NEWS RELEASE

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

ISO "AMPs" Up New Market Rules

Bid Screens, "Must Offer" and Damage Control Price Cap Highlight New Market Power Mitigation

(Folsom, CA) The California Independent System Operator (ISO) starts a new era at 12:00 a.m. October 30 when it begins operating under Phase 1A of a new market design. The mainstay of the new market rules is the computerized Automatic Mitigation Procedure (AMP), which automatically lowers bids offered into the ISO Markets that are too high. Phase 1A of Market Design 2002 (MD02) replaces The Federal Energy Regulatory Commission's (FERC) west-wide market power mitigation that took effect in June 2001 and expires on October 30, 2002.

AMP works by identifying bids that are inconsistent with recent bidding history and current market prices. Those bids are submitted to a three-part test. If they fail the tests, they are lowered to a reasonable price determined for each generating unit by an independent third party. The "reference price" is based on the historical bidding behavior of each specific generating unit. A similar system is working well at the New York ISO.

The first AMP test is based on the predicted Market Clearing Price (MCP). If the MCP is predicted to be below $91.87, AMP is not applied. If the anticipated MCP hits or exceeds $91.87, the "Conduct Screen" will compare each generating unit's bid to that unit's reference price. Any bid that is 200 percent or $100 more than the unit-specific reference price fails the Conduct Screen, and the next test; the "Impact Screen" is applied. If using the questionable bid(s) will raise the MCP by more than 200 percent or $50, those bids will be lowered to their reference prices.

AMP is accompanied by other rules designed to foster a competitive market place. The "must offer" obligation is a holdover from FERC's previous mitigation regime. It requires California

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generator owners to offer available capacity to the California real time market. Western generators outside of California must offer their available capacity to California or another control area in the 11 western states. FERC has also ordered that Generators outside of California bidding into the ISO must bid at $0/MWh, and will be considered "price takers." Their "zero bids" are not subject to the AMP procedure.

Another part of phase 1A is a "damage control" price cap, which FERC set as a "soft cap" at $250. "Soft cap" means that bids can exceed $250, but if the ISO must accept bids higher than $250 to keep the grid in balance, those bids will be subject to cost justification and refunds if the bids are not cost-justified to the FERC.

The ISO officially proposed the new market design last May, and FERC approved most of it in July. The next major piece, phase 1B, includes clear and comprehensive rules about the consequences of unacceptable market behavior, and the ability to penalize participants that break those rules. The ISO is working towards enacting phase 1B next year, with sequential implementation of the remaining phases of MD02. Some of the new market design is still pending with FERC, but details on the MD02 proposal are available on the ISO's homepage at www.caiso.com.

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.

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New Market Rules Effective October 30, 2002

Beginning at 12:00 a.m. on October 30, 2002, the ISO will implement the following new market rules, which have been approved by the FERC.

Automatic Mitigation Procedures ("AMP")

AMP 3-way test:

1) Projected MCP more than $91.87,
2) Bids over $91.87, more than 200% or $100 higher than reference price,
3) Impact to MCP more than 200% or $50

If the market fails all three tests for a given interval, any bid that fails the "conduct test" is automatically mitigated (lowered) to its unit specific reference price. Independent third party sets reference price based on resource specific historical bidding.

The ISO will apply AMP to bids in all ISO zones when the Market Clearing Price is projected to be $91.87 or above in any ISO zone. AMP dos not apply to out of state imports, which must bid $0/MWh, and be "price-takers." The $91.87/MWh price screen will not apply when the ISO must take bids out of merit order to address Intra-Zonal Congestion and, instead, AMP will always be applied to such bids. For further details about application of AMP, please see the ISO White Paper posted at: http://www.caiso.com/docs/2002/09/13/2002091317303413280.pdf;

Must Offer Requirement (continuing from past FERC orders)

California energy suppliers must offer available capacity to the California market place if needed. Out of state market participants must offer available capacity to another control area in the 11 western states.

Soft Bid Cap of $250/MWh.

Market Participants may submit bids above $250/MWh, however, any accepted bids above this cap are not eligible to set the Market Clearing Price and are subject to cost-justification and refund;

Soft Bid Cap of Negative $30/MWh (-$30/MWh) on Decremental Energy Bids.

Any accepted bids below this cap will be paid at this soft cap and, to the extent bids in excess of this cap are justified, the ISO subsequently will further compensate to the full amount of any such justified bid; hydroelectric resource units are eligible to set the market clearing price and are subject to AMP;

Single Energy Bid Curve.

Sellers may increase or decrease bids in the ISO Real Time Market for capacity associated with those parts of the bid curve that were not accepted in the Hour-Ahead Market. For committed capacity, sellers may submit lower bids only in subsequent markets. All bids must be in a single monotonically increasing curve.