



NEWS RELEASE

FOR IMMEDIATE RELEASE
October 23, 2003

Contact: Stephanie McCorkle
Director of Communications
1 (888) 516-NEWS

ISO Forecasts Five-Year Energy Outlook

This winter's electricity supplies appear healthy, shortages unlikely, surplus shrinks by summer 2004

(Folsom, CA) The California Independent System Operator (California ISO) delivered its 2003-2004 Winter Assessment to the ISO Board of Governors today, reporting there should be enough power to meet consumers' appetite for electricity this coming winter. However, an accompanying report warns that there are a number of "what if" scenarios emerging. If adverse conditions coincide, California may face possible shortfalls as soon as the summer of 2004. The analysis is contained in a Five Year Assessment (2004-2008) also presented to the Board that looks at supply and demand trends and risks for the next five years. Both reports are linked to the ISO homepage at www.caiso.com.

In the past year, the ISO received several requests for a longer-term assessment of the state-of-the-grid, including inquiries by the Western Electric Coordinating Council (WECC) and the California Public Utilities Commission (CPUC), which is currently conducting a procurement proceeding to ensure resource adequacy. The ISO's Five-Year Assessment compares a "base case" or most likely scenario, to "favorable" and "adverse" conditions. The "adverse" scenario identifies a set of conditions that present a risk of electricity shortages.

"Reliability problems are bad," said Michael Kahn, Chairman of the ISO Board of Governors. "Reliability problems with no warning are horrible. These reports tell us that despite some major improvements, all of the entities in California's energy industry still have a lot of work to do."

"Additional assessments are needed," said Jim Detmers, ISO Vice President of Operations. "There is a growing trend toward retiring aging power plants that could alter the shape of things to

-MORE-

come. If we encounter a drought that reduces hydroelectric production, followed by a hot summer, we could see some operational challenges as early as next summer. We want to ensure the risk of shortages is identified in a timely fashion.” About 20 percent of the state’s power comes from hydroelectric plants, so a poor rainy season and lack of snow pack runoff can significantly impact the supply of megawatts.

There has been a net increase in electricity of 8,752 megawatts since 2001 in California, but going forward the net gain in total generation is anticipated to slow because many power plants built in the 1950s/60s are beginning to retire. The ISO received notification that 2,325 megawatts will retire by the end of 2005. Some 1,037 megawatts may also disappear by that time if plant owners decide air quality retrofits are too expensive to add to the plants. Additionally, another 3,870 megawatts is at risk of being retired by 2008 because the plants are old and costly.

“That’s a real concern to us,” said Detmers. “Power plant retirements are increasing just when new power plant construction is dropping off.” Detmers says the generator owners are retiring old units for a variety of reasons. Many are 40 or 50 years old, they are not as efficient as new units, and many are facing new air quality restrictions that would limit how many hours per year they can run, or require extensive upgrades to reduce emissions. Some of this capacity is used only for limited hours during the summer to meet peak demands.

Another major concern mentioned in the reports is lack of enough power lines. Much of the electricity from the new power plants cannot get to where it is needed because of choke points that exist on the transmission grid. The problem is especially severe in the San Diego area. New power plants in Mexico and Arizona all feed into the same point. Upgrades are proposed for 2006 that will make room for more electrons to flow on the high-voltage lines, but even more space is needed in that region and other parts of the state to relieve transmission “traffic jams”.

The California ISO is a not-for-profit public benefit corporation charged with managing the flow of electricity along California’s open-market wholesale power grid. The mission of the California ISO is to safeguard the reliable delivery of electricity, and ensure equal access to a 25,000 circuit miles of “electron highway”. As the impartial operator of the wholesale power grid in the state, the California ISO conducts a small portion of the bulk power markets. These markets are used to allocate space on the transmission lines, maintain operating reserves and match supply with demand in real time.

#####