

Memorandum

To: ISO Board of Governors
From: Yakout Mansour, President and Chief Executive Officer
Date: May 11, 2011
Re: CEO Report

This memorandum does not require Board action.

- On behalf of the California Independent System Operator Corporation's management and staff, I welcome the new appointees to the Board of Governors; Dr. Richard Maullin, Mr. Ashutosh Bhagwat, and Ms. Angelina Galiteva.
- Events occurring on February 2nd and 3rd emphasized the interdependence between the natural gas and electricity supply systems. Abnormal weather conditions caused gas supply disruptions to a point where the natural gas dependent generating facilities in the San Diego area were severely affected. The ISO took urgent collaborative measures with Southern California Gas, and San Diego Gas and Electric at the time which eased the situation and avoided more serious impact. While the communication between the gas and the electricity organizations are governed by strict codes of conduct, the event highlighted the need for coordination at critical times when reliability of either supply is in jeopardy. The protocols governing similar situations are being revamped.
- Over the past three years, the ISO has gone through lengthy and evolving processes to meet the demands associated with new interconnection requests of renewable generation in support of the state policies. We have completed interconnection studies for 16,000 MW of renewable generation projects through several iterations, narrowing a much larger volume to this level. To put it in context, roughly 20,000 MW of nameplate capacity is needed to meet the 33% RPS goal. Out of all 16,000 MW for which we have completed interconnection studies, approximately 1,100 MW has come on line. Going forward, the ISO now has over 49,000 MW of additional projects requesting interconnection studies, of which 7,000 MW will have their interconnection studies completed by the end of the year.
- On April 14, 2011, the Federal Energy Regulatory Commission denied a complaint filed by Critical Path Transmission LLC and Clear Power LLC alleging that the ISO did not follow its prior transmission planning process with respect to its treatment of economic transmission projects submitted in the 2008 and 2009 request windows. FERC found that the transmission

planning process tariff provisions in effect before implementation of the revised transmission planning process did not require the ISO to act within a certain timeframe when considering economic transmission project proposals. Accordingly, FERC found that the ISO did not violate its tariff, did not run afoul of the principle of non-discriminatory transmission planning set forth under Order No. 890 or violate the prohibition against undue discrimination under the Federal Power Act. FERC also reaffirmed its prior findings that the ISO's proposed treatment of the economic projects submitted in the 2008 and 2009 request windows in its revised planning process was just and reasonable.

- On April 27, 2011, FERC denied a complaint filed by Transmission Technology Solutions LLC and Western Grid Development LLC alleging that the ISO's decisions and actions with respect to their proposed reliability projects submitted in the 2008 and 2009 request windows were unjust, unreasonable, and discriminatory. FERC reaffirmed that only participating transmission owners with a service territory are permitted to construct, finance, and own reliability projects. FERC found that in evaluating TTS' and WGD's projects, the ISO acted in a manner consistent with its tariff, the applicable business practice manual, the Transmission Control Agreement, and applicable reliability criteria. FERC also found that the ISO's rejection of the proposed TTS and WGD projects was based on a proper assessment of each project and that there was no evidence that the ISO discriminated against the TTS and WGD projects.
- As I announced early last month, my last day in office will be the end of this month. It has been the most challenging, gratifying and successful six years of my forty-year career. I was privileged to have worked with the best team in the business. I want to take this opportunity to thank stakeholders and market participants for their engagement, advice, support and yes, even the frequent push backs, which helped bring out the best in us and benefited the state and the nation.

Thank you.