California Independent
System Operator Corporation

NEWS RELEASE

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California ISO Reduces RMR Contracts by 60 Percent

Utility Resource Adequacy Contracts Replacing RMR

(Folsom, CA) The California Independent System Operator Corporation (California ISO) has dramatically reduced the number of Reliability Must Run (RMR) megawatts needed for 2007, going from an anticipated 9,963 megawatts down to 3,995—a reduction of nearly 60 percent. The California ISO will enact RMR contracts with 65 generating units as opposed to the 120 units originally anticipated. This will also dramatically reduce the costs associated with maintaining the RMR contracts.

The reduction is due in large part to bilateral contracts enacted between load-serving entities, (investor-owned utilities, etc.) and independent generating companies under the State's Resource Adequacy Requirement (RAR). Under RAR, the California Public Utilities Commission (CPUC) requires utilities and other load-serving entities under its jurisdiction to contract for 115 percent of the power needed to serve their customers.

Recently, the CPUC added locational elements to the Resource Adequacy Requirements for 2007, meaning that load-serving entities must obtain generation that is deliverable to areas with limited transmission capacity. These locational procurements were guided by California ISO analyses of locally constrained areas on the grid. Based on the locational procurements, the ISO was able to release 55 generating units from their RMR contracts. In most cases, these generating units are now under contract with one of the load serving entities.

"The power plants are still vital to maintaining local reliability," said ISO President and CEO, Yakout Mansour. "But now the capacity from those plants is locked in by contracts with the load-serving entities instead of with the California ISO. It is far more appropriate to manage locational needs this way. This is another very positive sign that California's energy industry is back on the right track."

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RMR contracts are enacted for one-year terms, whereas bilateral contracts can be enacted for longer terms if the parties choose to do so. By nature, longer-term contracts provide more cost certainty for the buyer, and more guarantee of cost recovery and cash flow for the seller. While the ISO is not a party to the terms of the bilateral contracts, the potential for long-term local reliability contracts bodes well for stability and reliability in California's energy industry.

More information about the reduction in RMR contracts was presented to the California ISO Board of Governors this week. That information is available 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 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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