

Market Monitoring Report



Jeff McDonald, Ph.D.
Manager, Market Monitoring and Reporting



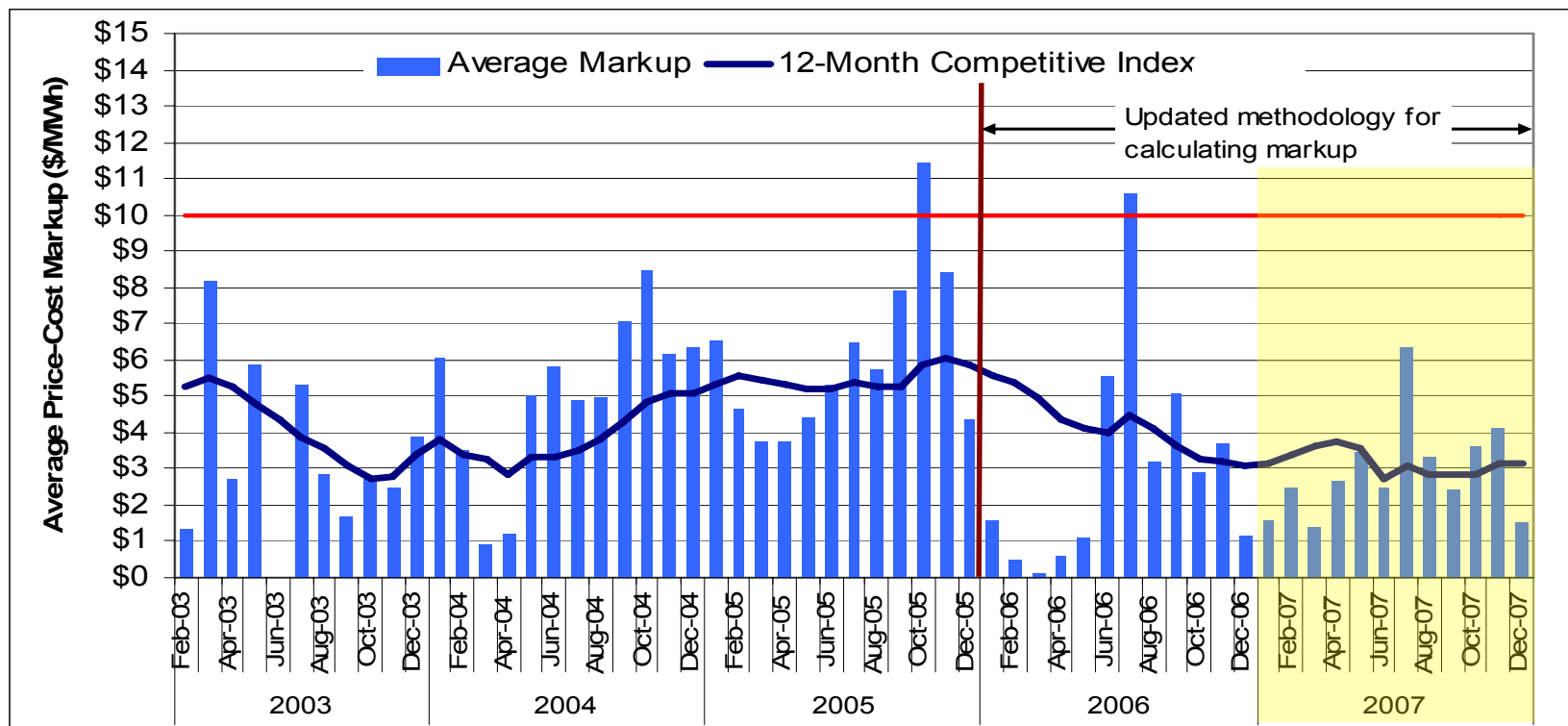
California ISO
Your Link to Power

Board of Governors Meeting
General Session
March 26 - 27, 2008

Highlights from 2007 Annual Report on MIP

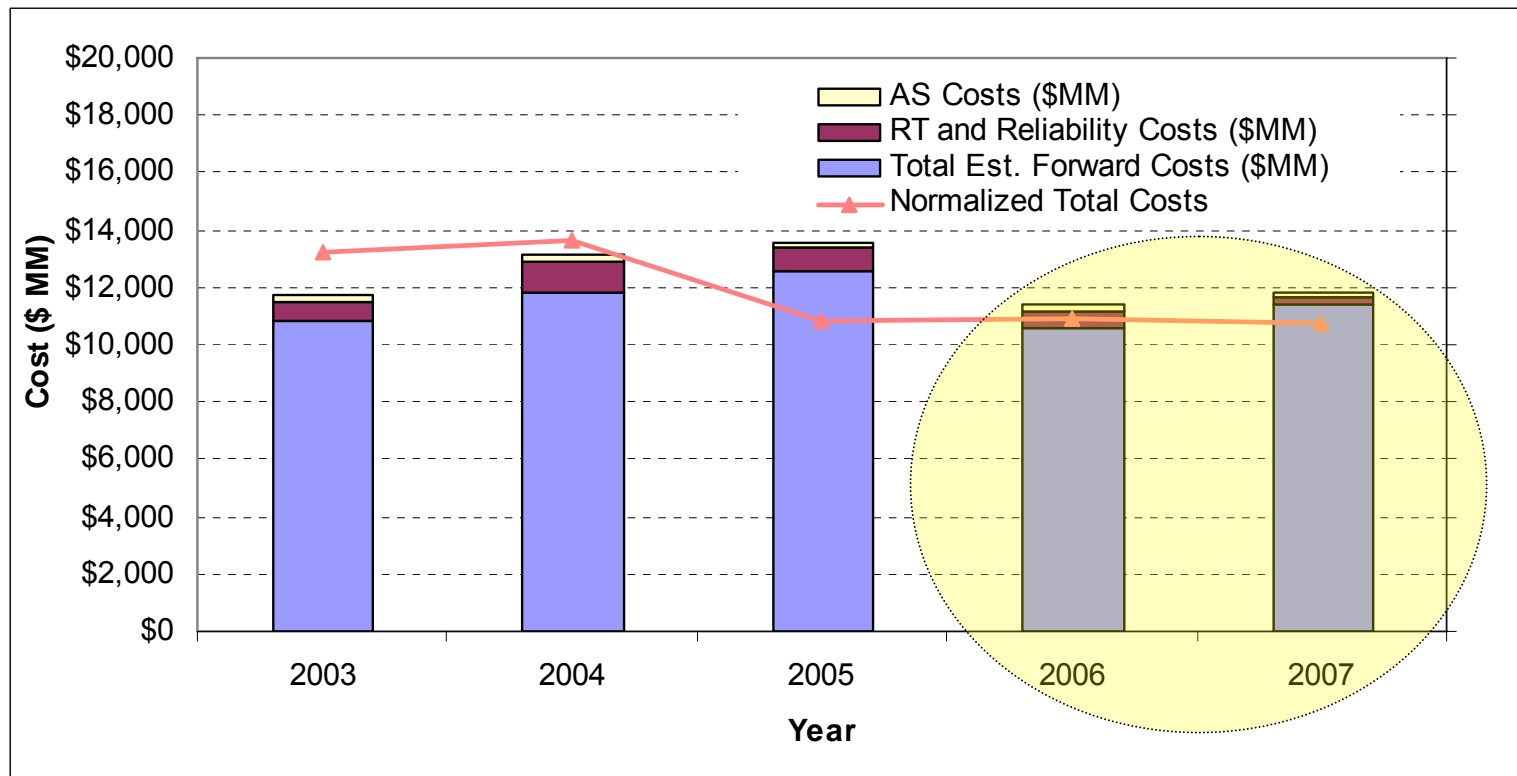
- 🌐 Wholesale markets were stable and competitive.
- 🌐 Total wholesale cost increased slightly.
- 🌐 ISO reliability costs decreased significantly.
- 🌐 Markets performed reasonably well during summer heat waves and October wildfires.
- 🌐 Cumulative new generation investment is significant but little net-gain in the south.
- 🌐 Spot market revenues continue to be below the cost of new generation investment.

Wholesale markets were stable and competitive.



- Monthly price-to-cost mark-ups for spot bilateral purchases were less than \$10/MWh.
- 12-month competitive index for spot bilateral purchases was below \$4/MWh.

Total wholesale costs increased slightly.



- Total wholesale cost increased 3.5% 2007 to \$11.8 billion.
- Adjusted for changes in natural gas prices, total wholesale costs were roughly the same in 2006 and 2007.

ISO reliability costs decreased in 2007.

Reliability Cost Type	2007 Cost (\$MM)	%Δ from 2006
Intra-zonal	\$101	-51%
Total RMR	\$125	-71%
RCST*	\$22	51%

* Comparison between 2006 and 2007 RCST cost is for June through December, reflecting the fact that RCST was only in effect for the last seven months of 2006.

- Includes costs of non-market costs associated with ISO actions taken to manage reliability.
- Does not include cost of capacity under Resource Adequacy (RA) contracts.

Markets performed reasonably well during periods of market stress.

- 🌐 Two heat waves (Jul 2 – 6, Aug 28 – Sep 3)
 - Imbalance prices were generally moderate but more volatile.
 - Prices moderated by high forward scheduling and holiday.
 - July - High inter-tie declines impacted RT markets.
 - August - A/S prices higher, no significant deficiencies.
- 🌐 October wildfires (Oct 21 – 27)
 - Most of dispatch was for local reliability → low RT prices.
 - Inter-zonal congestion costs increased due to outages.
 - A/S prices were not significantly impacted.

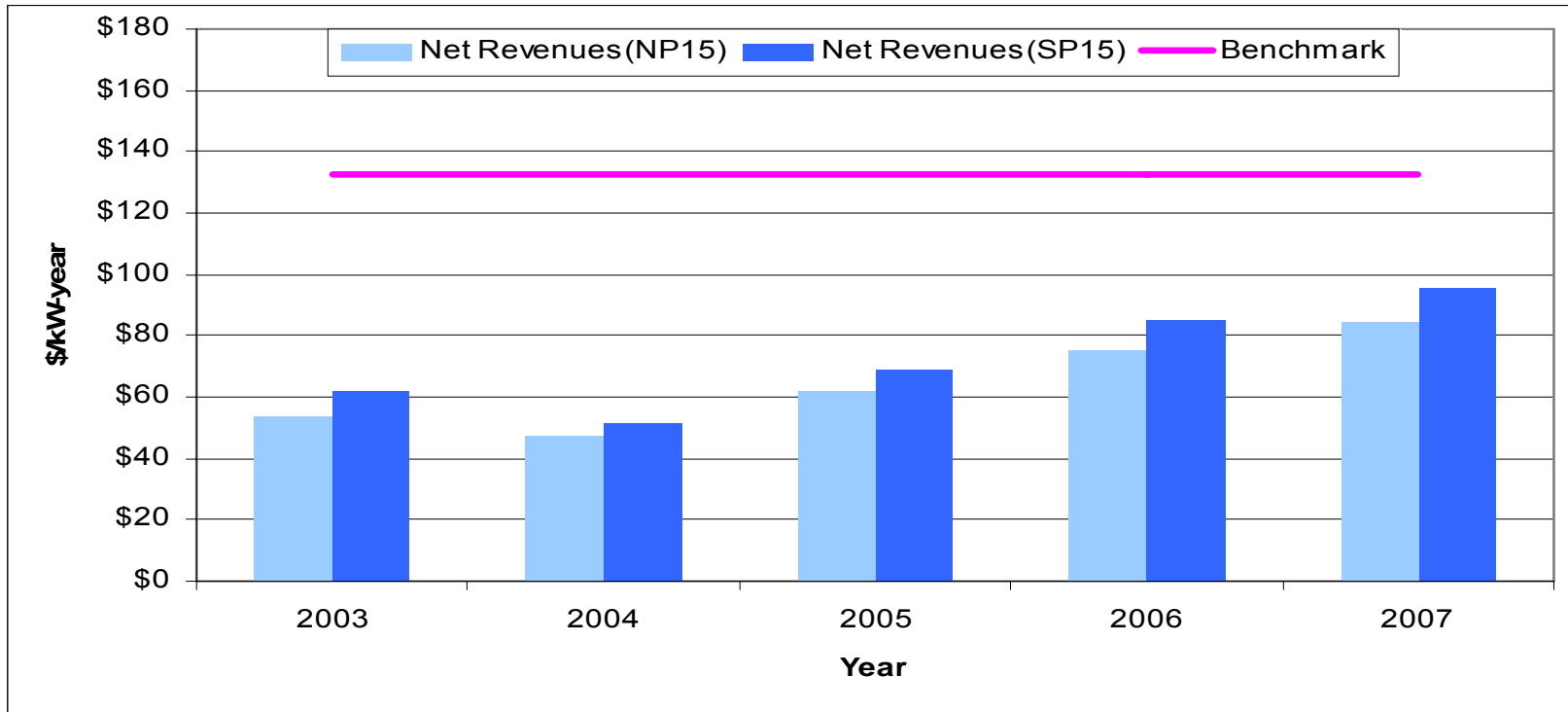
Cumulative new generation investment is significant but little net-gain in the south

	Cumulative (2001-2007)	
SP15		
New Generation	7,404	} New generation in Southern California largely offset by retirements and load growth.
Retirements	(4,280)	
Forecasted Load Growth*	3,648	
Net Change	513	
NP26		
New Generation	7,544	} Major gains in Central & Northern California.
Retirements	(1,235)	
Forecasted Load Growth*	2,895	
Net Change	4,996	
ISO System		
New Generation	14,949	} System-wide
Retirements	(5,515)	
Forecasted Load Growth*	6,542	
Net Change	5,509	

* Based on 2% annual load growth.

Spot market revenues continue to be below the cost of new generation investment.

Financial Analysis of New Combined Cycle Unit (2003-2007)



- Findings underscore the critical importance of long term contracting.
- MRTU and future market enhancements may increase spot market revenue opportunities.