Market Monitoring Report

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ISO Board of Governors Meeting
General Session

May 18, 2009

Highlights from 2008 Annual Report on Market Issues and Performance

Markets & Costs

Generation Investment

Significant Events

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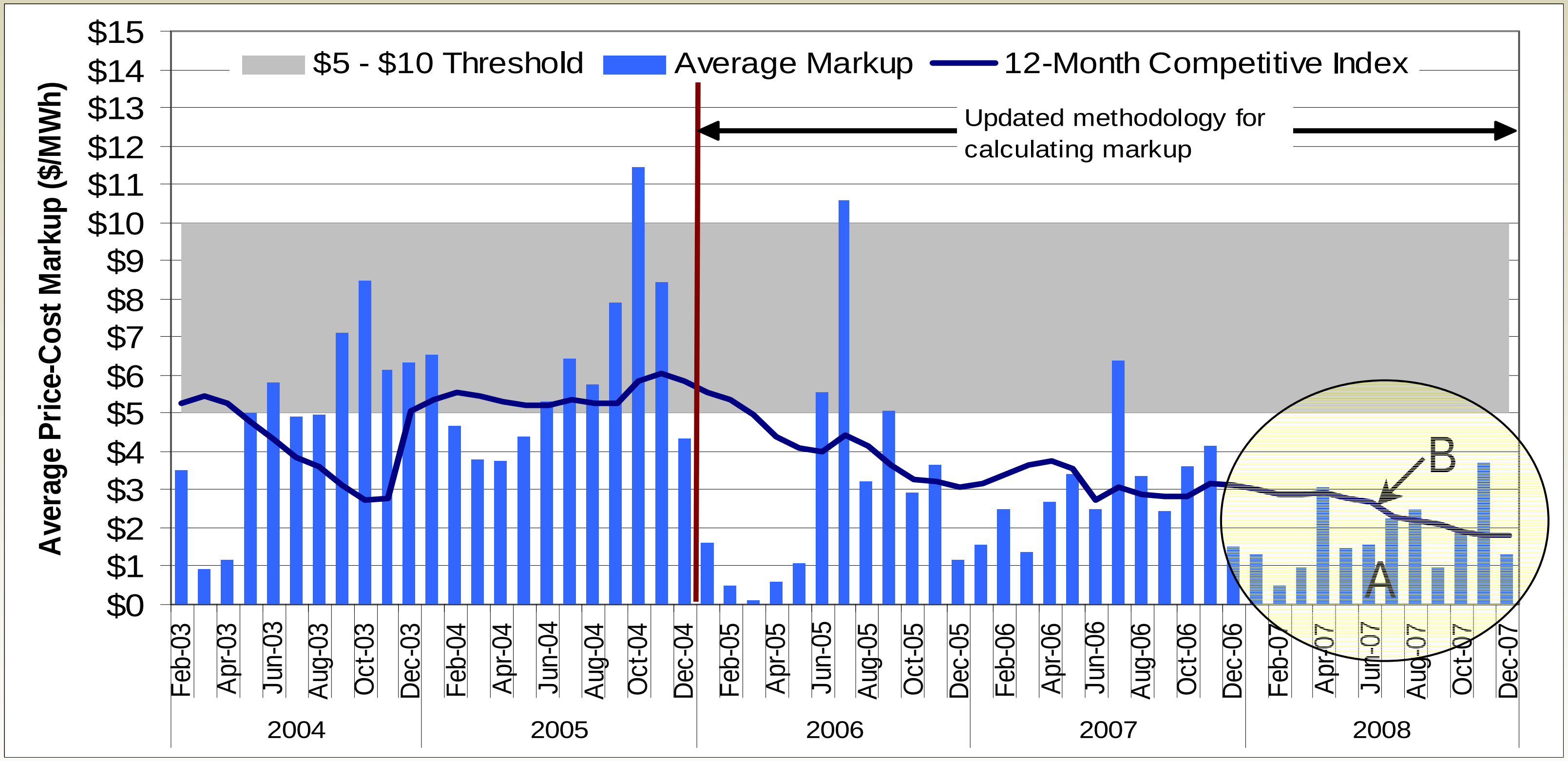
Wholesale markets were stable and competitive.



A. Monthly price-to-cost mark-ups were less than $4/MWh.

B. 12-month competitive index was below $3/MWh.

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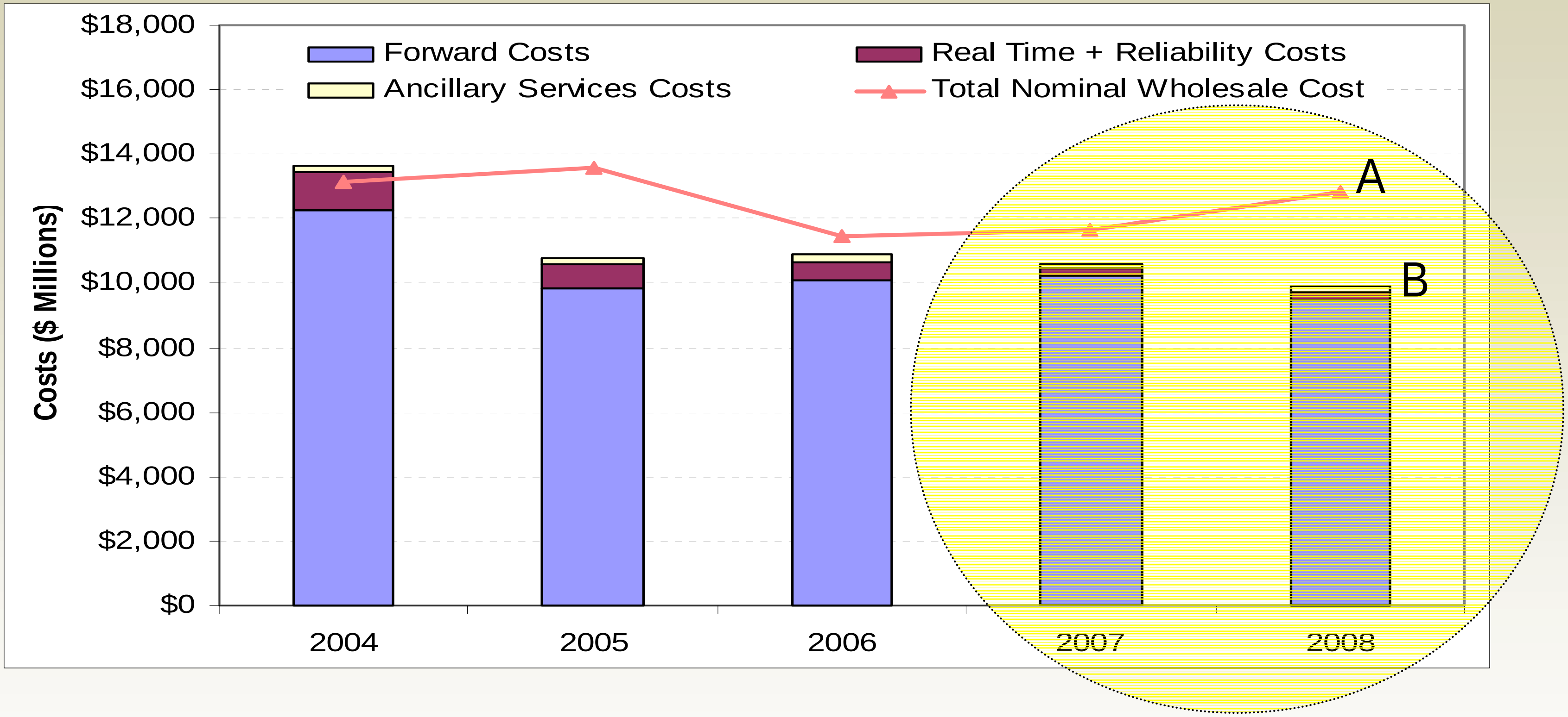
Total wholesale costs increased slightly.



A. Total wholesale cost increased 9.4% in 2008 to $12.8 billion.

B. Adjusted for changes in natural gas prices, total wholesale costs were slightly lower than in 2007.

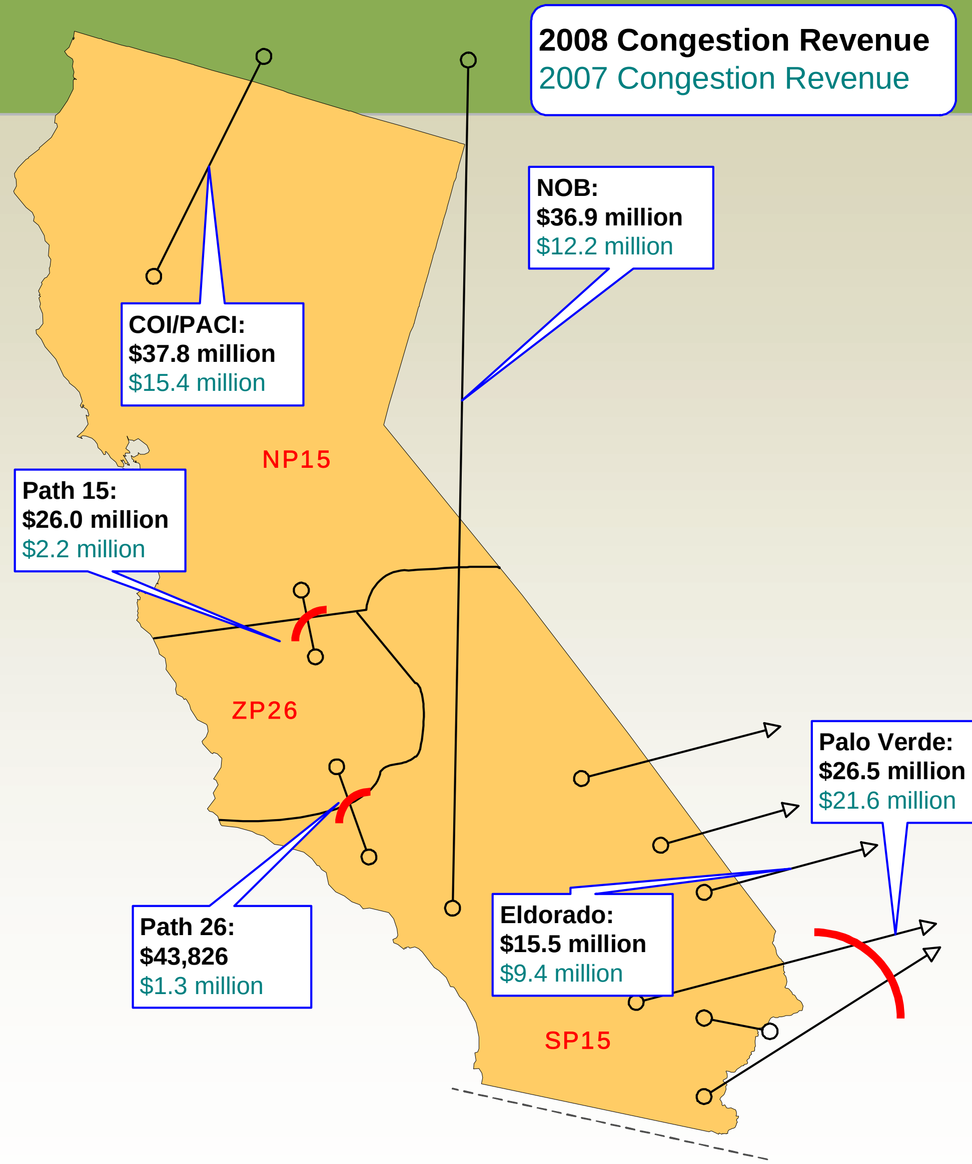
ISO reliability costs increased in 2008.

Reliability Cost Type	2008 Cost ($MM)	%∆ from 2007
Intra-zonal (including RT RMR)	$174	81%
Total RMR (excluding RT RMR)	$55	-44%
RCST/TCPM	$3	-89%
Total Reliability Costs	$232	5%

- 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.

Inter-Zonal congestion costs increased significantly in 2008.

- $176 Million in 2008
- $85 Million in 2007



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

	Cumulative (2001-2008)
Southern Zone	
New Generation	7,449
Retirements	(4,280)
Forecasted Load Growth*	4,212
Net Change	**(1,042)**
Northern Zone	
New Generation	7,544
Retirements	(1,235)
Forecasted Load Growth*	3,342
Net Change	**2,967**

New generation in southern California largely offset by retirements and load growth.

Major gains in central & northern California.

CAISO System	
New Generation	14,994
Retirements	(5,515)
Forecasted Load Growth*	7,554
Net Change	**1,925**

System-wide

* Based on 2% annual load growth.

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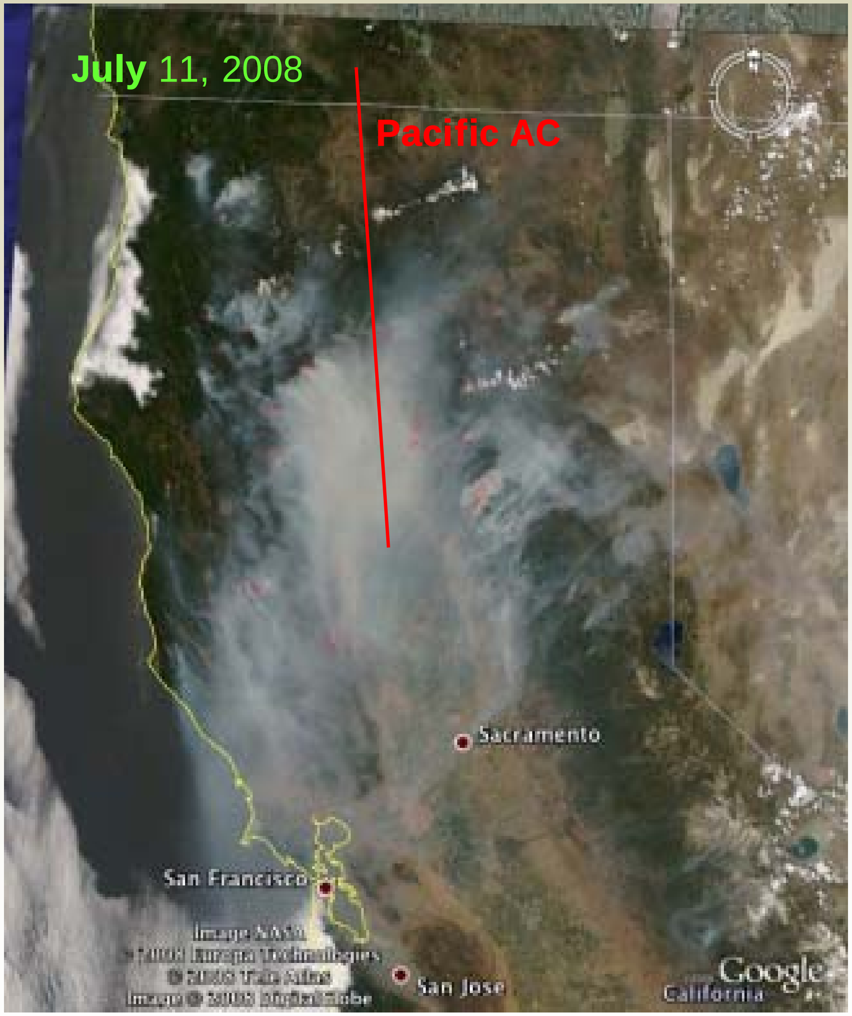
Major Market & Grid Operation Events in 2008

- June Wildfires & Heat Wave – managed without any major grid or market impacts.
- Natural Gas Prices – Large swings in natural gas prices drove market activity, particularly congestion costs.
- Limited California hydroelectric production – increased dependence on thermal generation and imports.

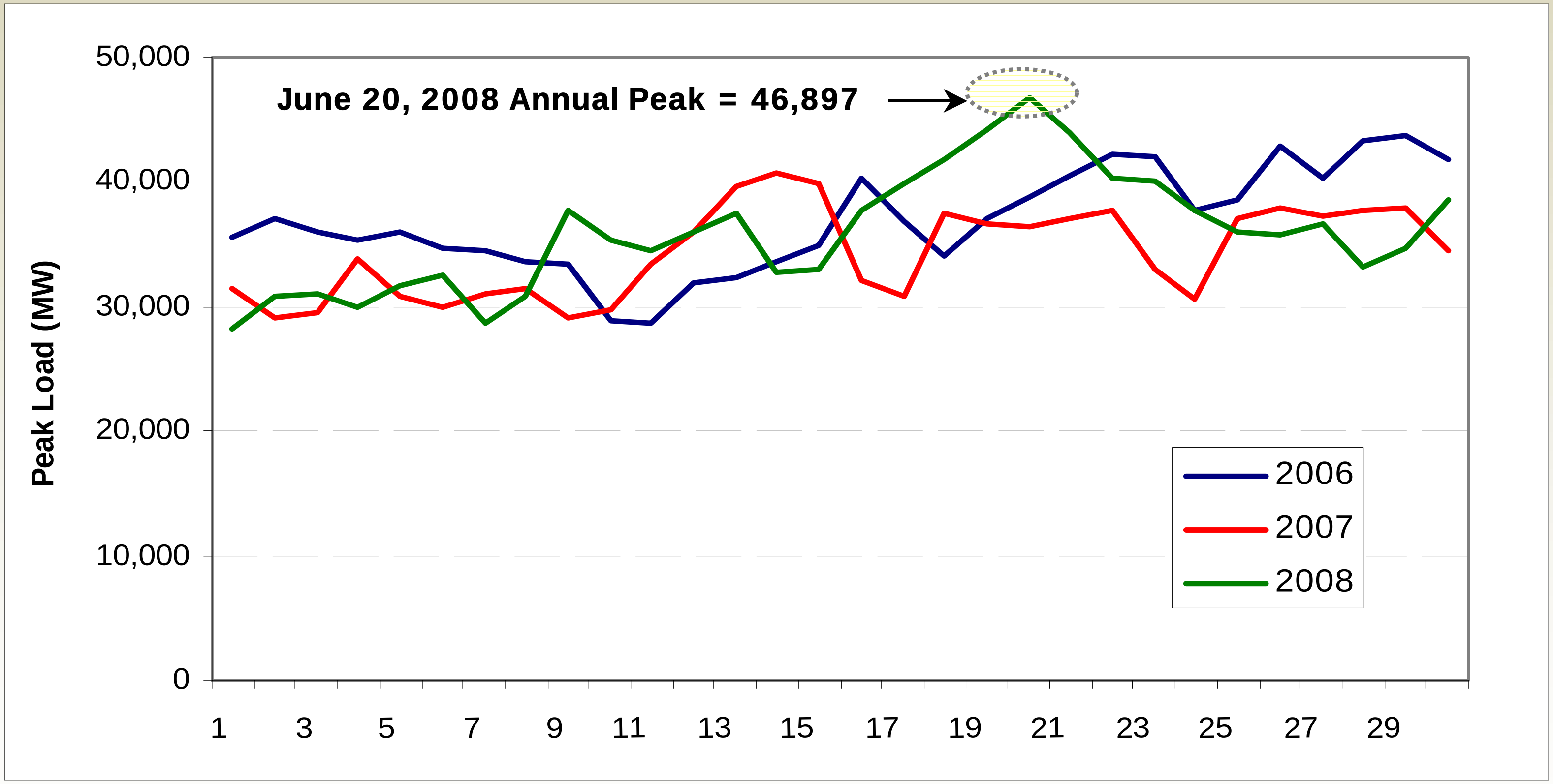
Markets and grid operation performed well during June California wildfires and heat wave.



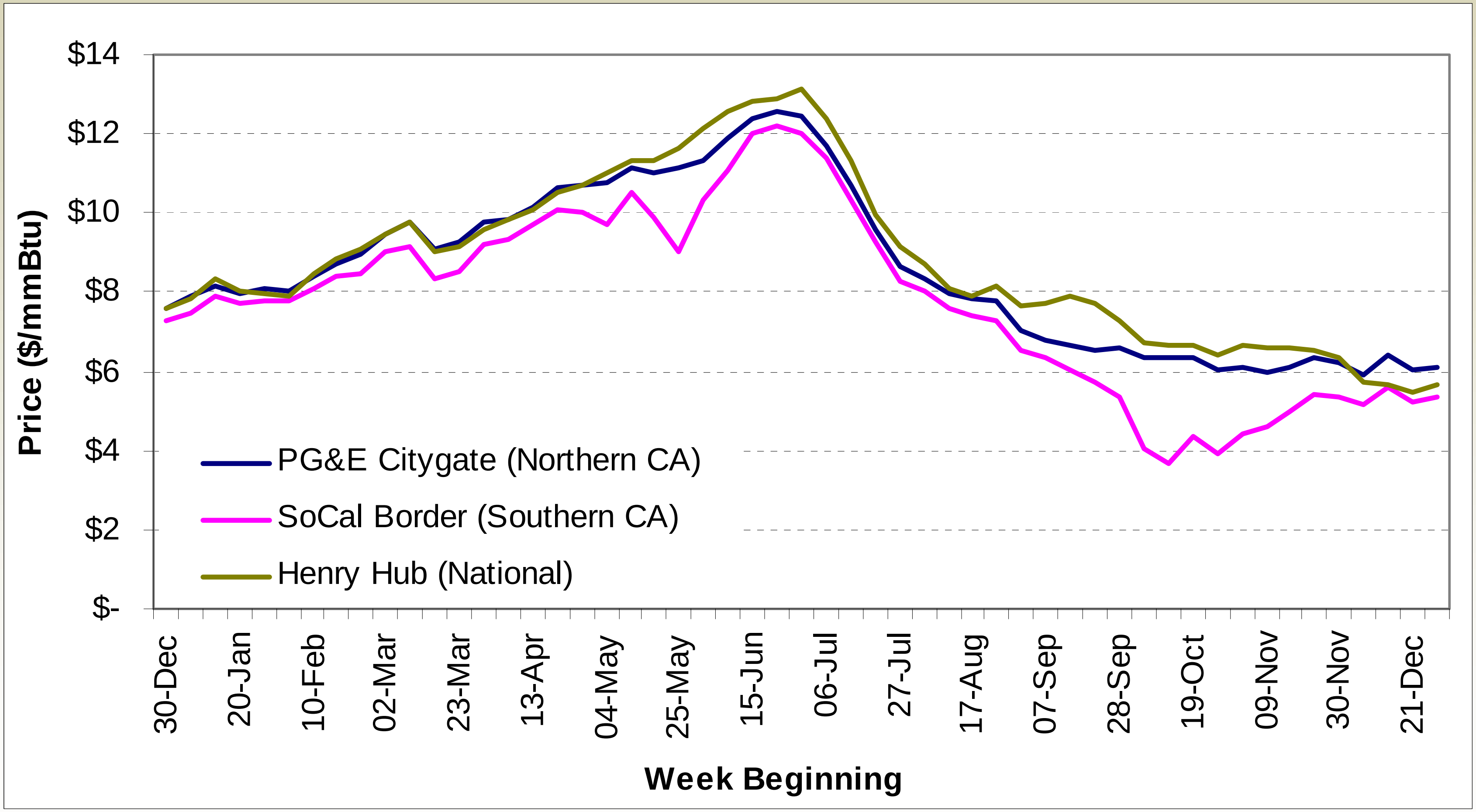
- Spring 2008 – driest on record
- June 20-21 – 5,000-6,000 dry lightning strikes across northern & central California
- Over 2,000 wildfires
- Over 1.3 million acres burned
- Operational impacts:
  - Periodic de-rates of major transmission to the northwest (Pacific AC)
  - Out-of-merit dispatch to unload various other paths

Annual peak load occurred on June 20, and loads were relatively moderate the rest of summer.

Daily Peak Loads -June 2006-2008



Rise and fall of natural gas prices were a big driver in 2008 market performance.



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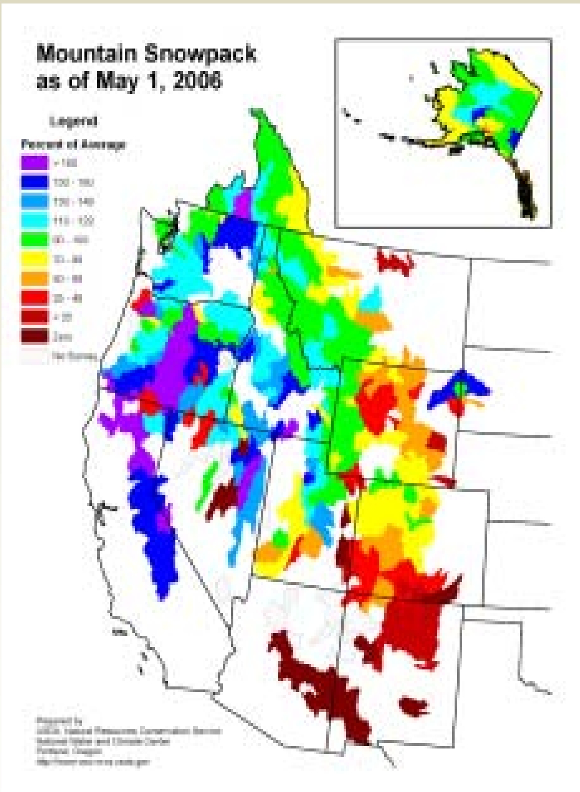
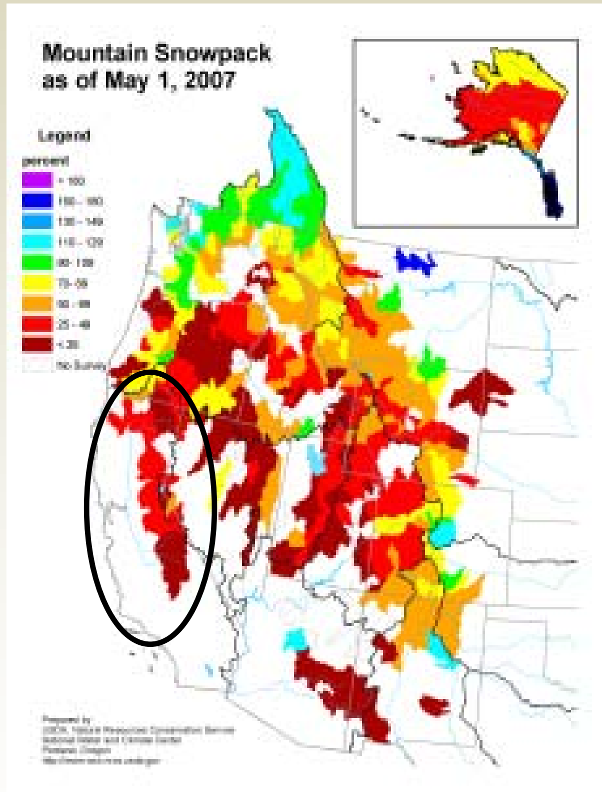
Two consecutive years of below normal California snowpacks limited hydroelectric supplies.

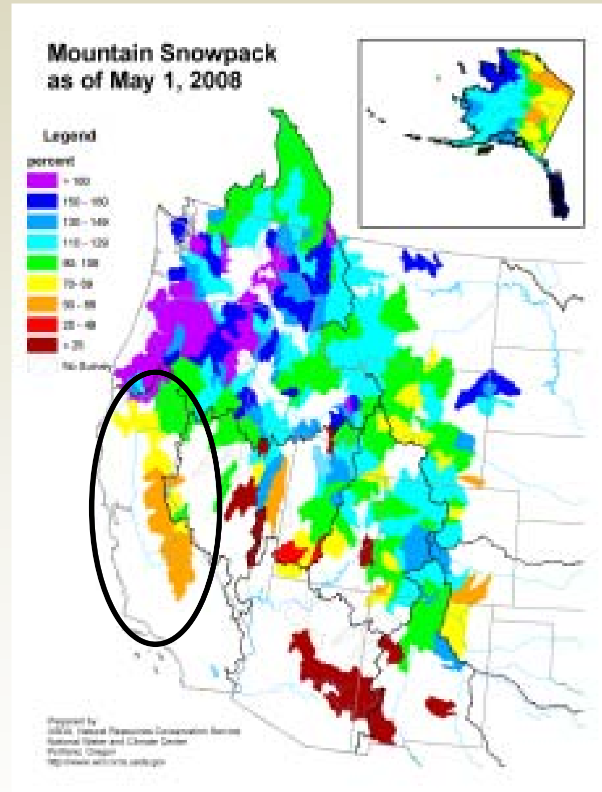
2006



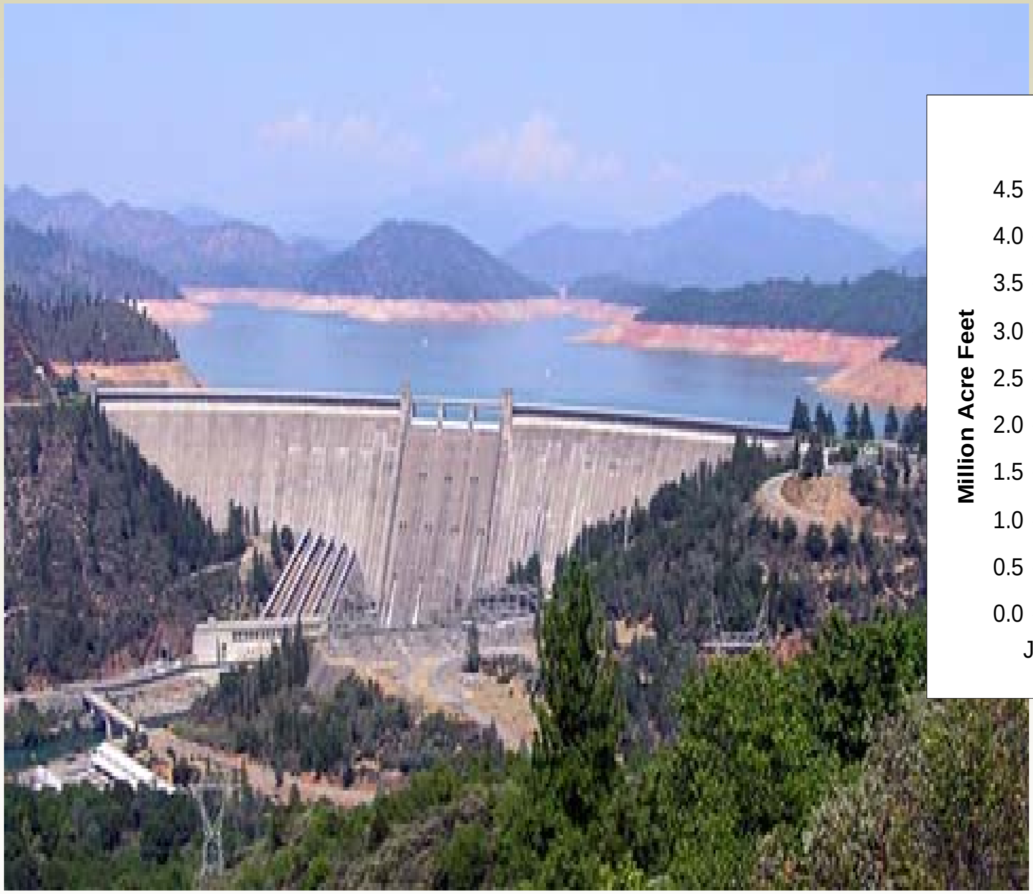
2007

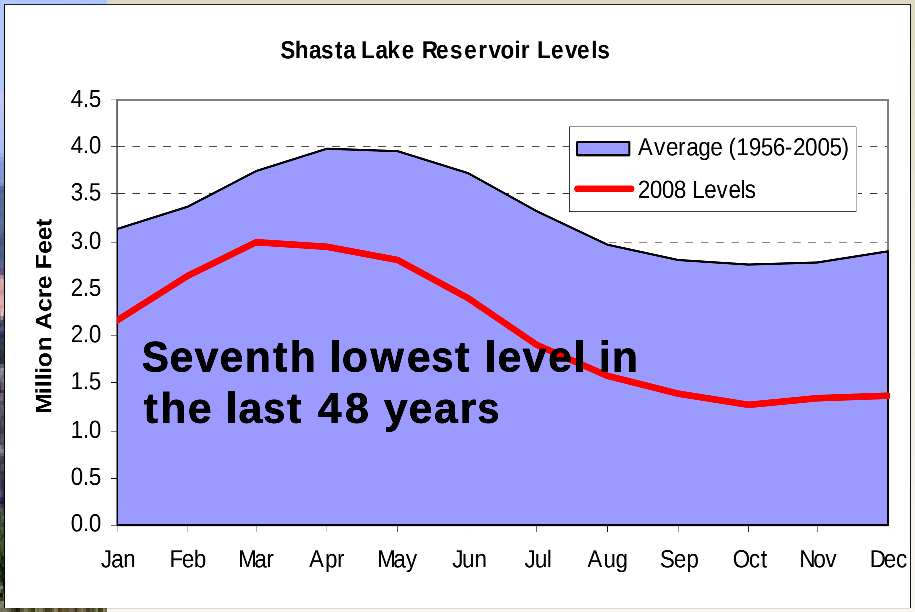


2008



Low Reservoirs = Limited Hydro Power





Shasta Reservoir – August 12, 2008

ISO hydroelectric production in 2008 was the lowest in the past eight years.