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Wholesale Electricity Costs Down in 2006

ISO Annual Market Performance Report Shows Markets Stable and Competitive for Fifth Year in a Row

(Folsom, CA) The impartial Department of Market Monitoring for the California Independent System Operator Corporation (California ISO) presented its *2006 Annual Report on Market Issues and Performance* to the ISO Board of Governors today. The report shows a reduction in wholesale electricity prices in 2006 and, for the fifth year in a row, stable and healthy competition in the spot markets. Last year, California saw a 1-in-57-year heat wave that drove energy demand to record levels. According to the report, despite extreme operating conditions, both the grid and the markets performed well in 2006.

The report, available on the [California ISO website](#), shows the average estimated cost of wholesale energy in 2006 was \$47.55 per megawatt-hour, down from \$57.83 in 2005. That figure includes the California ISO markets as well as the estimated cost of bilateral energy transactions that make up more than 95 percent of the energy needed in California. The lower costs in 2006 are due primarily to reduced costs for natural gas and a prolific year for hydroelectric production.

“Overall, 2006 was a very good year for California’s electricity industry and specifically for the California ISO markets,” said Dr. Keith Casey, the independent director of the ISO Department of Market Monitoring. “The grid was reliable and the markets were stable and competitive, with estimated wholesale costs, after adjusting for changes in natural gas prices, comparable to 2005 record-low levels.

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Average costs for both years represent the lowest wholesale electricity costs in nearly 10 years.”

The market performance report also shows:

- Total estimated wholesale energy and ancillary services costs declined by 16 percent in 2006, from \$13.6 billion in 2005 to \$11.4 billion in 2006
- Forward energy costs declined in 2006 by 16 percent, mainly due to natural gas prices
- Real-time and reliability costs declined in 2006 by 24 percent

The report points out that, for the first time in several years, 2006 saw a net loss in California generating capacity. This is largely due to the shuttering of the Mohave coal-fired plant. Although the plant is physically in Nevada, it was considered California generation because it was co-owned by California utilities and incorporated into the ISO Control Area. Its long-anticipated closure reflects a change to more efficient combined-cycle natural gas fired plants and represents a significant reduction in greenhouse gas emissions.

“Overall, the loss of an old, inefficient and polluting power plant in exchange for modern cleaner units is a positive step forward,” said California ISO President and CEO Yakout Mansour. “We have new generation and demand response coming on line this year sufficient to keep pace with load growth. And, over the next several years, we know there are thousands of megawatts of new power plant generation that will be spurred by the California Public Utilities Commission (CPUC) Long-Term Resource Adequacy requirements and this will help us stay ahead of the curve.”

In 2007, the ISO anticipates the state returning to a net-gain in new generation. Approximately 1,500 megawatts of new power plant units are expected to come on-line in 2007, with no plants expected to retire. Since 2001, California has seen 15,800 megawatts worth of new power plant investment become operational.

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 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.

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