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California ISO Markets Stable for Third Full Year in a Row *Real-Time Grid Congestion Sends Signal for Adding Transmission Capacity*

(Folsom, CA) The California Independent System Operator's (California ISO) Annual Report on Market Issues and Performance shows a steady and stable market for the third full year in a row. The detailed report of market trends for 2004 also highlights challenges facing California, including real-time local congestion. Congestion, or overcrowding of power lines, is due in part to cheaper electricity from new power plants inside and outside of California competing in its energy markets as well as outages that occurred during major transmission upgrades in 2004. Power imports into California increased by about five percent overall and even more during the peak hours when the energy was most needed.

"All things being equal, we are back to the type of prices we saw before the energy crisis in 2000/2001 when you take into account natural gas costs," said ISO President and CEO Yakout Mansour. "If natural gas prices drop, the price of electricity will follow, but this is another reason why fuel diversity and renewable resources are important for California."

"This report tells me that the market is stable and functioning well," said Mansour. "We know that California and the West in general, need more transmission capacity. There is also a need to continue replacing older, inefficient generators with newer models."

According to the report, congested power lines are sending a signal to build more transmission in California. Since 1998, the ISO has approved 300 transmission improvement projects worth nearly \$3.5 billion and that will help reduce congestion and lower costs. The ISO new market design, to be implemented in early 2007, will also reduce real time congestion costs because it will identify and

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mitigate congestion from the day-ahead schedules submitted to the ISO, rather than allow over-booked transmission lines to continue into real-time.

In 2004, several major transmission system enhancements were completed to help mitigate congestion going forward. The Path 15 Upgrade Project is a good example of how transmission expansion can add to grid reliability and reduce congestion. The added capacity will significantly reduce electricity costs in California, saving approximately \$100 million per year in normal conditions, and more than \$300 million during dry years when Path 15 helps mitigate the lack of hydroelectric resources in Northern California, according to the economic studies completed by the California ISO.

The Path 15 Upgrade began commercial operation on December 22, 2004 allowing greater energy flows between southern and northern California. “We’re seeing the economic and reliability benefits of the Path 15 upgrade every day,” said Dr. Anjali Sheffrin, the ISO Director of Market Analysis. “We have observed nearly a 50 percent increase in flows over the path compared to last year, allowing more lower cost energy from new efficient resources to reach Northern California loads. Our report indicates that investing in this type of transmission upgrade makes good sense for California. Reducing crowding on the power grid saves money and helps keep the grid more reliable too.”

The Market Report indicates that the demand for energy in California is growing at roughly four percent—about double the typical rate. Most of the electricity used in California is now bought and sold via contracts directly between parties, well in advance of the ISO daily markets. While the ISO schedules the delivery of that energy, only 3-4 percent of the energy needed on a given day goes through the ISO markets. “That’s another positive sign,” said Sheffrin. “Over reliance on the spot market to meet system demand can lead to significant market problems.”

The 2004 “state-of-the-market report” is available on the ISO home page at www.caiso.com.

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 a 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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