

Memorandum

To: ISO Board of Governors
From: Yakout Mansour, President and Chief Executive Officer
Date: December 15, 2008
Re: CEO Report

This memorandum does not require Board action.

1. MRTU READINESS

Program Update. Progress is continuing on all fronts. Since this is a fast evolving set of activities, the most up to date information will be reported to you at the public meeting.

2. OPERATIONS

Disturbance. On November 7 the Southwest Powerlink (SWPL) experienced a forced outage triggered by a fire in a series capacitor bank. This line outage caused the operation of the special protection system and another 230 kV line and 855 MW of generation tripped, which in turn caused an overload in excess of operating limits that needed to be corrected within 20 minutes. The ISO in accordance with operating procedures began to re-dispatch generation resources and coordinate schedule curtailments with APS to mitigate the overload within the required timeframe. However, the line did not return as quickly as originally estimated by the line crew and the ISO determined the actions underway would be too late to mitigate the overload. Accordingly, the ISO requested that SCE interruptible loads be shed in addition to cutting additional interchange schedules. When the interruptible load shed was proven to be ineffective, additional firm SCE load shedding was requested by the ISO. Despite the ISO and APS mitigation efforts, the operating limits were exceeded for a few minutes longer than the 20 minutes allowed by standards. At this time the ISO is preparing, with input from APS, SCE, and SGD&E, a WECC Abbreviated Disturbance Report.

3. FINANCIAL HIGHLIGHTS

2009 Budget Overview. At this meeting you will be asked to approve the 2009 Budget, revenue requirement and Grid Management Charge (GMC) rates. The GMC rate structure for 2009 includes both pre-market redesign and market redesign charges. The updated pre-market redesign GMC rates will be effective as of the

January 1, 2009 trade date and the revised GMC rates will be effective on startup of the new market. The 2009 revenue requirement is \$193 million, an increase of less than 1% from the 2008 revenue requirement of \$191.6 million. Unfortunately, despite only a minor increase in the revenue requirement the indicative bundled GMC increases from 75.5 to 77.6 cents per megawatt hour due to falling energy volumes, nearly a 3% increase. The indicative bundled GMC would have been 75.7 cents if 2009 volumes remained at the level forecast at this time last year. Although energy volumes are not something we can control, in this case they nonetheless will negatively impact one of the measures we have established for our annual goals and corporate performance.

4. MARKET & INFRASTRUCTURE DEVELOPMENT

Generator Interconnection Procedure Reform (GIPR). As previously reported the ISO began implementation of the reformed the generator interconnection process, including a requirement that study agreements be signed by the interconnection customers and returned with the required increased deposits to the ISO no later than November 25, 2008. This requirement was expected to reduce the number of projects for the initial transition cluster but the magnitude of the reduction was unknown. At this time it appears the reduction in the total number of projects for the initial transition cluster has been reduced by about half, from 230 projects (approximately 70,500 MW) to 111 projects (39,855 MW total/ 32,322 MW renewable). This, together with the streamlining of the study process will result in overall efficiency in concluding the interconnection process. Thus, the reform process already appears to have demonstrated its value and should continue to do so for the foreseeable future.

5. BOARD CONFIRMATIONS

Board Confirmations. On behalf of the ISO management and staff, I extend our congratulations to Chairman Mason Willrich and Governor Laura Doll for the confidence expressed by the State Senate in confirming both of them for appointment to the ISO Board of Governors.