CALIFORNIA ISO

California Independent
System Operator

NEWS RELEASE

ISO Board Approves New Version of Market Redesign
MD02 Plan To Go To FERC Soon

(Folsom, CA) The California Independent System Operator (ISO) Board of Governors today approved a revised comprehensive market design that will make the ISO wholesale energy markets more efficient, more reliable and less vulnerable to gaming and manipulation.

"This is a major overhaul of the ISO market structure," said Michael Kahn, Chairman of the Board of Governors. "The concepts in this comprehensive design represent significant steps the ISO can take to protect California consumers from Enron-style games and other predatory tactics that contributed to the energy crisis of 2000 and 2001."

The California ISO filed the original MD02 plan with the Federal Energy Regulatory Commission (FERC) in May of 2002, and implemented Phase 1A of the plan in October of that year. Since then, the ISO has engaged in extensive communication with stakeholders about Phases 1B, 2 and 3 of the plan.

After more than a year of gathering comments and input, the ISO published the Revised Comprehensive Market Design Proposal in late May 2003, and accepted more comments and input based on that proposal. Today's approval by the ISO Board of Governors clears the way to file the revised proposal with FERC shortly.

The main elements of the original plan remain in the revised version. They include:

- **Integrated Forward Market (IFM)** (Allows the ISO to obtain the least-cost mix of energy and reserve capacity needed to meet demand and eliminate congestion in the day-ahead and hour-ahead time frames.)

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- **Locational Marginal Pricing (LMP)** (Allows the ISO to use a detailed model of the grid to "see" and deal with congested power lines a day ahead of time. LMP will determine a price to consume or produce power at every location on the grid. Generators that cause congestion will be paid a lower price than those that relieve congestion. These prices will be averaged over large territories so retail customers will not see different locational prices).
- **Congestion Revenue Rights (CRR)** (Allocates grid transmission capacity to consumers and insulates those consumers from congestion costs).
- **Residual Unit Commitment (RUC)** (Allows the ISO to start-up generating units that will be needed to serve load if those units are not already running in the market and sets a method to pay suppliers for start-up and other operating costs).
- **Market Power Mitigation** (Establishes various methods to provide for fair and reasonable wholesale bids into the ISO markets).

There are also some significant changes from the original plan. For example, the cost aggregation aspect of Locational Marginal Pricing, the treatment of Existing Transmission Contracts and the availability payment for RUC are new details, and the Available Capacity (ACAP) requirement is no longer part of MD02. Instead, the California Public Utilities Commission and the California Power Authority are working on a resource adequacy plan to provide for California's long-term power needs.

While MD02 is a major step in fixing flaws that exist in the wholesale energy spot markets, it cannot fix all of California's lingering energy issues. "This is a very positive step for California's energy industry," said Kahn. "But it's not a panacea. There's a still a lot of work to be done by state agencies and FERC to keep California moving forward, and to bring stability to the electricity delivery system."

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 more than 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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