

# INDEPENDENT ENERGY PRODUCERS

June 27, 2000

The Honorable Gray Davis  
Governor  
State of California  
State Capitol  
Sacramento, CA 95814

DOCKET
2000-EOB-3
DATE 6/27/00
RECD 6/28/00

Re: Response to Bay Area Electricity Outage

Dear Governor Davis:

The Independent Energy Producers Association (IEP) shares your grave concern about the recent electricity outages in the San Francisco Bay Area. Our industry's single most important goal is to provide reliable, competitively priced, clean electricity to California. To that end, IEP and its members pledge to cooperate with the outage investigations you requested of the California Public Utilities Commission (CPUC) and the Electricity Oversight Board (EOB).

Key to a successful policy response is the understanding that reliable service requires reliable policy. Nothing will discourage power plant investments in California faster than regulatory and market instability, and these are investments that are essential to improved reliability and the future of California's electricity - dependent economy.

Based on contacts with major Bay Area generators, IEP is confident that your investigation will document that they did everything physically possible to supply the region's extraordinary and unexpected electricity demand during the week of June 12<sup>th</sup>-16<sup>th</sup>. Other factors, of course, also warrant consideration in your investigation.

Today's electricity supply shortage and reliability problems are the result of a complex combination of past decisions and current conditions. For example, the federal government's preemption of a state power plant development program in the mid-nineties deprived this market of generation that would otherwise be in service today. In addition, weather, market, and environmental conditions in neighboring states contribute significantly to the California's ability to meet unexpected demand, as documented by the California Energy Commission. Other issues specific to the Bay Area outage and prices include the availability and sufficiency of transmission capacity into load centers, whether retail providers, including certain utilities, scheduled their purchases in a way that exacerbated the supply shortage and price effects, and the effectiveness of load reduction programs.

(916) 448-9499 / Office  
(916) 448-0182 / Fax  
iep@iepa.com / E-Mail

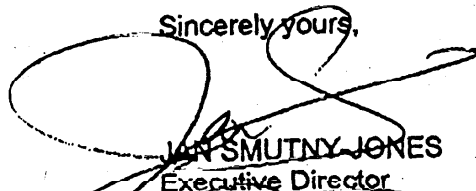
1112 "I" Street • Suite 380 • Sacramento, CA 95814

California independent power producers are responding in the best way they can to improve the reliability of California's electric system. As a result of electric industry restructuring, they have improved the availability of existing generation and they have submitted proposals to the California Energy Commission that literally rebuild the state's electricity infrastructure. In the Bay Area alone IEP members are proposing to invest \$2-3 billion in 3,500 MW of generation facilities. Three are already under construction – two in Contra Costa County and one in Sutter County. Four more, located in San Francisco, Contra Costa, Santa Clara and Monterey counties, are maneuvering through the permit process at the California Energy Commission. In addition to significantly improving electric service reliability, these new Bay Area facilities will provide new union jobs and improve air quality.

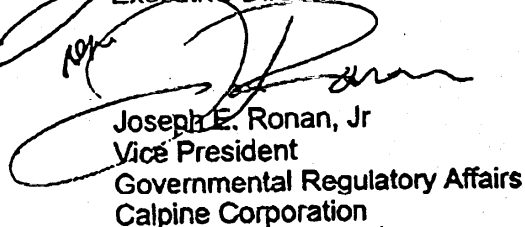
The ultimate success of these projects depends on regulatory reliability. Since the service outage, certain policy makers have called for significant, fundamental and retroactive changes to ISO and PX pricing policies. Nothing is a bigger threat to electric service reliability than the instability that these proposals would cause in the regulatory and market environments. This is not to say that the market is flawless and must remain unchanged. IEP is working with the ISO and the PX to identify anomalies in the market and to identify appropriate adjustments. IEP will share its conclusions with the CPUC and the EOB as soon as they are finalized.

In closing, IEP would like to reiterate its commitment to work with you, your appointees, and the Legislature to develop a strong and appropriate public policy response to the state's critical need for improved electric service reliability. Reliable policy is key to reliable service. IEP is joined on this letter by representatives of many of its members, including several serving the northern California market. Together and singly we urge you to maintain California's stable regulatory environment as you address the state's critical electricity reliability needs.

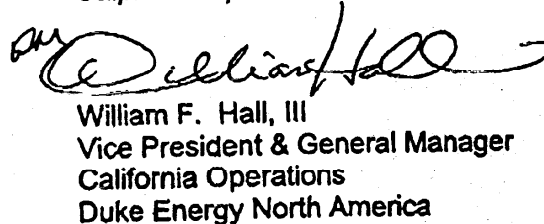
Sincerely yours,



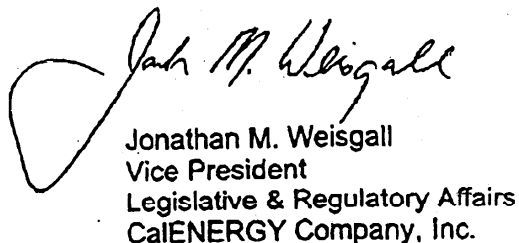
IAN SMUTNY JONES  
Executive Director



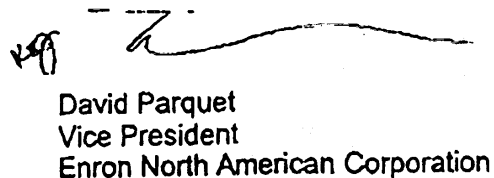
Joseph E. Ronan, Jr.  
Vice President  
Governmental Regulatory Affairs  
Calpine Corporation



William F. Hall, III  
Vice President & General Manager  
California Operations  
Duke Energy North America



Jonathan M. Weisgall  
Vice President  
Legislative & Regulatory Affairs  
CalENERGY Company, Inc.



David Parquet  
Vice President  
Enron North American Corporation

*Nick Wallace*

Nick Wallace  
Senior Vice President  
Dynergy

*Michael Leighton*

Michael Leighton  
Vice President  
FPL Energy, LLC

*Duane H. Nelsen*

Duane H. Nelsen  
GWF Power Systems Company, Inc.

*John Stout*

John Stout  
Reliant Energy

*Rob Lamkin*

Rob Lamkin  
Vice President  
Southern Energy

*John Hillman*

John Hillman  
President  
Power Resources  
Thermo Ecotek Corporation

*William H. Carlson*

William H. Carlson  
Vice President & General Manager  
Alternative Energy Group  
Wheelabrator Environmental Systems, Inc.

*Roger Pelote*

Roger Pelote  
Williams Energy Services

cc: Loretta Lynch, President  
California Public Utilities Commission

Michael Kahn, Chairman  
Electricity Oversight Board

William Keese, Chairman  
California Energy Commission