California Independent
System Operator Corporation

Memorandum

To: ISO Board of Governors

From: Yakout Mansour, President and Chief Executive Officer

Date: February 3, 2009

Re: CEO Report

This memorandum does not require Board action.

1. MRTU READINESS

Program Update. The ISO continues to make solid progress toward the April 1, 2009 go live date. On January 16, 2009 we filed the certification of readiness as directed by the Board, which outlines in detail the status of MRTU. Since that filing systems have continued to remain stable and we are making progress towards resolving outstanding issues. Several of the open known issues have been closed and we continue to stay on track with the remaining tasks. Nearly all open issues required for Grid Operations to reliably operate the grid have been closed and we began final training of operation staff on February 3, 2009. Testing of fail over capabilities to the Alhambra backup facility also began with the first successful fail over test of SIBR on January 30, 2009. All the while we continue to address open pricing questions and are working closely with participants to help them understand the drivers behind high settlement statements produced by the simulation. Finally, we have developed a comprehensive post go live support plan featuring 24/7 support of systems and pricing, monitoring of settlement results and intense market monitoring by the Department of Market Monitoring. At this time we are not aware of any issue that would suggest the need to do anything other than continue our current course and speed.

2. OPERATIONS

Early Summer Outlook. The ISO conducted an early summer outlook to provide the ISO and the industry with information in preparation for the coming summer as California appears to be heading into a third year of drought conditions. At this time there are about two months of typical snow accumulation time remaining, so it is premature to project an official supply/demand forecast. The early summer outlook therefore examines the impact that a potential continuing drought would have on hydro supply and the overall supply/demand outlook for the 2009 summer peak demands.

At this point the overall electricity supply/demand picture will be about the same as last year. The drought is expected to lower hydroelectric supplies within the ISO by about 3,000 megawatts. However, we count about

1,500 megawatts of additional net qualifying capacity from new generation coming on-line between the end of summer of 2008 and the beginning of the summer of 2009 (15 megawatts of renewable), which will offset the loss of hydro to some degree. Additionally, we anticipate a reduction in the rate of growth of peak demand due to the slowing economy. In other words, a dampened rate of growth in demand for electricity would tend to counterbalance the drop in hydro production. Finally we anticipate a level of imports comparable to last year due to the normal hydro supplies in the Northwest.

In the meantime, the ISO will continue to manage the risks associated with extreme weather or other conditions, as was done successfully during the heat wave of July 2006 and other extreme conditions. Lower hydro generation means greater reliance on imports and on thermal generation within the ISO. Risk increases when fires are in proximity of transmission lines and thermal generation is required to run more, increasing the risk of outages. Conservation and demand response programs will continue to be important this summer and have an increasingly important role in years to come. While generation additions are on track to meet the forecasted supply needs for 2009, concerted efforts are needed in the longer term to ensure that generation is added to replace generation under pressure to retire as well as to meet ongoing load growth.

California is transitioning to a vastly different electricity system in response to renewable, greenhouse gas, and water quality goals. As the generating fleet transitions into a lower carbon and higher renewable, hybrid system with approximately 1,125 MW of new renewable resources expected to be on line by the end of 2009 bringing the total amount of renewable portfolio standard qualifying resources within the ISO to approximately 8,610 MW, the ISO will manage this transition by continuing to develop tools and procedures for operating the system in a safe and reliable manner. This transition requires both careful management and greater public understanding of the benefits and challenges ahead, and the ISO will continue its leadership role in helping the state prepare to meet these goals.

3. EXTERNAL ACTIVITIES

Solar Symposium. The ISO held a "solar symposium" on January 29 that attracted approximately 175 participants (90 by phone) and involved an internationally recognized panel of experts. The topic of discussion was how to produce the most accurate solar forecasts possible. To this end, various solar developers discussed the nature of their technologies and forecasters discussed modeling approaches. Although highly technical, it produced tangible and directly relevant information to guide developers, forecasters, and ISO policies on data and communication requirements for solar resources. In the end many participants expressed a sentiment that the day was highly productive and reflected a new ISO emphasis on listening to the industry. I want to specifically commend Grant Rosenblum and Jim Blatchford for their efforts in organizing the event and, more importantly, admirably representing the ISO in its effort to be an innovative leader in the field of forecasting.