

NEWS RELEASE

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California ISO Hails FERC Approval of Market Redesign

Market Redesign and Technology Upgrade Receives Conditional Approval

(Folsom, CA) The Federal Energy Regulatory Commission (FERC) today unanimously paved the way for California to move into a new electricity era—one that restores confidence in energy markets and lays the groundwork for meeting California’s growing power needs. The California Independent System Operator Corporation (California ISO) received the green light for its Market Redesign & Technology Upgrade (MRTU) program, helping it proceed toward a planned November 2007 implementation date.

Although additional time is needed to study today’s order, the California ISO welcomes the conditions that call for additional stakeholder involvement. These represent important enhancements to the new market structure, which were previously identified by the California ISO and are already topics of stakeholder discussion. We agree with FERC that issues such as demand response and long-term transmission rights must be addressed expeditiously and we will take the necessary immediate steps to address them in our market redesign.

California ISO President and CEO Yakout Mansour called today’s ruling monumental and applauded FERC Commissioners for their careful review and thorough understanding of the important issues and challenges facing California’s electricity industry. “The ISO is committed to reaching out to stakeholders who have concerns as we work to resolve remaining issues and it is our hope they are equally committed to moving forward,” said Mansour. “The decision culminates several years of collaborative design and development between the California ISO, the California Public Utilities Commission and industry stakeholders.”

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"The California Public Utilities Commission (CPUC) has been very involved in the development of MRTU during the last four years," said CPUC President Michael R. Peevey. "The CPUC supports MRTU's goals to promote more reliability, provide more accurate price signals, and provide better signals for generation investment in California. Successfully realizing these goals is important for California's energy future."

While critical to the future of the wholesale energy system in California, MRTU will not have any immediate impact on the average consumer. Eventually, lower wholesale costs anticipated as a result of MRTU may be passed on to consumers through efficiencies gained in market and grid operations as well as new investment in California's electricity infrastructure.

"We want to thank FERC staff for the tremendous effort and countless hours put into reaching this important milestone," said Vice President of Market Development & Program Management Charles King. "FERC has issued 30 orders, providing us guidance on the conceptual design over the course of the past five years. Today's order moves California's electricity industry forward by combining proven market design with the latest advancements in computerized grid operations. With MRTU, we will have precision tools for guarding against market manipulation. ISO operators will benefit from high-performance software that allows them to see transmission bottlenecks before they become a problem. In addition, the new software will automate least cost solutions for matching supply and demand in real time and line up megawatts well before they are needed with a new day-ahead energy market—something missing in California since 2001."

The new market moves ISO operational functions out of "real time" and into the "day ahead" time frame. For instance, currently, the ISO cannot see or respond to most of the transmission bottlenecks that occur within California until real time, which results in a costlier market and poses greater risks to reliability.

MRTU will also lead to more transparency with regard to market and grid data, giving generation and transmission owners as well as regulators and political leaders the information they need to make critical business and policy decisions.

MRTU includes a *Full Network Model* of the grid that will allow the California ISO to see all transmission congestion on the grid the day before power actually flows. It also includes the *Integrated Forward Market*, which will allow the ISO to optimize energy and capacity for a least cost solution.

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FERC also approved a component of MRTU known as *Locational Marginal Pricing*, which will reveal the true wholesale cost of delivering electricity where it needs to go. Right now, an energy buyer may purchase power from the least-cost generator, but face additional, unknown charges if congestion prevents that power from being physically delivered.

With the *Full Network Model* revealing the congestion a day ahead of time, the *Integrated Forward Market* facilitating the most efficient way to manage that congestion, and *Locational Marginal Pricing* showing the cost of the energy and all the “shipping and handling” costs, energy buyers and sellers can make well-informed decisions about how to keep the lights on at the least cost for consumers.

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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