



NEWS RELEASE

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ONE YEAR ANNIVERSARY FOR CALIFORNIA'S COMPETITIVE ELECTRICITY MARKETS *California ISO Marks Day with Celebration and Reports on State of the Power Grid*

(Folsom, CA) One year ago today California planted the seeds of competition, allowing deregulated energy markets to take root and evolve into active new commerce. The California Independent System Operator (Cal-ISO) became the primary axis for the new industry by keeping the lights on while maintaining reliability through newly created markets. With its solid track record for reliable operation behind it, the Cal-ISO Control Center served as the backdrop today, Wednesday, March 31, 1999, for the commemoration of the Cal-ISO's first anniversary.

Cal-ISO President and Chief Executive Officer Terry Winter credited the Cal-ISO staff and Board of Governors for persevering during the past year to overcome challenges and turn the visions of electricity restructuring into reality. Winter said employees sometimes worked 60 to 80 hours a week to meet the demands of start-up and the first year of operation, often forsaking personal time off and taking far less sick days than the typical company its size.

After cutting into a giant anniversary cake, Winter joined with Board of Governors Chairman Jan Smutny-Jones in delivering a state-of-the-power-grid address. The report highlighted how far the Cal-ISO has come in meeting its ambitious goals of providing reliability and accessibility of the transmission system, while efficiently conducting competitive electronic auctions for ancillary services, congestion management and supplemental energy markets.

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The Cal-ISO computerized control center for the power grid routed 167 billion kilowatt-hours of energy in the first nine months of operation---three billion kilowatt-hours more than annual projections. This allowed the Cal-ISO to lower the toll for using the power grid in 1999, the Grid Management Charge, by half a cent to .77 cents per megawatt-hour. For the average customer living in an area served by an investor-owned utility, Cal-ISO related transmission costs amount to about 47 cents on a typical household bill of \$76.31 (*see attachment*).

Statistics also show the Cal-ISO processed just under 700 energy schedules per hour from as many as 27 active electricity traders known as Scheduling Coordinators (there are 42 Scheduling Coordinators certified by the Cal-ISO to date). As the controllers for the power grid, the Cal-ISO managed to deliver the electricity without any major power disturbances, despite record summer heat, windstorms and a lengthy winter freeze.

As with any new commodities market, Winter said the Cal-ISO's evolving electricity marketplace has been volatile over the last year, with thin market participation exacerbated by the summer of 1998's series of severe heat waves. Price spikes in the Ancillary Services market followed the first heat wave in July, just three months after the start of open competition when markets were far from maturity. To protect consumers, the Cal-ISO immediately capped prices at \$500 per megawatt. The Cal-ISO Board of Governors later approved lowering the price cap to \$250 per megawatt.

"There's nothing like a trial by fire, facing an extremely tough year from a power demand standpoint, to cause issues to surface that might have taken years to uncover under normal conditions," said Winter. "We were able to identify early on structural deficiencies in the markets that brought to light improvements that we now have on the fast track to correct."

Winter was referring to multiple components of a market redesign package that was approved by the Cal-ISO Board of Governors last month and filed with the Federal Energy Regulatory Commission (FERC) the beginning of this month. The market redesign features a "Rational Buyer's Approach" that allows the Cal-ISO to lower costs by substituting higher-quality ancillary services for lower-quality services when doing so reduces total costs. Other elements include the purchase of additional replacement reserves that reduce the need for high-cost emergency deals with other control areas during high demand times, and the automation of dispatch instructions to generating units (*for more details see 2/25/99 news release at www.caiso.com/newsroom/releases/*).

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"In addition to strengthening structural design and providing appropriate signals to the market, we are also seeing the markets finally starting to mature more with participation in the Ancillary Services arena, for instance, increasing 25 percent in the last six months," said Winter. "We are also very encouraged by the robust new generation development in the state, which we hope will lead to lower wholesale prices. The Cal-ISO is also ready to embrace new developments in the marketplace as a result of forecasts by some utilities for early pay-off of the Competitive Transition Charge (CTC). We feel this will only accelerate the most important goal of restructuring—lowering bills for California consumers."

Details on the performance of the Cal-ISO markets will be released in the Cal-ISO's first Annual Report expected to be distributed by June 1999.

The not-for-profit Cal-ISO is chartered by the State to manage the flow of electricity along the long-distance, high-voltage power lines that make up the bulk of California's open market power grid. To ensure equal access, investor-owned utilities were mandated to turn their private transmission power lines over to the Cal-ISO, who turned them into a public "electron superhighway". The Cal-ISO is the second largest control area in the United States and the fifth largest in the world.

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