

# Memorandum

**To:** ISO Board of Governors  
**From:** Yakout Mansour, President and Chief Executive Officer  
**Date:** May 8, 2009  
**Re:** CEO Report

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*This memorandum does not require Board action.*

## 1. ISO MARKETS

**Go Live Update.** At midnight on March 31, 2009, the new ISO markets were successfully launched in a moment marked with reflection and celebration. The road to get there was long and often bumpy, but I am pleased to report that so far the systems and markets have performed extremely well. This is a classic story of preparing for the worst, hoping for the best, and finding in the end that things so far appear better than we had hoped. However, it is important for us all to keep in mind we are in the very early stages and on all fronts we continue the settling-in process, learning and adjusting as we go, and as always are eager to identify issues early and to resolve them quickly. To put these events in some context, I offer a brief summary of where we stand and where we are headed.

To date the systems have performed in a stable and consistent manner. The day-ahead market results have been generally published on time except for a few occasions when it was immaterially late (less than 15 minutes past 1:00), to allow time to review setup conditions or output. Over the same period, both the hour ahead scheduling process and real-time dispatch systems have consistently run with only minor issues occasionally interfering with either function.

Needless to say, it is too early to fairly assess market performance; however, in general, the quality of solution has been good and the results produced have been feasible. Overall prices have been in the \$20/MWh to \$40/MWh range in both the day ahead and real time markets and we even had an early opportunity to assess market performance during a minor three-day heat wave in mid-April. During this period, the markets again functioned as expected with prices indicating constrained conditions associated with early season maintenance on the transmission grid and generating units. We continue to evaluate these results so that we may better prepare for summer conditions. The first complete settlement statement will be out in late May, and assuring the quality of settlements continues to be a major focus for us.

From the perspective of grid operations, the stability of the systems and results of the markets have provided excellent load following capabilities and the area control error looks better than under the old software. Assuring the software has the best available information such as outages, constraints and forecasts continues to be an area of attention so the systems continue to produce the highest quality results with an optimal exercise of operator discretion.

The ISO has already begun taking steps to prepare for the operation of the markets during the summer and beyond. The objective is to identify and resolve as many issues as possible and the vigilance we demonstrated in the first thirty days will continue for as long as necessary to assure our continued success moving forward.

***2008 Market Issues and Performance Report.*** Each year, the Department of Market Monitoring publishes a report on the performance of the ISO markets. Most of the information included in the report has been previously reported by Market Monitoring; however, the report is an excellent single source of market information. As such, it represents a significant work product from the ISO and its findings will be presented to the Federal Energy Regulatory Commission along with the results from other market monitors.

The report concludes that for the seventh consecutive year the ISO markets remained stable and competitive. Perhaps most noteworthy from my perspective and Market Monitoring was a dramatic increase in congestion costs, particularly across the major Pacific Northwest inter-ties. This increase appears to be explained by a combination of inexpensive hydroelectric resources in the Northwest and high natural gas prices that created a desire to bring a significant amount of energy into California across these inter-ties. At the same time, congestion costs within the zones that comprised the old California market also increased from \$96 million to \$174 million largely due to increased real-time redispatch costs necessary to move resources to higher output levels where they have faster ramping capabilities and to an increased number of manual unit commitments for various transmission constraints in southern California. This \$78 million increase in intra-zonal congestion cost was largely offset by savings from two other reliability management costs, a \$44 million reduction in the cost of generation under Reliability Must Run (RMR) contracts and a \$22.5 million reduction in capacity payments made to generation capacity that was needed for reliability services but not under a Resource Adequacy or RMR contracts. Overall, the combined cost of all three components of reliability management costs increased by roughly 5% in 2008. Next year the report will cover the post go live period and it will be very interesting to see, among many other things, the impact of the new markets on congestion costs.

## **2. 2009 ANNUAL CORPORATE GOALS**

Last report I provided a brief update on the organization's performance as measured by the 2008 annual corporate goals, which are established each year in connection with the strategic planning process. For 2009 the annual corporate goals will drive the organization towards achieving important aspects of our strategic objectives in the areas of grid and market operations, market and infrastructure development and organizational effectiveness.

**Compliance.** Compliance with all actively monitored standards and requirements established by the North American Electric Reliability Corporation (NERC) and the Western Electric Coordinating Council (WECC) continues to be a significant challenge for the ISO and the industry. It also represents an excellent measure of operational performance. As a result, the ISO continues to devote a substantial amount of resources to further develop a compliance program necessary to meet these standards and requirements and has established two specific goals to support the compliance objective. Therefore, metrics to reflect the ISO success in complying with all applicable standards are included in the corporate performance metrics.

**Efficient Market Operations.** In prior years, market performance was largely measured by progress towards implementation of the new market design. With this market now in production, it is time to establish a corporate goal to support efficient market operations. To do this the ISO has created four separate performance measures, one for each of area of market operations most critical to our customers: accuracy of settlements, quality of solution, timeliness day-ahead and real-time market processes, and timely identification and resolution of significant market issues.

**Infrastructure Development.** The ISO is committed to advancing state, regional and federal environmental priorities through regional coordination in the areas of market and infrastructure development. The goal in this area for 2009 is to include in the ISO transmission planning process a renewable interconnection transmission plan addressing a 33% renewable resource base and competitive renewable energy zones (CREZ) ranking information developed by the renewable energy transmission initiative (RETI).

**Market Development.** The ISO's performance during and after implementation of the new market design will be an essential focus of the organization and will set the stage for goals in the years to follow. This year the organization must continue to develop and deliver new market functionality, and the goal for 2009 will focus on delivering significant elements of nine upcoming market initiatives.

**Customer Service.** A variety of issues are identified and inquiries made by external stakeholders on a daily basis. Responsiveness to stakeholder issues is a key dimension of customer satisfaction. Issue resolution refers to the ISO's ability to address and resolve customer issues and inquiries in a timely manner. The goal is to resolve all issues logged and tracked into the corporate-wide tool in a timely manner, as measured by the average number of business days required to reach resolution.

**People Skills.** The ISO Academy is an on-site skill development and learning program that focuses on real-time job application and the development of bench strength in identified areas of need. The 2009 annual goal for people skill development requires a certain percentage of a target population of employees to acquire advanced skills and fulfill skill gaps in the area of process and quality

**Financial Management.** Financial management is a common measure of an organization's ability to deliver results at a reasonable cost. For 2009 the ISO has again established the operations and maintenance budget as the baseline for performance.

### 3. OPERATIONS

**2009 Summer Loads and Resources Assessment.** Each year the ISO conducts an assessment of the supply and demand picture for the upcoming summer season. This year the continued drought conditions and the impact of the current economic recession are of particular interest. Using both a deterministic methodology to identify conditions under which the ISO would need to take action to avoid firm load shedding and a probabilistic methodology to describe how likely it is that such events occur provides valuable information to prepare for these events. The analysis looks at conditions in the South, the North and the ISO footprint at large. For 2009, the deterministic and probabilistic results are both significantly better than in 2008 for all areas due to the recession driving loads lower, the roughly 1500 MW of new generation since last summer and an expected continuation of the higher import levels experienced during last summer. While the effect of the drought continues to reduce hydro capability, the overall assessment shows that going into the summer the ISO expects an improved supply and demand outlook over last year and will manage any extreme conditions as they may occur.