

# Memorandum

**To:** ISO Board of Governors  
**From:** Steve Berberich, President and Chief Executive Officer  
**Date:** December 8, 2011  
**Re:** **CEO Report**

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***This memorandum does not require Board action.***

## **Strategic Plan**

This year the ISO took a new approach to the five-year strategic plan that it has adopted in recent years. Working with this new Board, we recognized the importance of communicating clearly about the ISO's strategies to address the complex and shifting dynamics in this state's electricity sector and focusing on key areas that demand collaboration between regulators, policy makers and the industry if we are to be successful in implementing California's ambitious environmental goals.

As you know, the strategic planning process begins with an effort to understand the drivers impacting the industry and those that may have an impact in the years ahead. Management has engaged with staff, stakeholders and the Board of Governors to determine which priorities the ISO should focus on in order to ensure reliability while also meeting the state's policy objectives – all in the context of significant advancements in technology. With these factors in mind, it is fitting that the title of this year's strategic plan is “**reliable power for a renewable future**”. The pages of the plan reflect our commitment to supporting the responsible use of renewable resources and the achievement of the state's environmental policies, increasing efficient electricity use and, above all else, maintaining reliability.

As a supplement to this year's strategic plan, the ISO has developed our version of California ISO's Electricity Road Map. This map begins to demonstrate and simplify the complexity of the system that keeps electricity flowing to the people of California – including the locations of generators and high-voltage transmission lines as well as other relevant data.

The Board of Governors has been thoroughly engaged in the process of creating the plan. Following this report, I will seek your formal approval of the plan.

### **Resource Needs**

Identifying the operational needs of the system is a key obligation of the ISO. We intend to provide a report this month that updates our studies on the overall system needs and adds local capacity requirements. That report is based on assumptions as we know them but clearly shows the system need for additional ramping capability when considering the likely retirement of existing units. We intend to update that information regularly as we have additional analytical results.

### **Pacific Southwest Outage**

The joint task force on the Pacific Southwest Outage is close to closing out its work in understanding the conditions that led to the widespread blackout. The ISO has led a process to create a simulation of the event to understand exactly why the Western grid did not withstand an N-1 condition. We greatly appreciate the continued cooperation of the impacted entities to participate in and validate the simulation. As we reach the conclusion of the analysis, we will do our best to produce a report that outlines what occurred and the immediate steps taken to ensure it does not happen again.

### **New Participating Transmission Owner**

We are pleased to present to the board the application for Citizen's Energy to be our newest participating transmission organization. Citizen's is a key participant in the new Sunrise Powerlink transmission line that will bring renewable energy into the San Diego region. We appreciate the very good working relationship with the Citizen's team and look forward to a strong future together.

### **SSAE 16**

Recently, our auditors, PriceWaterhouseCoopers, completed its annual audit of our controls (now SSAE 16 – previously SAS 70) associated with the ISO's bid to bill processes. That audit provides assurance to the stakeholders that our settlements and reporting processes are accurate and properly controlled. We are pleased to report that we have received a clean audit with no exceptions.

### **Credit Reform – FERC Order 741**

On October 1, the ISO successfully implemented a number of settlements and credit policy enhancements designed to mitigate the risk of a socialized default in the market. Among other enhancements, the ISO reduced its settlement cycle, and subsequently outstanding liabilities,

by about half by implementing weekly invoicing; eliminated the use of unsecured credit as a means of collateralizing a market participant's congestion revenue rights positions and designed minimum capitalization and risk management requirements for participation in the ISO market.

### **Interconnection Studies**

In 2011, the ISO completed generation interconnection studies for approximately 7,200 MW of renewable generation projects (C1 & C2, SGIP TC, SGIP Serial), which when combined with the previous year's completed studies results in a total of approximately 25,000 MW of active renewable projects with completed interconnections studies, approximately twice the amount of additional renewable energy capacity needed to meet the state's RPS goals. We know that the interconnection process has been a source of frustration for many of our stakeholders and we are committed to finding thoughtful ways to provide a speedier process and more cost certainty.

### **Challenges Ahead**

Though we achieved a lot this year, we recognize the tremendous challenges that lie ahead of us. Resolving the interconnection queue issues, keeping flexible resources on the system, and developing and implementing the market products and tools we need to reliably integrate renewable resources are some of our top priorities. We look forward to working collaboratively with the Board, and with our stakeholders, policy makers and state and federal regulators to successfully address these and other issues.