

Memorandum

To: ISO Board of Governors
From: Yakout Mansour, President and Chief Executive Officer
Date: October 9, 2007
Re: *CEO Report*

This item does not require Board action.

Below are highlights of events affecting the California ISO since the date of the last meeting with the Board of Governors. There are no significant events to report with respect to operating and maintaining the reliability of the grid.

Market Redesign & Technology Upgrade (MRTU) Program

We achieved a significant milestone getting us one step closer to market launch. On September 24th, we launched Integrated Market Simulation ("IMS") Release 3. IMS Release 3 is the first opportunity for market participants to see both the day-head and real-time markets functioning in tandem and to experience a more robust testing environment for interacting with the full business process, from bid submission through the generation of settlements statements. During the first week, we had 97% system availability with only 61% of the generation participating, which is lower than expected. We saw more participation in the second week with the introduction of the first settlement statements for this simulation that were posted on October 1st and every day subsequently. Congratulations to the CAISO team, market participants, and all others involved for all their hard work and dedication in successfully reaching this major milestone.

We also recently completed the second internal and external MRTU readiness assessment and issued feedback and suggested action plans. We encourage all market participants to fully leverage this important service provided by the California ISO. The last assessment will begin in December. These results will form the basis for Management's and the Board of Governors' approval of the FERC certification filing to be filed at the Commission by January 31, 2008.

More than 30 Congestion Revenue Rights ("CRR") Candidates participated in the Tier One Allocation process for the CRR period that encompasses the last three quarters of 2008 -- following market launch on March 31, 2007. The ISO was able to award more than 98% of the total of 100,494 megawatts (or ~ 99,000 MW) requested by CRR candidates. CRR Rightholders are currently reviewing the Tier 1 allocation results and preparing for the Tier 2 nomination process which opened on October 4th and will close on October 9th.

In mid-September we also introduced "MRTU Homestretch", a new monthly external e-newsletter from the California ISO accessible on our website.

Market Products

Generators have expressed a concern about the expiration of the Reliability Capacity Services Tariff ("RCST") at the end of this year. Their concern is that without an RCST type of product in the first quarter of 2008, suppliers will be left with only the Must-Offer Obligation ("MOO"), which FERC has deemed as not just and not reasonable. The California ISO intends to replace RCST with a new Interim Capacity Procurement Mechanism ("ICPM) to coincide with the start of MRTU, or no later than May 31, 2008, whichever comes first.

Planning Project Updates

1. Sunrise Powerlink Transmission Project ("Sunrise")

California ISO witnesses testified at the California Public Utilities Commission ("CPUC") hearings on the Sunrise Project. The hearings for Phase 1 (determination of need) concluded on October 5th and we will continue to take proactive steps on this project. The current schedule calls for submitting briefs during the month of November.

2. California's Renewables Portfolio Standard ("RPS")

In support of California's RPS, we have been working with Participating Transmission Owners, the California Energy Commission ("CEC"), the CPUC, industry experts, adjacent control areas, and owners/developers of renewable resources to identify integration issues and solutions for adding large amounts of renewable resources expected to be online by 2010 within the California ISO control area. We initiated a study to ensure that the operation and design of the transmission grid fully supports the standard. A draft report reviewing the integration issues related to transmission planning, operations, and forecasting; proposed solutions; and recommendations for facilitating renewable resources integration has been posted and is currently being reviewed with stakeholders. The final report is scheduled to be issued in early November.

Financial Highlights

Year-to-date revenues through September 2007 are \$160.8M, \$10.6M higher than budget. The increase is due to a one time refund of the SDGE GMC of \$6.9M and, higher interest and other income of \$8.4M, offset by lower GMC revenues of \$4.7M. Lower GMC revenues are primarily due to milder weather than predicted and the resultant less than projected market volumes. Year-to-date operating expenses through September 2007 are \$110.1M, \$0.2M lower than budget.

2007 – 2011 Business Plan

Attached to my report is a memorandum and attachment representing Management's third quarter update on the California ISO's progress towards satisfying the 2007 Annual Corporate Goals. Overall, year-to-date results indicate we are making steady progress towards achieving our annual goals.

People

The California ISO is proud to welcome the following new hires:

Udi Helman, Principal, Economist, Market Development & Program Management

Jun Wu, Senior Network Applications Engineer, Planning & Infrastructure Development

Derek Stewart, Senior Contract Engineer, Operations

To date we have 12 vacancies.

I am also pleased to report that the California ISO launched a new summer internship program this year with an initial class of 15 interns. The purpose of the Internship Program is to develop a future pipeline for the entry of top talent to our organization and to provide students with professional work experience in their chosen field of study. Each Division was represented with at least one intern from colleges and universities such as U.C. Davis, MIT, McGeorge School of Law, CSU Sacramento, CSU Chico, University of Oklahoma, Princeton, and France's ESSEC Business School.

Additionally, our Human Resources Division partnered with Regional Transmission Engineering to implement the ISO's first college cooperative program. We are excited to report that we have one engineering student from CSU Sacramento with us this fall.