

# Memorandum

**To:** ISO Board of Governors  
**From:** Yakout Mansour, President and Chief Executive Officer  
**Date:** December 7, 2010  
**Re:** CEO Report

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*This memorandum does not require Board action.*

## 1. STATUS OF IRON POINT MOVE / CONTROL ROOM

On November 8, the ISO began parallel operations in the new control room at Iron Point Road. The transition was made at 10:30 a.m. that morning with a cutover to an upgraded energy management system. We are pleased to report that there was no impact whatsoever to our ability to control the grid and, after a week of parallel operation and no significant issues, we ceased parallel operations and are operating completely from the new facility. In addition to the operation transition, we successfully moved our data center to the new facility. That effort involved moving hundreds of test and production servers, network devices and storage systems over a three month timeframe.

In January, we plan to move all staff into the new facility. That will mark the conclusion of the project and we are pleased to report that we are three months ahead of schedule and well under budget.

## 2. RELIABILITY MUST-RUN UPDATE

We are pleased to report the Trans Bay Cable was successfully placed into commercial operation on November 23, 2010 and has been operating reliably. Additionally, on December 5, the final segment of the San Francisco Recabling Project (Martin-Bayshore-Potrero) was completed by PG&E and placed into operation.

As you may recall, having both of these projects completed and proven operationally reliable were the two key conditions for enabling the ISO to release the entire Potrero power plant from its reliability must-run contract obligation. Absent any major issues with these facilities over the next two weeks, the ISO will provide an RMR termination notice to Mirant at the end of this month or in early January, which would terminate the RMR agreement by February 28, 2011. During this two month termination period, the ISO will not plan to dispatch the Potrero power plant.

I would like to acknowledge and thank the cooperation and commitment of the Trans Bay Cable owners (SteelRiver Infrastructure Partners), PG&E, and Mirant for their respective roles in enabling the Potrero power plant to be retired from RMR service.

### **3. TRANSMISSION DEVELOPMENT FOR 33% RPS**

Over the past several years, California has made significant progress in identifying and approving the transmission upgrades needed to achieve the 33 percent renewable portfolio standard. As a result of these efforts, the ISO has a foundational set of transmission reinforcements that, once completed, will provide access to more than enough in-state renewable resources to meet the 33% RPS requirement for ISO load serving entities. All of these foundational transmission projects have been approved by the ISO through our transmission planning or interconnection studies. Some are under construction, some have already passed through the regulatory approval process but have not started construction yet, and some are currently in the regulatory approval process, while others are scheduled to be filed for regulatory approval in the near future but well ahead of the 2020 timeline.

Over the past several months, the ISO has undertaken a comprehensive study on the adequacy of this foundational transmission for achieving a 33% RPS under four different resource portfolios. You will hear more about this later today from Keith Casey but, in short, this assessment, which considered the prior conceptual studies performed by the California Transmission Planning Group (CTPG), shows that the foundational transmission upgrades already approved by the ISO, when coupled with other identified incremental upgrades, can achieve the 33% RPS target under a wide range of resource portfolios that vary with regard to the amounts of distributed generation, out-of-state renewable energy, and large-scale in-state renewable resources.

While we believe that the transmission foundation for accessing in-state resources is largely on track, we note:

- It is in the best interest of the state and the region to continue exploring out-of-state resources where economic and reliability values are demonstrated.
- As the technology and other factors may change in the future, planning assumptions may accordingly change over time. We will monitor, adjust, and take actions as necessary but for now we think it would be imprudent to approve more major transmission to support other renewable resource scenarios until we see a concrete basis for the changes to avoid unnecessary stranded cost.
- Our commitment and support to CTPG will continue to be strong as the objective way to foresee and adjust the infrastructure development plan as needed.

### **4. INTERNAL CREDIT TRACKING SYSTEM**

The ISO has implemented a new internal credit tracking system that represents a step towards greater transparency into a market participant's overall liabilities in the ISO market. The new credit system

reduces uncertainty and risk by allowing the ISO to assess more information more quickly about market participant liabilities. The need for the system was initially triggered by the upcoming convergence bidding market but the scope was expanded to include the congestion revenue rights market as well. For congestion revenue rights and convergence bids, the system will perform a credit check at the time of bid, much like a point-of-sale system. Additionally, work is being completed to allow earlier notification of physical bid liabilities. This will allow the ISO's credit team to request collateral approximately one week earlier than we are currently able to do. The ISO deployed Phase 1 of the new credit tracking system in November to support the recent annual congestion revenue rights auction with good results. Phase 2 will be implemented along with convergence bidding.

## **5. 2011-2015 FIVE YEAR STRATEGIC PLAN:**

The document has been posted and provided to you for your review. The theme of this year's five year plan is "**striking the balance**". The theme itself is not a new title, but it now also represents added complexity that the ISO and the electric sector must address. Reliability and cost have been the historical sides of the balance but now the environment is a solid third in the balance. While the third element has been reflected in our previous plans and initiatives, the state's direction is now cemented by technology trends, recent regulations, executive orders, and the voters' decision to leave AB 32 as governing law in California.

As you know, we always start the strategic planning exercise with an extensive effort to understand the drivers leading up to a valid set of assumptions, which creates the essential foundation to a good strategic plan in general. We were fortunate this year to have the historic joint agency effort the "**California Clean Energy Future**". The effort took almost a full year of collaborative effort from the tireless staff of the California Air Resources Board, the California Public Utilities Commission, the California Energy Commission, the California Environmental Protection Agency and the ISO to come up with a realistic and visionary road map, a detailed plan to achieve it, and a set of metrics to measure its progress. That made our assumptions for our strategic plan much more realistic, supported, and viable.

Regardless of how the world changes, our priorities remain clear: the reliable operation of the grid, developing and operating an efficient market, and planning and supporting the development of the infrastructure needed to meet growth and support the state environmental policies. While the focus is the same, the means and challenges are growing in volume and complexity, as the 2011-2015 plan illustrates.

The Board of Governors has been thoroughly engaged through the process leading to the final version of the plan, and I now ask if you have any further comments or questions and seek your approval of the 2011-2015 Strategic Plan.