

Memorandum

To: ISO Board of Governors

From: Steve Berberich, Vice President & Chief Operating Officer

Date: January 27, 2011

Re: **Operations Report**

This memorandum does not require Board action.

The real time operational highlights since the last Board report are as follows:

Overall Conditions

Overall grid conditions have been normal for winter conditions. We have seen a number of storms pass through the region resulting in spot system impacts associated with relaying circuits but nothing that has impacted reliability. December temperatures were seasonally normal with precipitation above historical averages.

Morning and early evening load ramps are usually pronounced during the winter, particularly during cold weather. For instance, during one cold period this month, the evening load pull was in excess of 1,000 MW in a ten-minute period. At times we have exhausted our ramping capabilities — especially in the latter part of the operating hour. This short-term tightness of supply affects the ISO's ability to balance the needs of the system resulting in a real-time price increases. Those prices are behaving as expected to attract additional supply when the system is constrained.

Water Summary

Participation has been above average for the year and PG&E is reporting that as of January 8, the hydro weighted precipitation index is 143% of normal. Overall participation levels across the state are (percent of normal): North, 120%; Central 159%; South 209%.

Noteworthy Grid Events

On December 22, 2010, shortly before noon, a fire was reported at Palomar Energy Center in Escondido. Very quickly thereafter, the facility was completely shut down with the resultant loss of approximately 408 MW of generation. Additionally, the adjacent transmission substation was

impacted - interrupting three of four critical 230 kV-lines providing import capability to the San Diego area. The ISO's control room operators responded to the sudden loss of supply by deploying all generation resources in the San Diego area – including the South Bay Generating Station. Fortunately, one line returned prior to the evening peak and the other two lines were returned to service the next day. No customer load was interrupted and no one was injured during this event.

During the afternoon of January 12, a similar event occurred at the Humboldt Bay Generating Station when one of the generators caught fire. The three generators operating at the time had to be shut down to allow firefighters to extinguish the blaze. This resulted in transformers at Humboldt Substation operating slightly above full capacity to serve area load but within safe operating tolerances. Fortunately, prior to the evening peak load period, generating resources were brought back on to serve that area's load. No load was shed during this event, but as a precaution, PG&E implemented a Humboldt area conservation request via local media.

Renewable Desk

We have expanded the operating hours of the ISO's new renewable desk to two 10-hour shifts in preparation for 24 X 7 coverage starting April 1. We currently have a shift from 7 a.m. to 5:30 p.m. and another from 4 p.m. to 2:30 a.m., Monday through Thursday. This is to gain additional experience of the operating characteristics of the intermittent resources during off-peak hours.