

Introduction

Each year the Department of Market Analysis (DMA) publishes an annual report on the performance of the markets administered by the California Independent System Operator (CAISO). This report covers the period of January 1, 2003 through December 31, 2003.

The report is organized with a comprehensive executive summary that can read as a stand-alone document. The chapters that follow provide more detailed information on market outcomes and the analysis that supports the results found in the executive summary.

The California market structure continues to change with the addition of new resources and an evolving market design. Chapter 1 provides information about market power mitigation rules put into place in October 2002 and discusses the ongoing changes in the California electric system infrastructure. These market structure changes have great impact on the competitiveness and performance of the California competitive electric markets. Chapter 2 provides a summary of the 2003 supply and demand conditions and resulting energy market performance throughout the year. Chapters 3 and 4 provide an overview of the CAISO's real time imbalance energy, ancillary services, and interzonal congestion management market outcomes for the year and discuss the specific market issues related to those markets. Chapter 6 provides a detailed analysis of one of the most problematic issues in the current market structure, transmission system congestion within the three defined congestion zones in the CAISO control area. Finally, Chapter 7 lists the major investigations undertaken by the DMA during 2003 and the activities of the CAISO Market Surveillance Committee.

This report is submitted by DMA to the CAISO Board of Governors and to the United States Federal Energy Regulatory Commission (FERC) pursuant to the CAISO's reporting requirements under the Market Monitoring and Information Protocol section of the CAISO's FERC Electric Tariff.