

Memorandum

To: ISO Board of Governors
From: Steve Berberich, President and Chief Executive Officer
Date: March 13, 2013
Re: **CEO Report**

This memorandum does not require Board action.

OVERALL CONDITIONS

The system has been relatively quiet since the last Board meeting. The principal issue going into the heavy load season is a very limited snow pack. The latest readings indicate the snow pack is 66% of average which, if it stays that low, will result in limited run of the river hydro in the summer months.

With Valley Electric joining the ISO, a WECC / NERC re-certification team was on-site on February 5 and 6, and after reviewing our procedures, processes, and plans, determined it was not necessary to undertake a complete re-certification of the ISO as a transmission operator and balancing authority arising from the addition of the VEA to our footprint.

SOUTHERN CALIFORNIA CONTINGENCIES

The return of either San Onofre unit remains an open question and the ISO will continue to assume that neither will be available this summer. While two significant new gas-fired southern California quick start power projects - Sentinel Energy Project and Walnut Creek Energy – are expected online soon, neither of those plants provide significant relief for the SONGS outage because of transmission constraints. Therefore, we continue to press ahead with installation of synchronous condensers at Huntington Beach as well as transmission upgrades in the southern California transmission system. Additionally, the same level of energy efficiency, demand response and flex alerts as last summer will be needed for the upcoming summer.

ENERGY IMBALANCE MARKET

On February 12, the ISO and PacifiCorp signed a memorandum of understanding to develop an ISO hosted energy imbalance market that PacifiCorp would participate in. That will be followed by an implementation agreement filed at FERC around April 30. These agreements are a historic step for the West that will enable broader sharing of resources and the ability to cost effectively “leverage up” renewables for the benefit of customers both

inside of California and out. We truly appreciate the developing partnership with PacifiCorp and their leadership team.

Today, Management is requesting Board approval to proceed with the development and filing of the implementation agreement.

PUC/ISO/CEC SUMMIT

The PUC, ISO, and CEC hosted a summit to explore capacity markets and their potential value to California in addressing some of the current shortcomings of the market. In particular, the opportunity to competitively and transparently procure backup generation for the renewable fleet, demand response, energy efficiency and developing technologies like storage was discussed. Several participants from eastern markets joined the discussion and shared their experiences with capacity markets – both good and bad. The leadership of the participating organizations agreed to proceed with the development of a conceptual design using the ISO stakeholder process.

MERCED IRRIGATION DISTRICT

The ISO and the Merced Irrigation District executed a memorandum of understanding on February 21 as part of the first step in the community-owned utility potentially becoming a member of the ISO.

Merced provides retail electric service to approximately 8,000 residential and business customers in the Central Valley. The municipal utility owns about 100 megawatts of installed generating capacity including the New Exchequer and McSwain hydroelectric facilities, which are currently connected to the ISO grid.

While Merced's addition to the ISO will add slightly to the ISO's transmission access charges, we believe this move is in the best interest of the ISO's and Merced's customers.

APPOINTMENT OF MARKET SURVEILLANCE COMMITTEE MEMBER

We are pleased to request the reappointment of Dr. Benjamin Hobbs to the ISO Market Surveillance Committee for another three year term. Dr. Hobbs has been a member of the MSC since 2002, and during his tenure has become a highly respected expert on the various market design and policy challenges confronting the ISO and California. His expertise in engineering, power systems and economics makes him a valued member of the MSC and an excellent complement to the other MSC members.

RENEWABLE GENERATION

Solar and wind generation repeatedly reached new peaks since the last Board report. The most recent solar generation peak of 1659 MW was set on March 10, 2013 at 11:33 a.m., and the wind generation peak of 3944 MW was set on March 4 at 12:38 a.m.