



NEWS RELEASE

FOR IMMEDIATE RELEASE
October 1, 2004

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New Tools & Rules for California ISO Energy Market Phase 1B of Market Redesign “Goes Live”

(Folsom, CA) The California Independent System Operator (California ISO) ushered in Phase 1B of its market redesign at 12:01 this morning—implementing new market tools and rules to automate and enhance communication, compliance and consistency between the ISO control room and power plant operators. Phase 1B brings the ISO internal mechanisms to give energy suppliers incentive to perform as planned or as directed by the ISO.

“This is a big step in getting the spot markets for energy to perform more efficiently and more in tune with the way the grid physically operates,” said Vice President, Market Services Randy Abernathy. “The new Real Time Market Application software automatically chooses the most economic generators to meet the ever changing needs of the grid. The potential for penalties gives energy suppliers economic incentives to perform as promised.”

California ISO Interim CEO Marcie Edwards praised the ISO staff that developed and implemented Phase 1B. “The project team has been living and breathing Phase 1B for more than a year. The dedication they showed in getting it done and getting it done right is truly impressive.”

The final weeks leading up to the Phase 1B transition were filled with market simulations and systems testing. The transition went smoothly shortly after midnight with systems switching over as expected without any impact to grid operations and business continuing as usual at the California ISO.

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One of the major elements of Phase 1B is **Real Time Economic Dispatch**, a new means of collecting and automating data that pinpoints the unique operating characteristics of all 1,400 power plants connected to the ISO-controlled grid. Market participants receive more consistent dispatch instructions, which allows the units to be dispatched in the most economical way.

Phase 1B also includes **Uninstructed Deviation Penalties (UDPs)**, which provide financial incentives for energy suppliers to operate as promised the day before or as directed by the ISO in real time. If suppliers deviate from the expected or instructed level by a significant degree, penalties are applied to each megawatt over- or under-produced. The amount of the penalty is tied to the price of energy at the time of the deviation. It should be noted that UDP financial settlement is not planned for roll out until December 1 to give suppliers a period to adjust bidding and operating behaviors within the allowable limits.

Phase 1A of the California ISO Market Redesign was implemented in 2002. It brought on-line the Automatic Mitigation Procedure (AMP), which kicks in and lowers bids for electricity that are determined to be unreasonably high. Phase 1A also installed a \$250 damage control cap, which acts as a backstop to AMP and continued the “must-offer” rule instituted by the Federal Energy Regulatory Commission during the energy crisis.

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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