

## Memorandum

To: ISO Board of Governors  
From: Denise Antoniadis, Director Strategic Planning and Executive Operations  
Date: July 9, 2007  
**Re: *Second-Quarter Update on 2007 Annual Corporate Goals***

---

*This memorandum does not require Board action.*

### EXECUTIVE SUMMARY

This memorandum and attachment represents Management's second-quarter update on the California ISO's progress towards satisfying the 2007 Annual Corporate Goals. The goals are consistent with the corporate strategic objectives and key initiatives for 2007 outlined in the Five-Year Business Plan, as approved by the Board of Governors in April 2007.

Attached for your information and reference is a dashboard that summarizes our year-to-date progress through June 30, 2007 (**Attachment A**). Management provides below a short synopsis on the progress of each of the eleven goals.

### PROGRESS UPDATE

The 2007 Annual Goals are organized into three tiers defining our corporate strategic objectives based on business priorities: deliverables; enablers; and satisfiers. California ISO deliverables focus on achieving excellence in grid and market operations and achieving robust, competitive markets for energy and ancillary services. Enablers include both developing the energy infrastructure and developing our people and their skills. Satisfiers include enhancing customer service and providing information to support public policy maker decisions. Additionally, there is an overall corporate strategic objective for financial management.

#### ***Excellence in Grid and Market Operations (25%)***

There are two goals for achieving excellence in grid and market operations representing 25 out of a total 100 points for the Target objective, or 25%. Goal 1 pertains to complying with all established Western Electricity Coordinating Council "WECC" reliability standards. It should be noted that in cases where the North American Reliability Corporation ("NERC") standards are more stringent, we apply the NERC standards. As of June 30, 2007 the California ISO is well above the Target objectives and on track for achieving the Stretch objectives for five of the six reliability standards. The California ISO has not incurred any violations in Control Performance Standard (CPS1 and CPS2), Disturbance Control Standard (DCS), and Operating Reserve Compliance. For the Operating Transfer Capability (OTC) standard, the California ISO achieved the Target objective due to incurring one violation in March on Path 15 (Midway-Los Banos). The compliance violation was reported to the WECC and we expect to receive a fine of \$4,800.

Goal 2 focuses on reducing Reliability Management Costs (“RMC”). RMC are expenses that are not reflected in market prices and are directly attributable to the California ISO operator decisions for ensuring local area and system reliability. Preliminary results to date indicate a downward trend in costs when compared to adjusted 2006 costs. We are on track for revisiting this preliminary estimate, as planned in July 2007, and reporting the results in the next quarter goals update.

### ***Robust, Competitive Markets for Energy and Ancillary Services (20 Percent)***

There is one goal in this category focused on the implementation of the Market Redesign and Technology Upgrade (MRTU) program. This goal represents 20 out of a total 100 points for the Target objective, or 20%. Goal 3 focuses on implementing the MRTU program on schedule and within budget. The California ISO is aggressively managing the schedule and costs and although behind, we are progressing towards achieving the Target objective. Regarding schedule, Integrated Market Simulation (IMS) Release 1 was successfully completed. IMS Release 2 is currently in progress. In consultation with Market Participants, Release 2 has been extended at least one week (i.e., July 20 or later). IMS Release 3 featuring the real-time market is currently delayed. The CAISO is re-evaluating the schedule based on Market Participant feedback. At this time, the February 1, 2008 Go Live date remains. Rigorous monitoring of internal and external readiness is underway. The California ISO is on track to meet MRTU budget of \$189.223 Million, although implications of the recent FERC orders issued on April 20, May 8, and June 25 are still under review.

### ***Energy Infrastructure Development (20 Percent)***

There is one goal associated with developing the control area energy infrastructure representing 20 out of a total 100 points for the Target objective, or 20%. Goal 4 is focused on increasing the transmission capacity of the system (i.e., additional capacity in-service) as measured through transmission line upgrades or line re-rates, new transmission lines, and Remedial Action Schemes. The Threshold and Target objectives focus on ensuring that a designated percentage of the transmission projects, approved by the Board of Governors, receive regulatory approval by February 2008. The Stretch objective assumes that in addition to regulatory approval, the California ISO supports the development of 800 MW of new capacity by February 2008. Although there is much activity in this area, at this time, there is insufficient data to objectively assess the overall status towards achieving this objective. We are entering Phase 1 Hearings on the Sunrise Project on July 9<sup>th</sup>. In June, the Arizona Corporate Commission rejected the Palo Verde 2 Project. We continue to aggressively participate in infrastructure development/implementation activities and diligently track the progress of potential in-service capacity (MW) increases expected by February 2008.

### ***People/Skill Development (10%)***

There are two goals associated with the California ISO's people and skills development objective in the Business Plan representing 10 out of a total 100 points for the Target objective, or 10%.

Goal 5 is based on employees acquiring advanced skills critical for achieving the corporate strategic objectives as outlined in the Business Plan. The California ISO will conduct an assessment of the success in demonstrating the application of advanced skills for three targeted populations: i) Real-time operators for MRTU; ii) Engineers; and iii) Market/Engineering professionals. To date, we are on track for achieving the Threshold objective for real-time operators acquiring new/advanced skills required for MRTU. To date, 100 percent of the real-time operators have completed MRTU 100, 200, 300 level training. Role-based training is scheduled in the 3<sup>rd</sup> and 4<sup>th</sup> quarters. An assessment will be conducted to provide evidence in demonstrating advanced skills required for MRTU deployment. With respect to acquiring advanced skills for Engineers to achieve long-term objectives and business/economics advanced skills for Market/Engineering Professionals, we are progressing towards satisfying

the Target objective. Although we are progressing in providing access to training for these targeted populations, we will need to assess whether the advanced skills are being applied in their jobs.

Goal 6 reflects our effort on the "Employer of Choice" initiative of the Business Plan and provides for the California ISO to conduct a best practices assessment of employee satisfaction in the following areas: i) Communication; ii) Respect; iii) Job Satisfaction; iv) Career Management/Professional Development Opportunities; and v) Cross-Divisional Teamwork. We are on track for distributing the employee survey in mid-4<sup>th</sup> quarter. Therefore, progress towards achieving this goal will be reported in the 4<sup>th</sup> quarter.

### ***Enhance Customer Service (10%)***

There are three goals for enhancing the Customer Service objective representing 10 out of the total 100 points for the Target objective, or 10%. Goal 7 addresses the timeliness of resolving issues. Issue resolution refers to the California ISO's ability to address and resolve customer issues and inquiries in a timely manner using standard processes and established criteria. We are on track for achieving the Target objective. Work is current underway, as scheduled, to establish the consistent process and technology infrastructure to implement the issue tracking mechanism in late August. To date, all process work and documentation has been completed and tracking reports will be finalized in July. In the meantime, we continue to work diligently towards the timely resolution of stakeholder issues.

Goal 8 focuses on MRTU Readiness and Communication and refers to the quality of the California ISO's efforts to assure that market participants are ready to implement MRTU. The metric relies on customer feedback and documentation, including implementation of mitigation plans. We are making progress toward meeting the Target objective. The stakeholder survey was completed in May 2007. The results have been reviewed and analyzed. Issue identification, mitigation plans, and stakeholder communications strategies are currently under development.

Goal 9 addresses the stakeholder process and provides a mechanism for the Board to evaluate our performance towards achieving stakeholder participation in the California ISO policy development and planning processes, as well as, the Board's assessment of the information provided by management for the purposes of the Board's decision making process. The measure for this goal represents the extent to which the California ISO accurately represents and clearly articulates Stakeholder positions, including identifying any remaining controversy in Management memorandums and presentations made to the Board. One of Management's first steps was to clarify the internal process for managing stakeholder engagements. To date, California ISO staff has finalized key service level agreements in support of a comprehensive stakeholder process with roles and responsibilities specified at each step. Agreement across the entire organization is expected by year-end. In addition, the Corporate Secretary is working with the ISO officers to develop a recommendation for how stakeholder issues should be communicated in Board memorandums, including criteria for when to develop a matrix of stakeholder positions on Board decision items. The recommendations are scheduled to be presented to the Board in association with the September Board of Governors Meeting.

### ***Financial Management (15%)***

There are two specific goals related to California ISO's Financial Management objective of the Business Plan representing 15 out of a total 100 points for the Target objective, or 15%. Goal 10 provides for the California ISO to establish a 2007 ISO Revenue Requirement that results in a bundled Grid Management Charge ("GMC") consistent with the corporate objectives. The Target and Stretch objectives are to establish a GMC of \$.76, and \$.72, respectively. We are currently on track for achieving the Target objective of \$.76. Budget guidance has been developed to support achieving the Target objective. The 2008 budget process currently underway will provide a better insight into our progress on meeting this goal.

Goal 11 provides for the ISO to maintain and manage actual 2007 annual Operation & Maintenance (O&M) expenses so as to not exceed the budgeted amount, with the final score to be prorated based on performance and/or savings. Management continues to provide an update on the company's financial expenditures at every Board meeting. Results through the 2<sup>nd</sup> quarter indicate the California ISO is managing towards achieving the Target objective of \$143.8 Million while achieving at least a 90% corporate score. Year-to-date results through May are slightly lower than budget. The corporate-wide end of year forecasting process is currently underway to identify opportunities to absorb any incremental or unbudgeted costs.