the Hilton right across the street.

22 GARY: Across the street.

23 TIM: OK.

24 GARY: And we should be done by 5:30, six o'clock.

25 TIM: So I gotta now dig up a body.

26 GARY: Bob or you, I hope.

27 TIM: Um, I won't send somebody that won't be helpful.

28 GARY: Yeah. Good.

1 TIM: Um, all right.

2 GARY: All right man?

3 TIM: I'll ah, check – I'll ah – I'll either send you – what's better, e-mail or phone call?

4 GARY: Um, e – either – try both. Just in case.

5 TIM: OK. All right.

6 GARY: Talk to you later.

7 TIM: See ya. Bye.

8 GARY: Bye.

9