

## Memorandum

To: California ISO Board of Governors  
From: Yakout Mansour, President and Chief Executive Officer  
CC: California ISO Officers  
Date: July 17, 2007  
Re: *CEO Report*

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***This item does not require Board action.***

Below are highlights of events affecting the California ISO since the date of the last meeting of the Board of Governors.

### **Market Redesign & Technology Upgrade (MRTU) Program**

We are seven months before the target MRTU Go-Live trade date. While we are targeted on launching the market on February 1, 2008, there is escalating pressure on the schedule due to several factors:

- Progress on the integrated market simulations and the mixed results and stakeholder feedback received to date;
- Introduction of ISO legacy systems and data into the environment; and
- Implementation of incremental changes pursuant to FERC's response to market participants' requests.

A critical success factor for launching the market is ensuring that it functions as designed and that we have a quality product. We are continually evaluating these and other factors and working with the market participants to address these pressures.

The collective efforts to date by all involved in implementing the market redesign and technology upgrade have been tremendous. From the ISO staff and consultants to market participants to FERC, I have been extremely impressed with the level of cooperation and coordination, the dedication of resources and talent, and the willingness to work within very tight time frames to achieve this important development for California's electricity markets.

Our MRTU Readiness team continues to work closely with market participants. We have distributed MRTU Readiness Action Plans to all participants. Participant readiness assessments, which involve one-on-one sessions with every scheduling coordinator, are underway. These assessments have been helpful for both market participants and the ISO. Those participating in these assessments have raised key issues and concerns which we are working to address. We are

grateful that these concerns are being raised now so they can be evaluated and addressed as appropriate before the go-live date.

### **Operational Update**

The ISO has seen two periods so far this summer where demand has exceeded 40,000 megawatts. In both instances, the ISO grid operators were able to respond to meet the demand, despite the unusual events during the week of July 4 which included a tragic accident with a plane clipping power lines and 1,900 megawatts of electricity tripping off line in a separate incident in Southern California. With the dry conditions and diminished snow pack, we are contending with reduced hydroelectric generation as well as wild fires that reduce import capabilities this summer. Daily hydro generation this year peaked at about 5,500 megawatts compared to the wet year last year where hydro generation peaked at about 6,700 megawatts. Although several fires reduced import capabilities this month, their short duration did not significantly reduce our ability to serve the load.

### **Planning Project Updates**

#### *Sunrise Powerlink*

The ISO is participating in the California Public Utilities Commission's evidentiary hearing on the Sunrise Powerlink project. The hearing began on July 9 and is part of the process for CPUC evaluation of SDG&E's application for a certificate of public convenience and necessity for the project. The CPUC expects to conclude the hearings by July 31 and issue its final decision in January 2008.

#### *California ISO and Subregional Planning Process*

The ISO is participating in forming a California subregional planning group for strategic transmission planning. A steering group, which includes representatives from the ISO, Pacific Gas & Electric Co., San Diego Gas & Electric Co., Southern California Edison, Sacramento Municipal Utility District, Los Angeles Department of Water & Power, Imperial Irrigation District, Western, TANC, and CAISO Municipal Participating Transmission Owners, has confirmed the need to develop a long-term strategic transmission plan over a 15 year planning horizon and address issues such as joint planning, transmission congestion, and resource and renewable interconnection.

### **Financial Highlights**

Year-to-date revenues for the ISO through May 2007 are \$85.5 million, which is \$8.1 million more than anticipated as of this date. The variance is due to a one-time refund of the SDG&E grid management charge and higher interest income of \$5.7 million, which is applied against bond and other interest expenses. However, GMC revenues through May are \$4.6 million under budget, which contributed to the need to adjust rates. The Board has received an informational briefing on this rate adjustment in the Market Usage charge types. The GMC revenue variance is primarily attributable to the mild weather so far this year. Year-to-date operating expenses through May 2007 are \$63.1 million, \$100,000 lower than budgeted levels.

### **Business Plan**

Attached to my report is the second quarter update on the California ISO's progress towards satisfying the 2007 Annual Corporate Goals. Overall, we are making steady progress towards satisfying the strategic objectives and specific initiatives identified in the Five-Year Business Plan.

## People

The California ISO now stands at 521 full-time employees, including 9 new hires that joined us in the months of May and June. The new hires are:

Guillermo Bautista Alderete – Associate Market Performance Analyst, Operations

Lining He – Market Monitoring Analyst, Market Monitoring

Tony Mazzenga – Operator in Training, Operations

Ali Chowdhury – Director, Regional Transmission South, Planning & Infrastructure Development

Licheng Jin – Network Applications Engineer, Planning & Infrastructure Development

Jie Tong – Operations Engineering Specialist, Operations

Ivan Loh – Sr Applications Engineer, Information Technology

JD Pratt – Project Specialist, Planning & Infrastructure Development