

Memorandum

To: ISO Board of Governors
From: Steve Berberich, President and Chief Executive Officer
Date: March 12, 2014
Re: **CEO report**

This memorandum does not require Board action.

OVERALL CONDITIONS

The operating environment from December to March is best characterized as mild weather punctuated by a few periods of abnormal cold, which impacted the natural gas delivery system and related electricity generation. The first gas-related cold weather event occurred on December 9 and 10. The second and more severe event occurred on February 6 when cold weather caused natural gas demand to reach record levels, which led to gas curtailments to electricity generators in southern California. This in turn reduced electricity supply for meeting the day's operating requirements.

Over the course of the day, needs were met by increased output from northern California generation, higher imports, a Flex Alert call for conservation, and demand response, including utility interruptible load programs. Demand response played a key role by reducing peak load by approximately 700 MW. In addition, the system benefited from 800 MW of additional wind generation, which started ramping up approximately 40-minutes before the peak.

FLEXIBLE RESOURCE ADEQUACY CRITERIA AND MUST-OFFER OBLIGATION

The flexible resource adequacy criteria and must-offer obligation is being presented to the Board as part of the ISO's long-term market evolution to support a system with a high concentration of renewables. This proposal works in conjunction with the CPUC's 2013 decision to include a flexibility component in the resource adequacy program. The proposal before the Board ensures that the flexibility attributes procured for resource adequacy are offered into the ISO market and that the ISO is able to procure backstop flexibility attributes, if needed. The proposal establishes a methodology for allocating flexibility obligations based on cost causation principals, and provides a means for use-limited resources such as demand response, storage, hydro, and environmentally constrained gas plants to meet flexibility needs.

TRANSMISSION PLAN

The ISO is pleased to present the 2013-2014 ten year transmission plan to the Board for its consideration. The plan identifies upgrades to the ISO transmission grid needed to successfully address California's policy goals, meet reliability requirements, or provide economic benefits to consumers. This year's plan focuses heavily on reliability needs in southern California – the LA Basin and San Diego areas -- to address needs driven by the early retirement of the San Onofre Nuclear Generating Station and gas generator compliance with once-through cooling regulations. A key goal has been to enable solutions that minimize overall emissions.

In addition to projects that support reliability needs, the plan includes two policy driven projects to support renewables and one significant economic project – the Delaney-Colorado River line, which has the additional benefit of helping renewable generation from Imperial Irrigation District reach California load.

Several issues touched on in the plan have been identified for additional evaluation. These include the need for transmission reinforcement on the San Francisco Peninsula to mitigate natural disasters, the economic benefits of an Eldorado-Harry Allen 500 kV transmission line addition, and the amount of deliverability for generation in the Imperial Valley, which has been significantly reduced by the closure of SONGS. That work will unfold in 2014 and be reported to the Board either later this year or in next year's transmission plan, as appropriate.

MARKET SURVEILLANCE COMMITTEE REAPPOINTMENT

At this Board meeting, Management is requesting the reappointment of Dr. Scott Harvey as a member of the Market Surveillance Committee, an advisory committee to the ISO Board of Governors. He has been a valuable member of the committee and has served the ISO well since his appointment in March 2011. Dr. Harvey has a long history of consulting on market design and performance issues for nearly all of the ISOs including the California ISO during the market redesign that launched in 2009. In addition to his current role on the Market Surveillance Committee, he is a member of the Midwest ISO's market advisory committee, and continues to consult for the New York ISO on a wide variety of issues. Dr. Harvey received a B.A. in Economics from the University of Illinois Champaign-Urbana and a PhD in Economics from the University of California, Berkeley.

RENEWABLE GENERATION

New solar peaks continue to be established as new resources are connected to the grid. The latest solar peak of 3,790 MW was set at 1:09 p.m. on February 24. The wind generation peak remains at 4,302 MW, attained on June 23, 2013 at 12:22 a.m.

PERSONNEL

The ISO is pleased to announce that Roger Collanton has been named Vice President, General Counsel and Chief Compliance Officer replacing Nancy Saracino who has left the ISO to return to private legal practice. We are pleased to have Roger on the executive team.