

## Memorandum

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

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*This memorandum does not require Board action.*

### EXECUTIVE SUMMARY

This memorandum and attachment represents Management's third quarter update on the California ISO's progress towards achieving 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 September 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. Deliverables include 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.

Overall, the California ISO is making steady progress towards achieving the goals through the third quarter as demonstrated below.

#### ***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 measure, 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 Electric Reliability Corporation ("NERC") standards are more stringent, we apply the NERC standards. As of September 30, the California ISO is well above meeting Target and on track for achieving the Stretch measure for five of the six reliability standards.

Goal 2 focuses on reducing Reliability Management Costs (“RMC”). RMC are expenses not reflected in market prices and directly attributable to the California ISO operator decisions for mitigating transmission congestion and ensuring local area and system reliability. Typically, these are the above-market costs of dispatching generation in real time and include: Minimum Load Cost Compensation (“MLCC”) related to the provisions under the FERC Must Offer Obligation; Costs for Out-of-Market (“OOM”) dispatches; Costs for Out-of-Sequence (“OOS”) dispatches; Costs of Reliability Must Run (“RMR”) real-time dispatches; and the costs of units dispatched under the Reliability Capacity Services Tariff (RCST) including the FERC Must Offer Units. These costs are settled and allocated pursuant to the rules in the California ISO tariff.

Year-to-date results continue to show a consistent downward trend in costs when compared to adjusted 2006 costs. Total costs are tracking more than \$190M below the adjusted 2006 RMC costs. Following this trend, we should be well on track for meeting the Stretch measure by year-end.

***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 measure, or 20%. Goal 3 focuses on implementing the MRTU program on schedule and within budget. While the California ISO has recently extended the market start date from February 1 to April 1, 2008 the team continues to drive to a February 1, 2008 readiness date for all CAISO systems, business processes, and people and operating within the MRTU budget of \$189.223 Million. Year-to-date results indicate that we are on track for meeting the Target measure.

***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 measure, or 20%. Goal 4 focuses 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 measures 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 measure assumes that in addition to regulatory approval, the California ISO supports the development of 800MW of new capacity by February 2008.

The California Public Utilities Commission (“CPUC”) regulatory approval process consists of two phases: 1) Determination of need; and 2) Environmental review. A summary of the transmission projects that have been approved by the Board of Governors and are in various stages of the Certification of Public Convenience and Necessity (“CPCN”) approval process with the CPUC is provided below.

<u>Project</u>	<u>Status</u>
Antelope-Pardee (Segment 1 of the Tehachapi Project)	The CPUC approved SCE’s CPCN on March 15, 2007.
Antelope Transmission Project (Segments 2 and 3 of the Tehachapi Project)	The CPUC approved SCE’s CPCN on March 1, 2007.

Tehachapi Renewable Transmission Project (Segments 4 through 11)	SCE filed their CPCN application with the CPUC on June 29, 2007. The determination of need for this project has been completed and the environmental review is currently underway.
Sunrise Powerlink	The CPCN proceeding is currently underway. The Commission hearings concluded on October 5, 2007. The California ISO took a proactive role on this project by filing testimony, performing analysis on intervenor-identified alternatives/scenarios to Sunrise, and serving as key witnesses at the hearings.
Palo Verde-Devers No. 2 (PVD-2)	The CPUC approved SCE's CPCN on January 25, 2007. Arizona Corporation Commission rejected SCE's application in May 2007. The outcome of this project is not known at this time.

Additionally there was one project, Trans Bay Cable that underwent an extensive permitting and licensing approval process with the City and County of San Francisco and other agencies. Trans Bay Cable received all required approvals in August, 2007 and is scheduled to begin construction in the fourth quarter of 2007.

Overall, potential capacity increases are expected to exceed the 800MW benchmark. Due to the nature and timing of the regulatory approval process, the progress on this goal to date is noted as "To Be Determined" and the results on this goal will be reported in year-end report.

***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 measure, or 10%.

Goal 5 is based on employees acquiring and demonstrating advanced skills critical for achieving the corporate strategic objectives as outlined in the Business Plan. The California ISO is continually conducting an assessment of the success in demonstrating the application of advanced skills for the targeted populations that have been trained.

To date, we are on track for achieving the Threshold measure for real-time operators acquiring new and/or advanced skills required for MRTU. To date, 100% of the real-time operators have completed MRTU 100, 200, 300 level training and have demonstrated the expected skills. Role-based training is underway. With respect to acquiring advanced skills for Engineers to achieve long-term objectives, to date, 20% of the targeted individuals have completed training and the skill application assessment. We are currently tracking towards achieving the Target measure and it is likely that the Stretch objective will be achieved by year-end. With respect to acquiring advanced business/economic skills, to date, we have achieved the Stretch measure. We are pleased to report that 35% of the targeted individuals have completed the required training and have demonstrated the application of these new skills on real projects and assignments.

Goal 6 reflects our effort on the "Employer of Choice" initiative in 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 which will be managed by an independent third party. Therefore, the progress on this goal to date is noted as "To Be Determined" and the results on this goal will be reported in year-end report.

### ***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 measure, 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. Preliminary reports indicate that we are on track for achieving the Target measure with approximately 90% of customer inquiries either successfully closed by Customer Services and Industry Affairs or routed to the appropriate business unit within five business days, and 100% of routed inquiries either resolved or provided with a planned resolution date within five business days of receiving the routed inquiry. Given the data that has been collected to date, it is too early to determine the status towards achieving the Stretch measure.

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 the implementation of mitigation plans. We conducted a survey of stakeholders in May 2007, have taken several actions responding to comments received by market participants, and implemented mitigation plans. The next survey is planned for November, 2007. Therefore, the progress on this goal is noted as "To Be Determined" at this time and the results will be reported in year-end report.

Goal 9 addresses the stakeholder process and provides a mechanism for the Board of Governors to evaluate our performance towards achieving stakeholder participation in the California ISO policy development and planning processes, as well as, the Board of Governors' 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's memorandums and presentations made to the Board of Governors.

One of Management's first steps was to clarify the internal process for managing stakeholder engagements and execute service level agreements supporting a consistent stakeholder process with specified roles and responsibilities. The second step was to implement standards for summarizing stakeholder comments and deploy a matrix for capturing stakeholder positions. These reporting standards were applied in several Management memorandums to the Board of Governors in September. Management believes the actions undertaken assures that each decision item brought to the Board of Governors is accompanied by a timely, clear, and complete profile of stakeholder positions on the key issues surrounding the decision.

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

There are two specific goals related to California ISO's Financial Management objective representing 15 out of a total 100 points for the Target measure, 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 measures are to establish a GMC of \$.76, and \$.72, respectively. We are currently on track for achieving the Target measure of \$.76. Budget guidance has been developed to support achieving the Target measure. The current 2008 budget process is also providing better insight on our progress towards 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 at year-end to be prorated based on performance and/or savings. Management continues to provide an update on the company's financial expenditures at every Board of Governors meeting. Results to date indicate the California ISO is managing towards achieving the Target measure of \$143.8 Million while achieving at least a 90% corporate score. Year-to-date results through August on O&M expenses are slightly lower than budget. The corporate-wide end-of-year forecasting process continues provide guidance and information on opportunities to absorb any incremental or unbudgeted costs.