Memorandum

To: ISO Board of Governors

From: Steve Berberich, President and Chief Executive Officer

Date: January 31, 2013

Re: **CEO Report**

This memorandum does not require Board action.

Overall System Conditions

During the first half of January, we experienced a period of extremely cold overnight and early morning temperatures. Overnight temperatures were in the mid to high 20 degree mark throughout the state, causing increased gas usage especially in the southern California region. During the period, there were concerns about gas curtailments to some southern California generators which were ultimately resolved. This experience further highlights the critical link between the gas system and generation and the need to make sure the gas system is positioned to meet the electric system needs as ramps become more pronounced with higher penetrations of renewables and as the state contends with larger temperature swings associated with climate change.

Transmission Outages

Transmission maintenance outages and upgrades throughout the state are numerous as the transmission owners attend to overdue maintenance, prepare for summer, and upgrade the system in support of renewables. Several key transmission lines have been scheduled out for extended time periods resulting in significant transfer capability limitations and an increase in generation to support load and reliability. This results in higher operating risk. For instance, on Friday, January 11, three 500 KV transmission lines were out of service for approximately 15 hours. This situation was the result of two planned 500 KV outages and a forced outage on the Gates – Midway 500 KV line. The Gates-Midway was forced out of service due to equipment failure. The resulting transmission limitations and the amount of self-scheduled generation south of Path 15, caused real time over-generation conditions for a few hours in the central portion of the state.

San Onofre and Associated Mitigations

Both of the San Onofre Nuclear Generating Station (SONGS) units remain off line with an undetermined return to service date. Although the Nuclear Regulatory Commission may allow SONGS Unit 2 to return to service this summer with limits on its operations, we have no certainty about the timing or outcome of their deliberations. Thus, we have no choice but

to assume neither unit will be available this summer. Critical to the contingency planning is the installation of synchronous condensers at Huntington Beach units 3 & 4 to provide voltage support for transfers into southern Orange County and San Diego County. Construction of those devices should begin shortly and we encourage all haste in getting them in place before the critical summer months. We are also working closely with the Governor's Office, the California Public Utilities Commission, and the California Energy Commission in support of energy conservation, demand response, and public education programs, including Flex Alerts, to mitigate the risk of outages this summer.

Valley Electric

Valley Electric was successfully integrated into the ISO shortly after midnight on January 3. The ISO coordinated the transition with VEA, NV Energy, Western Area Lower Colorado and WECC. We appreciate the cooperation and collaboration of all of those entities. Without it, this would not have gone as smoothly as it did. We also deeply appreciate the immense work that took place among staff at VEA and the ISO to make this occur as planned and with only minor issues.

Resource Adequacy in California

In just two years, California's need for winter evening ramping capability will double from about 5,000 MW to 10,000 MW. The requirement nearly triples by 2020. The increase is driven by the setting sun when solar projects stop generating and street and home lights turn on. It's a challenge driven by the success of the state's renewable portfolio standard and we welcome it. California's current resource procurement mechanisms, however, are not designed to meet this dramatic change in operational needs – a problem we have previously discussed with this Board and leadership in the state. We actively support changes to the procurement process to ensure that it both accounts for these changing needs and provides a means to procure demand response, energy efficiency, storage, and other alternatives to conventional generation. This will require close cooperation between California regulators and the California ISO. We need to be clearer about how demand response and other alternatives can meet these needs and design the systems needed to make them work – and we will.

At the same time, California regulators must have confidence that their authority over utility procurement is undiminished, with our authority limited to the needs that remain after utility compliance with their requirements. To that end, the California Public Utilities Commission and the ISO are jointly hosting a resource adequacy summit on February 26th in San Francisco. We appreciate our partnership with the CPUC and look forward to working with them and stakeholders to develop a solution that works for California.

Renewable Generation

Solar and wind generation reached new peaks since the last Board report. The solar generation peak of 1244 MW was set on January 30, 2013 at 11:55 a.m., and the wind generation peak of 3499 MW was set on December 26, 2012 at 11:56 a.m.