

Memorandum

To: ISO Board of Governors
From: Steve Berberich, President and Chief Executive Officer
Date: January 30, 2014
Re: **CEO report**

This memorandum does not require Board action.

OVERALL CONDITIONS

Winter conditions have prevailed since the last report with generally milder than normal temperatures. However, the season began with a severe cold weather event when natural gas demand reached record levels and impacted several natural gas fueled generators in southern California. As has been done before, there was close coordination with the gas system operators to dispatch generation where gas was more plentiful while gas pressure recovered in the area where gas was tight.

We are monitoring drought conditions closely and will provide details on expected impacts in our summer readiness report at the May Board meeting. So far, the northern Sierra has a snowpack that's only 8% of normal for this date, according to the latest measurements released January 17 from the California Department of Water Resources. The central Sierra is at 16% of normal; the southern Sierra is at 22% of normal. Of course, fires will likely be a very significant problem this year.

OUTAGE MANAGEMENT

Due to upgrades for aging infrastructure, new transmission, and integrations of the renewable fleet, the ISO has seen a 50 % increase in the total number of generation and transmission outage requests over the past 10 years. In 2013, 82,000 requests were processed by the ISO. The ISO initiated a project to replace the current outage management system and restructure related processes. Management is pleased to present the outage management proposal that will more effectively and efficiently process outages. The new system will include automation and standardized information and is intended to significantly cut processing time. This change impacts outage processing at many of the generators and transmission owners, and we appreciate their cooperation and support.

TRANSMISSION PLAN

The ISO will release its draft annual transmission plan on Monday, February 3. This long term planning document calls for several reliability projects to address the reconfiguration of

the transmission system in southern California to address the loss of SONGS. In particular, there is a desire to continue to replace the loss of reactive power from SONGS with transmission solutions and to reinforce the system between San Diego and the Los Angeles basin. These transmission solutions are intended to reinforce reliability but also to reduce the need for new gas generation to provide replacement energy in the region.

Another area examined in the plan is reinforcements to the San Francisco peninsula to help mitigate the impact of natural disasters in the area. Further work needs to be done to determine the best way to mitigate those risks given uncertain risk scenarios and we have committed to work with PG&E on the best approach to mitigate risks and establish a policy framework to underpin the initiative.

Finally, the ISO has not found the need for significant new transmission beyond what has been approved in previous years to achieve 33% renewable integration. Like all years, the plan is a collaborative and open effort to examine the needs of the system as it rapidly evolves around a cleaner generation fleet.

ENERGY IMBALANCE MARKET GOVERNANCE

As previously approved by the Board, we are actively implementing the EIM governance model by establishing the seven sector committees and hosting initial organizing meetings. Those committees will ultimately make recommendations to the Board regarding membership on the stakeholder transitional committee, an advisory committee to the ISO Board of Governors.

VEHICLE TO GRID ROADMAP

In late December, the ISO released a vehicle to grid roadmap. That roadmap was produced as part of the Governor's zero emission vehicle action plan and was developed in collaboration with the Governor's office, the Energy Commission, the Public Utilities Commission and the Air Resources Board. In summary, the document illustrates the critical value electric vehicles will have in the future of the grid and how they can help with renewable integration and potential over generation conditions if properly integrated and charging is controlled through proper incentives.

RENEWABLE GENERATION

New solar peaks continue to be established even in the winter because of new resources being connected to the grid. The latest solar peak of 3,124 MW was set at 12:03 p.m. on January 17, 2014. The wind generation peak is 4,302 MW; attained on June 23, 2013 at 12:22 a.m.