

Introduction

Each year the Department of Market Analysis (DMA) publishes an annual report on the performance of the markets administered by the California Independent System Operator (CAISO). This report covers the period of January 1, 2004 through December 31, 2004.

The report is organized with a comprehensive executive summary that can read as a stand-alone document. The chapters that follow provide more detailed information on market outcomes and the analysis that supports the results found in the executive summary.

The California market structure continues to change with the addition and retirement of resources, increasing load levels and an evolving market design. Chapter 1 provides information about market design changes put into place in 2004, discusses the ongoing changes in the California electric system infrastructure and the economic assessment of proposed major transmission projects. These market structure changes have a large impact on the competitiveness and performance of the California competitive electric markets. Chapter 2 provides a summary of the 2004 supply and demand conditions and resulting energy market performance throughout the year. Chapters 3, 4 and 5 provide an overview of the CAISO's real time imbalance energy, ancillary services, and interzonal congestion management market outcomes for the year and discuss the specific market issues related to those markets. Chapter 6 provides a detailed analysis of the most problematic issue in the current market structure, transmission system congestion within the three defined congestion zones in the CAISO control area. Finally, Chapter 7 discusses the activities of the CAISO's Market Surveillance Committee.

This report is submitted by DMA to the CAISO Board of Governors and to the United States Federal Energy Regulatory Commission (FERC) pursuant to the CAISO's reporting requirements under the Market Monitoring and Information Protocol section of the CAISO's FERC Electric Tariff.