

Memorandum

To: ISO Board of Governors
From: Steve Berberich, President and Chief Executive Officer
Date: July 8, 2014
Re: **CEO report**

This memorandum does not require Board action.

OVERALL CONDITIONS

Operating conditions and overall demand have generally been seasonal in large part because hot weather has not lasted for more than a few days. On May 15, during an early season warm period, we peaked at 41,565 MW – abnormally high for that time of the year. We crossed 40,000 MW again on June 30 but have otherwise seen loads in the mid 30,000 MW range.

On May 14 and 15, numerous wildfires in San Diego, which were fed by strong winds and reportedly arson-related, presented operational concerns for ISO controlled grid facilities. On May 14 the ISO implemented “restricted maintenance operations” and then a “transmission emergency” when several key transmission lines tripped. The ISO did not request demand response or implement a Flex Alert because the reliability issues were localized, making widespread conservation unwarranted. Instead, SDG&E rolled out targeted messaging for conservation that more appropriately addressed the operational concerns presented by this situation.

EIM TRANSITIONAL COMMITTEE

The EIM Transitional Committee has been seated with a diverse and talented group of energy leaders from throughout the West. We are very grateful to all of these outstanding leaders who have agreed to serve on this important committee. The committee had its first meeting on July 1, mapped out a regional meeting schedule, and nominated Rebecca Wagner as Chair. Ms. Wagner is a commissioner on the Public Utility Commission of Nevada and has been very active in the Western Interstate Energy Board PUC-EIM group, which is made up of public utility commissioners from throughout the West. Management is pleased to support Ms. Wagner’s nomination as Chair.

TRANSMISSION PROJECT UPDATE

At this meeting, Management is re-presenting the Delaney-Colorado River transmission line for approval after addressing some important questions previously raised by the Board.

Management recommends the line for approval as an economically driven transmission project. The line also improves reliability through a key transmission corridor and creates approximately 200 MW of potential deliverability out of the Imperial Irrigation District (IID). The ISO is in the process of evaluating what additional transmission may be needed for more significant increases in deliverability from IID in the ISO's annual transmission planning process, as requested jointly by the California Public Utilities Commission and the California Energy Commission, as well as the ISO Board of Governors.

The ISO is continuing to assess the Harry Allen- Eldorado transmission line for benefits to California and Nevada. The analysis will encompass the entire value stream, including the effect of the energy imbalance market. We anticipate bringing the Harry Allen-Eldorado transmission line to the Board in November if our studies demonstrate value.

INTERCONNECTION PROCESS ENHANCEMENTS

The ISO continues to strive to improve the interconnection process based on how the market for renewables and new technologies evolves and from lessons learned. In this case, Management is presenting two recommendations for change. The first addresses the timing of reimbursement to interconnection customers for upgrades they fund and second addresses how forfeited funds are redistributed. We believe both of these recommendations are sound changes that improve the overall interconnection process and provide an equitable way to return forfeited funds to the market.

FERC ORDER 745 APPEAL

The ISO is firmly committed to supporting and growing demand response as a key market based resource that minimizes the need for additional infrastructure and gas-based resources. Consistent with this commitment, on July 7, the ISO filed a petition for an en banc rehearing with the U.S. Court of Appeals for the D.C. Circuit asking the full circuit court to rehear a decision issued by a three-judge panel ruling that FERC lacked jurisdiction to issue its Order No. 745 related to demand response in organized wholesale markets. The ISO's petition seeks rehearing only with respect to the D.C. Circuit panel's determination of the jurisdictional issue and will preserve the ISO's existing appellate challenge to certain aspects of FERC's Order No. 745 regulations regarding allocation of costs. That challenge was originally done jointly with the California Public Utilities Commission based on an agreement reached between the PUC and the ISO over how demand response costs would be allocated. We expect FERC, other ISOs, and a few states to also appeal the decision.

RENEWABLE GENERATION

New solar peaks continue to be established as new resources are connected to the grid. The latest solar peak of 4795 MW was set at 11:43 a.m. on June 1. The wind generation peak remains at 4768 MW, which was attained at 5:48 p.m. on April 12.