

News Release

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California ISO market monitor finds market competitive in 2014

When controlling for higher natural gas prices, etc., wholesale costs rose only by 3%

FOLSOM, Calif. – The California Independent System Operator Corp. (ISO) Department of Market Monitoring reports that the market remained competitive in 2014 even with record low hydro-electric generation and rising natural gas prices. Moderate loads and new solar generation helped offset these factors.

Key highlights of the 2014 Annual Market Issues and Performance report include the following:

- Total wholesale electric costs increased by 13 percent. This increase was primarily driven by a 17 percent increase in natural gas prices in 2014. After controlling for the natural gas and greenhouse gas price changes, wholesale electric costs increased by only about 3 percent.
- Despite record low hydro-electric conditions, the combination of moderate loads and the addition of new solar generation with over 1,700 MW of peak summer capacity helped to keep market prices low and highly competitive.
- Overall prices in the ISO energy markets in 2014 were highly competitive, averaging close to what DMM estimates would result under highly efficient and competitive conditions, with most supply being offered at or near marginal operating costs.

“The market remains highly competitive while integrating more renewable generation,” said Keith Collins, Manager, Market Monitoring and Reporting. “Given the historic low in-state hydro generation, rapidly increasing volumes of solar generation, and the substantial redesign of the real-time markets, the performance of the market was noteworthy.”

This increase in natural gas prices and lack of hydro-electric generation resulted in the cost of wholesale electricity increasing to \$52 per megawatt-hour from \$46 per megawatt-hour in 2013. This increase is predicted to stabilize to just under \$45 per megawatt-hour after normalizing higher natural gas and greenhouse gas compliance costs, which is an increase of about 3 percent. Helping to lower prices was moderate loads and less regional transmission line congestion. Hydro production in 2014 was about 70 percent of 2013 production and 60 percent of production in 2012.

Almost 2,900 megawatts of new generation came on line last year contributing to about 1,900 megawatts of new generation. Little natural gas capacity was added (25 megawatts). Meanwhile, California’s resource adequacy program continued to work well as a short-term capacity procurement mechanism. However, with the active support of the

ISO, the CPUC has adopted requirements for California's investor-owned utilities to procure flexible capacity in order to help meet the system net load changes. This represents a wider focus of the resource adequacy program from simply meeting peak system and local capacity needs to also include flexible capacity needs during ramping periods when renewable generation drops off.

Energy from new renewable resources is expected to continue at a high rate to meet California clean energy goals, which will increase the need for flexible and fast ramping capacity that can be dispatched by the ISO to smooth out the variable output from wind and solar power plants.

[See the full report](#) on the ISO website.

For more information about the California ISO, [click here](#).

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