

# Memorandum

**To:** ISO Board of Governors  
**From:** Steve Berberich, President and Chief Executive Officer  
**Date:** February 9, 2012  
**Re:** **CEO Report**

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

## **Maintaining a Reliable System**

We are at a critical juncture in the State now as we look forward to the later part of this decade. By then, we expect to have large penetration of renewables and the retirement of many coastal units impacting thousands of megawatts of conventional generation. European experience with heavy penetration of renewables and our own studies have shown the need for substantial flexible, backup generation on the system. In fact, our studies show that we will be significantly short given the coastal unit retirements. This is an alarming problem that we cannot sit idly by and hope for the best.

To partially respond to that problem and to keep modern, clean plants online, on January 26, the ISO requested a tariff waiver from FERC to help ensure sufficient flexible capacity in 2017. The need for the waiver arose when Calpine Corporation informed us that they would retire their 525 MW Sutter Energy Center plant in 2012 because they had not received a resource adequacy contract. The ISO has the authority to procure a plant that is at risk of retirement and needed for reliability, provided the need arises in the next compliance year, which in this case would be 2013. The need for Sutter arises in 2017 when loss of the plant would significantly increase our already alarming gap of 3,570 MW of flexible generation. The California Public Utilities Commission is considering a resolution directing the state's investor-owned utilities to enter into a contract for the Sutter plant. In the event such a contract takes effect, the ISO will end its procurement.

Going forward, we are committed to working with the CPUC to modify the Resource Adequacy Program and Long Term Procurement Program to tailor the programs to the changing needs of the system. We are committed to supporting the CPUC as the principal authority for procurement and to use the ISO's backstop authority only as the last resort to ensure system reliability.

## **System Conditions**

The early winter operating conditions are as expected, with evening peak demand below 32,000 MW. The precipitation for the year is significantly below normal and may have an impact on system operations if that trend does not change. As of January 1, statewide precipitation is 50 percent of average and the snow water equivalent is at 20 percent of average. Because of the general lack of storm activity, maintenance and numerous upgrade projects are proceeding on schedule.

## **Pacific Southwest Outage**

The ISO review of the September 8, 2011 multi-grid power outage is now complete and we were hopeful that we could make our findings public by now. As you know, there were five separate grid operators involved as well as the regional reliability organization, the Western Electricity Coordinating Council (WECC). Collectively, we have spent thousands of hours studying and reviewing the outage with the other entities involved. The extensive data and analysis have been turned over to the Federal Energy Regulatory Commission (FERC) and the North American Electric Reliability Corporation (NERC), who are jointly conducting the official review of the event.

After much discussion internal to the ISO and with the other grid operators and WECC, the ISO has made a decision to defer to FERC and NERC's final report on the Pacific Southwest outage so that release of the findings can be done in concert with the official review. It is our understanding the official report may be completed in the next few months.

Without a doubt, every grid organization, including the ISO, has learned from the extensive review of the outage. The ISO will continue to examine how our high-voltage grid separated from adjacent systems. Even system designs, such as automatic separation schemes, that were jointly implemented and agreed upon by all affected entities and approved by WECC, are now being re-examined and will likely be modified. We will continue to press forward to find any additional ways we can work together with adjacent balancing authorities to strengthen coordination within this unique part of the western grid where so many balancing authorities intersect within multiple states and two countries. We want to make sure outages like September 8 never happen again.

## **Interconnection Changes**

In January, the ISO proposed a significant change to our interconnection request studies. The change involves making assumptions about how much development is likely in resource portfolio areas around the state. Changing those assumptions has the impact of dramatically reducing the likely transmission upgrades required for interconnecting resources. Limiting the transmission upgrades will reduce the projected project costs and the associated deposit requirements.