



CALIFORNIA ISO

California Independent
System Operator

Market Monitoring Report 2005 Annual Report Summary

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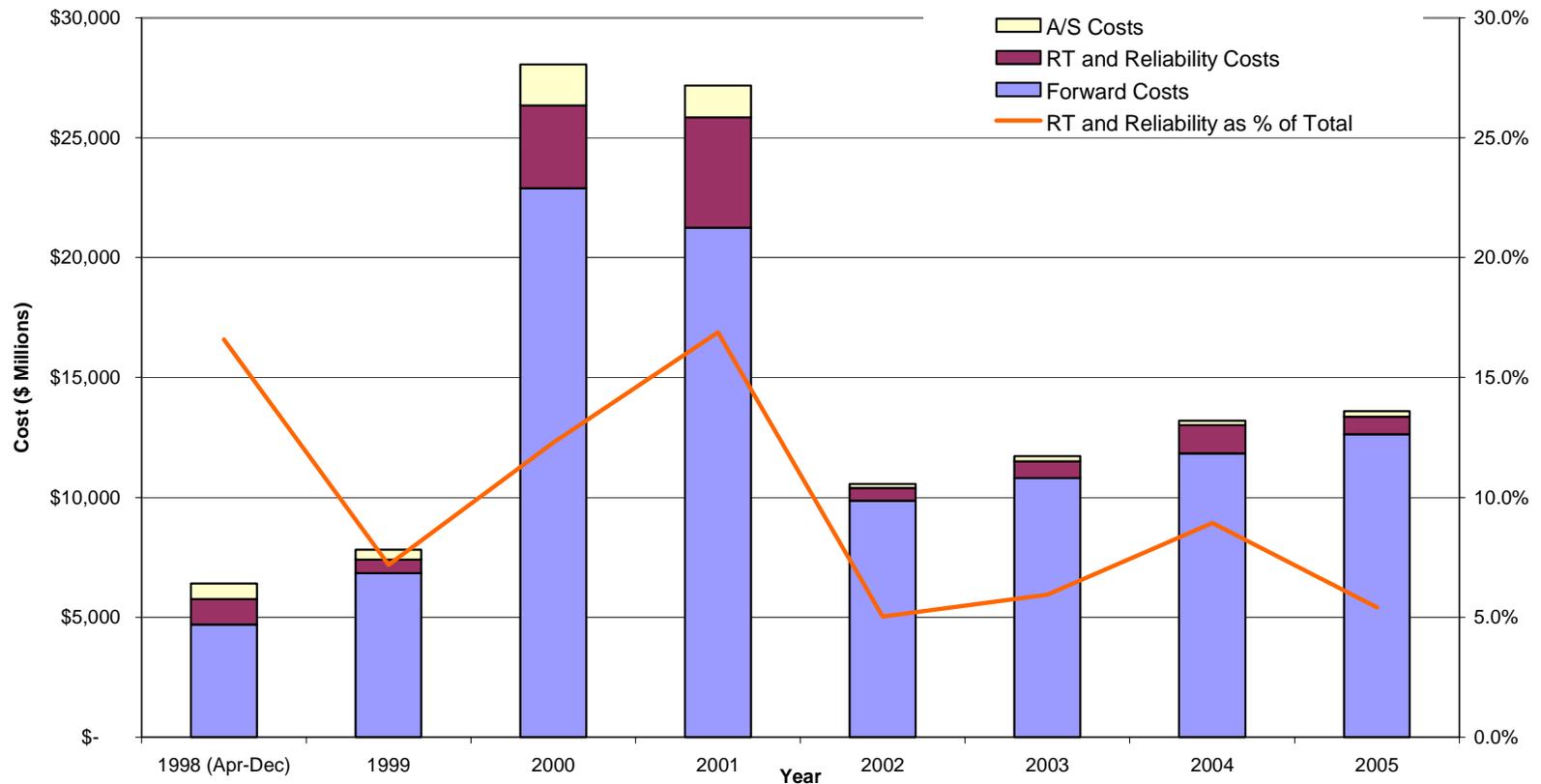
2005 Market Highlights

- Overall, CAISO markets were competitive and stable.
- Congestion costs reduced significantly.
- Concern that new generation investment over the next several years may not keep pace with demand growth and retirements.
- Significant market events in 2005:
 - Inter-tie bidding and settlements under RTMA “bid or better” rules (Amendment 66).
 - Load scheduling requirement (Amendment 72).
 - Gulf Coast Hurricanes – impact on natural gas and energy prices.
- Analysis to date indicates RTMA performance consistent with design objectives but opportunities exist for future enhancements.



Review of Market Performance

- Total Wholesale Energy and A/S Costs





Review of Market Performance

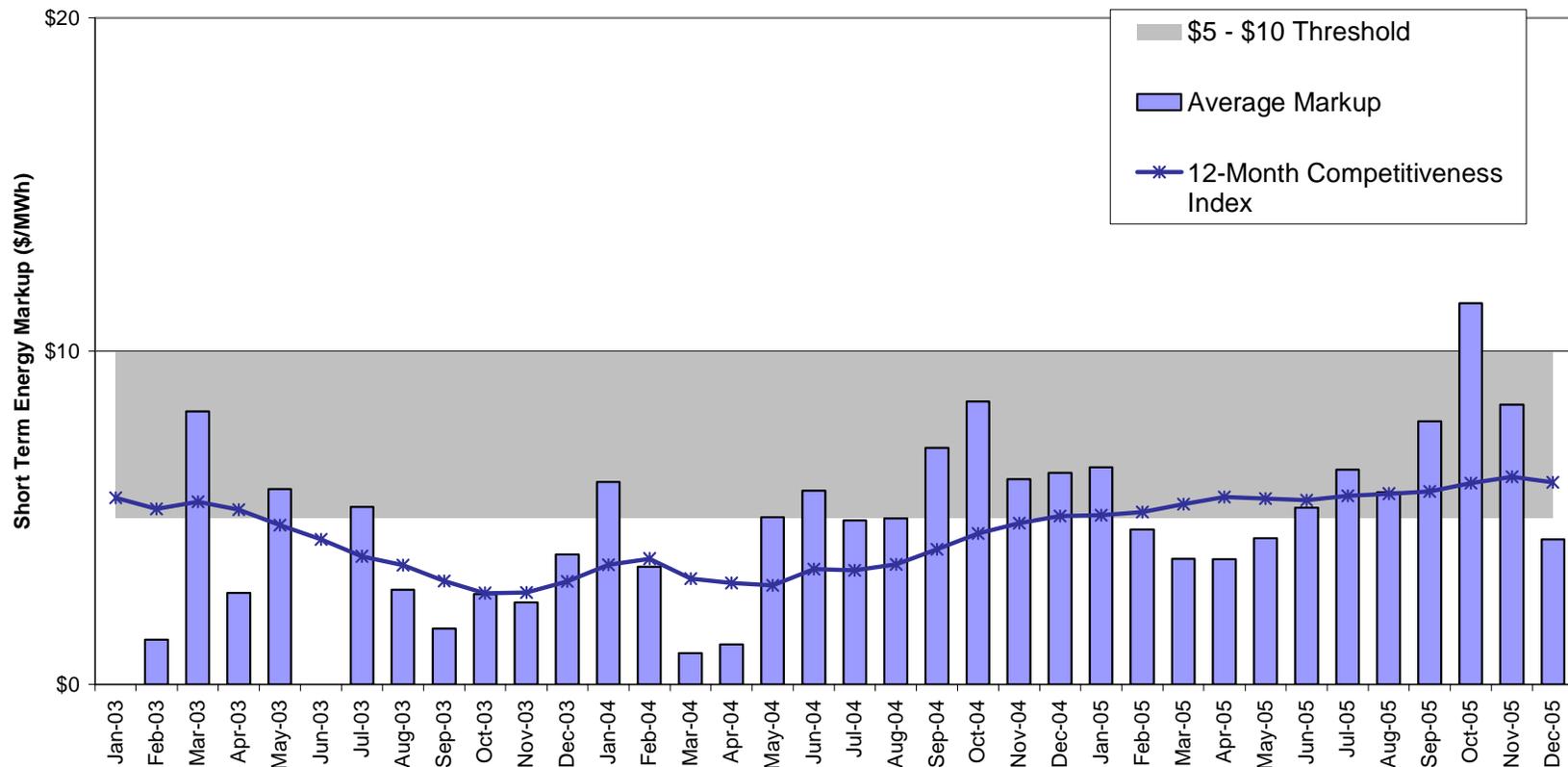
- All-in Price
 - All in price is expressed in \$/MWh of load.
 - Total increase of 4.5% in 2005 compared to 2004.

	2002	2003	2004	2005	Change '04-'05
Est. Forward-Scheduled Energy Costs, excl. Interzonal Congestion and GMC	\$ 40.92	\$ 45.77	\$ 48.21	\$ 52.35	4.13
Interzonal Congestion Costs	\$ 0.18	\$ 0.12	\$ 0.23	\$ 0.23	(0.00)
GMC (All charge types, including RT)	\$ 1.00	\$ 1.00	\$ 0.90	\$ 0.84	(0.06)
Incremental In-Sequence RT Energy Costs	\$ 0.49	\$ 0.63	\$ 1.47	\$ 1.60	0.13
Explicit MLCC Costs (Uplift)	\$ 0.26	\$ 0.54	\$ 1.21	\$ 0.52	(0.68)
Out-of-Sequence RT Energy Redispatch Premium	\$ 0.02	\$ 0.19	\$ 0.43	\$ 0.15	(0.28)
RMR Net Costs (Include adjustments from prior periods)	\$ 1.60	\$ 1.95	\$ 2.67	\$ 1.95	(0.73)
Less In-Sequence Decremental RT Energy Savings	\$ (0.08)	\$ (0.29)	\$ (0.86)	\$ (1.11)	(0.25)
Total Energy Costs	\$ 44.39	\$ 49.90	\$ 54.27	\$ 56.53	2.26
A/S Costs (Self-Provided A/S valued at ISO Market Prices)	\$ 0.68	\$ 0.86	\$ 0.77	\$ 0.96	0.20
ISO-related Costs (Transmission, Reliability, Grid Mgmt.)	\$ 4.15	\$ 5.00	\$ 6.82	\$ 5.15	(1.68)
Total Costs of Energy and A/S (\$/MWh load)	\$ 45.07	\$ 50.76	\$ 55.04	\$ 57.49	2.46
A/S Costs % of All-In Price Index	1.5%	1.7%	1.4%	1.7%	7.9%



Review of Market Performance

- 12-month market competitive index





Generation Investment and Load Growth

- Significant amount of new generation in 2005.
- New generation in SP15 through 2006 not keeping pace with load growth and retirements.

	2001	2002	2003	2004	2005	Projected 2006	Total Through 2006
SP15							
New Generation	639	478	2,247	745	2,376	352	6,837
Retirements	0	(1,162)	(1,172)	(176)	(450)	(1,320)	(4,280)
Forecast Load Growth*	491	500	510	521	531	542	3,094
Net Change	148	(1,184)	565	48	1,395	(1,510)	(537)
NP26							
New Generation	1,328	2,400	2,583	3	919	89	7,322
Retirements	(28)	(8)	(980)	(4)	0	(215)	(1,235)
Forecast Load Growth*	389	397	405	413	422	430	2,456
Net Change	911	1,995	1,198	(414)	497	(556)	3,631

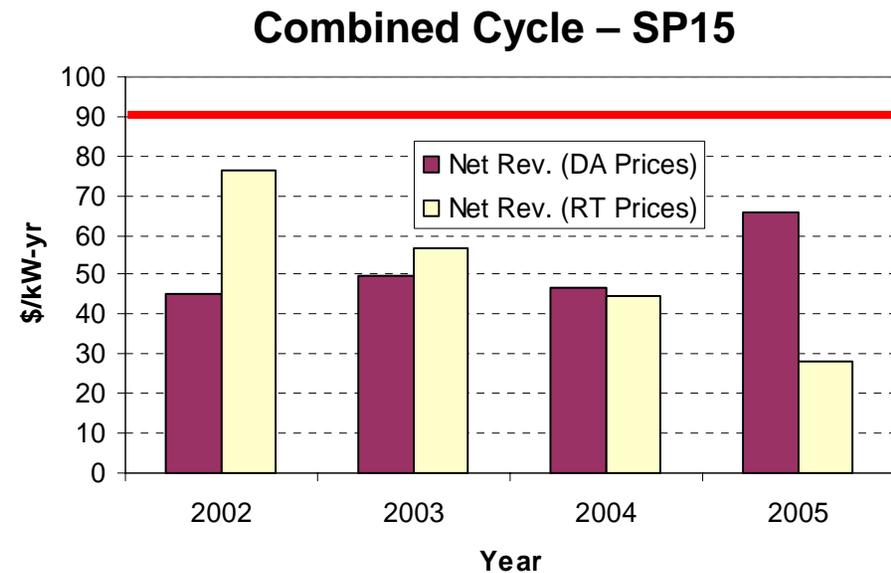
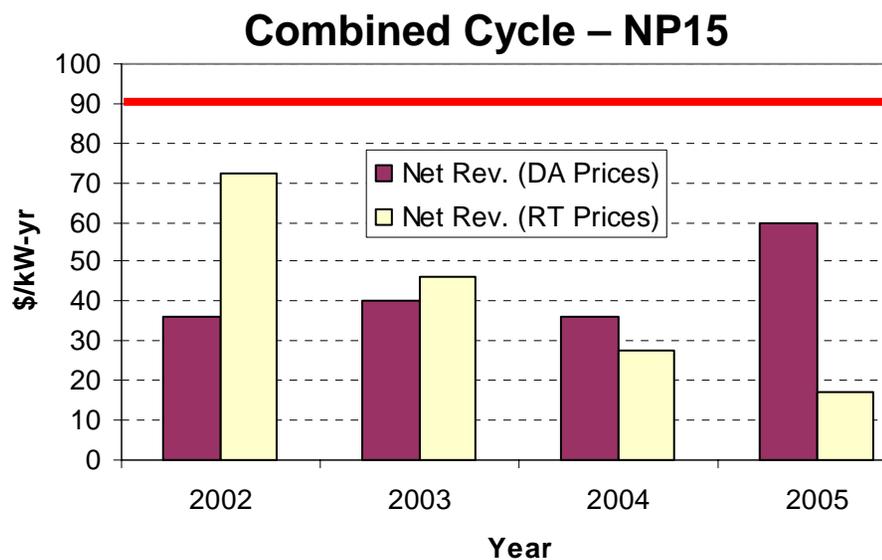
* Assumes 2% peak load growth using 2005 forecast from 2005 Summer Assessment.

- Very little new generation coming on-line in the next 3-years (2006-2008)... concern given load growth and potential retirement of older units in SP15.



Generation Investment - Spot Market Revenue Assessment

- Spot market net revenues continue to fall well short of the annualized fixed cost of new generation.



- Revenue simulation for CC unit compared to benchmark \$90/kW-yr cost recovery figure reported by CEC.