

Date: November 9, 2001

To: Byron Woertz
Client Relations Director

From: Scott Jercich
FTR Project Manager
Market Design Engineering

Re: Methodology for Determining FTR Quantities to Auction in January 2002

During the October 11th MIF meeting, we mentioned that the ISO would publish the methodology used to determine the FTR quantities planned for auction in mid-January 2002. This memorandum contains a description of the methodology.

Please provide this information to Market Participants at your earliest convenience. I have been asked by Ziad Alaywan to go through this procedure with Market Participants at next Thursday's MIF meeting.

Thank you for your assistance.

Methodology

The methodology that will be used by the ISO to determine the quantity of Firm Transmission Rights (FTRs) to auction in January 2002 is consistent with the approach described in Section 9.3.1 of the Tariff. This methodology is described below.

1. The full Operating Transmission Capability (OTC) in the Day Ahead market will be determined during the period November 1, 2000 through October 31, 2001.
2. The ETC values corresponding to the full day ahead OTC values will be determined.
3. The ETC values will be subtracted from the OTC values to arrive at the ATC values.
4. The ATC values will be ordered in descending order and the ATC value at the 99.5 percent confidence level will be determined.
5. The proposed FTR release quantity is computed by subtracting the City of Vernon's converted FTR quantities¹ from the ATC values at the 99.5 percent confidence level.

Other Considerations

The Palo Verde and NOB paths had a large number of total planned outage hours in the past due to maintenance. If this same phenomenon is observed during the November 1, 2000 through October 31, 2001 period, the ISO will remove these outage hours before the ATC values at the 99.5 percent confidence level are determined. Market Participants will be alerted to the number of outage maintenance hours excluded from the calculation.

¹ Vernon has converted FTRs in both directions on Mead, Victorville and NOB branch groups.