



NEWS RELEASE

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California ISO Board Approves Increase in Bid Cap Level

(Folsom, CA) To ensure reliable operation of the power grid and adequate availability of power supplies, the California Independent System Operator Corporation (California ISO) Board of Governors today approved a plan to increase the bid cap applied to the small amount of energy purchased through the ISO wholesale markets. Under the plan approved today, the California ISO will file a request with the Federal Energy Regulatory Commission (FERC) to raise the cap in the spot energy market from a \$250 per megawatt-hour “soft cap” to a \$400 per megawatt-hour “hard cap”, meaning bidders would not be allowed, as they are now, to bid above that set cap level. The ISO will now seek approval for the new cap from FERC. The change would not affect the ISO operating reserve market, which would retain its \$250 cap.

The increase reflects changing market conditions over the last several years, most notably the steady increase and high volatility in natural gas prices that have left natural gas prices three to four times higher than they were when the \$250 cap was set in 2002. There are safeguards in effect now that did not exist four years ago. Nearly all of the power consumed by California’s three investor-owned utilities is procured through long-term contracts or supplied by utility-owned generation resources regulated by the California Public Utilities Commission. The volume of electricity purchases in the Real-Time Market has been stable for four years at five percent or less, frequently averaging just two percent of the market. There are also local market power mitigation tools in place and available to the ISO.

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The Board action today comes at the recommendation of the Market Surveillance Committee (MSC). Comprised of independent experts who monitor the ISO markets, the MSC provides an independent review of market stability and performance. The ISO Department of Market Monitoring agrees with the MSC opinion, concluding that increasing the cap will provide benefits important to maintaining reliable grid operation for the upcoming year, given the forecast for tight supply margins.

Both teams of economists found that a higher bid cap would attract more resources to the ISO Real-Time Market, particularly from suppliers, including out-of-state generators, which are not required to bid into the ISO market. A higher cap will also promote reliability by providing greater fixed cost recovery for generating units during high demand periods when supply margins are tight and prices are at or near the bid cap.

“The \$250 cap was established back when natural gas prices were \$3 to \$4 per million BTU. The new cap of \$400 per megawatt-hour is comparable, given we are seeing natural gas prices in the \$12-\$14 per million BTU range,” said Director of Market Monitoring Keith Casey. “We are seeing extreme volatility in the gas market and it could worsen considerably.” Natural gas is the major source of fuel for electrical generators in California and power prices typically follow gas prices.

“We are charged with making sure the lights stay on in California and continually strive to find the correct balance between cost and reliability,” said ISO Board Chair, Ken Wiseman. “With unpredictable fuel prices and intense competition for power around the West, we need to make sure out-of-state energy suppliers will offer their power to the Real-Time Market. We do not expect prices to hit this higher cap often and the volume at that price should be extremely low.”

It should be noted that part of the California ISO Market Redesign and Technology Upgrade program includes raising the bid cap to \$500 in 2007 when the redesign is fully implemented. Additionally, there is a pending proceeding at FERC addressing the issue of payments to generators for their capacity that may also affect the level of the bid cap in the near future.

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 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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