

**Prepared Statement Of
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State Senate Committee Governmental Organizations
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Good morning Mr. Chairman and Members of the Committee. My name is Yakout Mansour, I am President and Chief Executive Officer of the California Independent System Operator. It is my pleasure to be here to discuss the July, 2006 heat storm and the California ISO's readiness plan.

The California ISO is a not-for-profit public benefit corporation that impartially operates about 80% of the state high voltage transmission grid and a small supplementary market that represents a small portion of the demand in any given day. At the California ISO we have a saying: Hope for the best but plan for the worst. It is with that in mind that I would like to first provide an overview of the heat storm and second the preparedness plan that was in place and implemented to address the needs of California and the West.

1. Working with the California Public Utilities Commission and our other partners, we make sure that there are enough resources and grid capacity to handle the most severe single outage in the network under average seasonal demand and typical conditions without a glitch, this is called a 1 in 2 forecast. This summer's assessment was based on forecast for the peak demand based on average 1 in 2 temperature of just over 46,000 MW. Under this scenario, our assessment indicated that we have a reasonable level of operating reserve of 12% and double that if we account for demand response and interruptible programs. We need to maintain approximately 7% operating reserve above the actual load being served at all times.

2. We prepare to operate the system under various levels of extreme from typical conditions. Our expectation is to be able to accommodate moderate variations around the base assumption and minimize the impact under severe conditions. Our assessment indicated that we could handle a demand in excess of 48,000 MW, close to what is likely to be under extreme temperatures that materialize once every ten years, with limited to no impact on firm load customers.

3. In the recent heat wave, the peak demand of 51,000 MW was well above any of the scenarios we assumed in our assessment. That is over 12% higher than last year's record; 6% higher than the worst case scenario we analyzed in our assessment; 38% higher than the peak demand of the 2001 year of the crisis; and represents the typical demand of five years ahead. Keep in mind that the net generation added from the 2001 time until now is about 8500 MW, or 23%.

The California Public Utilities Commission and the Investor Owned Utilities ensure that resources are in place for a 1 in 2 scenario with weighed average temperature of approximately 90 degrees across California, and in most years this amount of resource availability has proved to be sufficient. The adverse forecast or a 1 in 10 would bring weighed average temperatures of approximately 102 degrees. As you know all too well, the July heat storm brought with it weighed average temperatures across the CAISO of between 106 and 110 on various days, something California and the West has not experienced in recent history. The temperatures were higher than anything in the 30-year history of our temperature models.

I am happy to report to you that we met the challenge without a glitch and with a few hundred MWs to spare thanks to a well executed preparedness plan, which saw tremendous cooperation and collaboration by all entities involved including

the citizens of California. The tightly structured and well-executed preparedness plan that we started working on shortly after the conclusion of the last summer season has the following elements:

- We have conducted California Operator Contingency Training sessions for over 300 operators (including Commission Federal de Electricidad) on various typical and extreme scenarios.
- Maximize Availability of Resources (coordination of generator and transmission outages). I am pleased to report that in spite of the punishing heat wave, the generator forced outage during the record peak days was at all time low, close to half of what it stood at on average in previous years. Further, when faced with outages during those difficult times, the turn around time was remarkable and well below previous records.
- Last year's Executive Order of the Governor established a minimum level of Resource Adequacy to all Load Serving Entities of 115% of their peak demand, which was enforced by the PUC and worked very well in making reasonable levels of resources available.
- Daily coordination calls or peak day calls brought together the activities of California control areas operators, IOUs and state and federal officials.
- Conservation, demand response, interruptible programs and the ISO's Voluntary Load Reduction Program played a significant role in making it through the tough days. The natural trend of the demand on July 24th was heading towards 52,000 MW. Those programs helped containing the peak at 50,270 MW.

- Emergency Supply Arrangements with neighboring control areas.
- Although we have plans in place for the coordination of and the restoration of firm load shed blocks gladly we did not have to implement this measure.
- Significant imports were made available to California through the peak period. I would like to express my appreciation at this point to the Bonneville Power Administration for their efforts in making as much available to us as possible in spite of the regional high demand.
- Also working in our favor was the fact that hydro resources were at a high level this year in and outside of California.

On the other side, some factors were less favorable:

- The contribution of the wind resources at the time of peak was less than 5% of the total wind installed capacity.
- Fires threatened major facilities, which caused us to closely monitor the situation and occasionally reroute the flow on the grid to minimize the impact should we lose major facilities.

In conclusion, careful and early planning worked well and the industry collaboration under those most difficult circumstances was exceptional. Thank you and I would be happy to answer any questions.