

Memorandum

To: ISO Board of Governors
From: Steve Berberich, President and Chief Executive Officer
Date: May 8, 2013
Re: **CEO Report**

This memorandum does not require Board action.

OVERALL CONDITIONS

System conditions remained typical for this time of the year. Load levels have been normal for “shoulder month” conditions with slightly higher loads when temperatures have been above normal. As usual for this time of year, we experienced heavy transmission outages for maintenance. Hydro conditions this year are of concern. After a record dry January and February in much of the state, the snowpack water content for the state, measured on May 2, 2013, was 17 percent of the average for that date. On a regional basis, the measurements were 16 percent for northern California, 23 percent for central California, and 17 percent for southern California. Despite the dwindling snowpack, most key storage reservoirs are above or near historic levels for the date thanks to November and December storms.

SOUTHERN CALIFORNIA CONTINGENCIES

Through coordination and intense work efforts from Southern California Edison and San Diego Gas and Electric, a number of transmission upgrades are being completed in advance of the heavy load summer months. The upgrades include additional capacitor banks, upgraded transformers, transmission line reconfigurations and synchronous condensers at Huntington Beach. The goal of the upgrades is to provide voltage support in the southern Orange County and San Diego area to support heavy power import levels to make up for the loss of energy from the San Onofre Nuclear Generating Station. While we believe adequate power will be available, heavy load conditions combined with system contingencies could present operating challenges. We will monitor the situation carefully and will call on public response to conservation messages if things get tight.

On a related note, we truly appreciate the California Public Utilities Commission’s approval of funding for Flex Alerts at a level similar to last year.

SUMMER ASSESSMENT

Earlier this month, the ISO published its annual Summer Loads and Resources Assessment. As outlined in that report, the ISO expects very little risk of system issues this summer – except as previously discussed in southern Orange County and San Diego. Overall, we project a healthy reserve margin in excess of 15% resource adequacy requirements. We expect load growth this year with a peak of 47,413 versus an actual peak of 46,675 in 2012. The growth is largely based on improved economic conditions.

The ISO is concerned about a potentially difficult fire season given the dry conditions across the state. Often, fires threaten transmission lines and require the lines to be taken out of service. Given the fragile situation in Southern California and the frequency of fires there, we will be extra vigilant and will be working closely with state and federal fire agencies to manage the situation.

FERC ORDER 764

At this Board meeting, Management will present its design and approach for compliance with FERC Order 764. Order 764 requires the ISO to provide the option to schedule power transfers at 15-minute intervals as opposed to the current hourly approach. The intent is to facilitate the integration of variable energy resources on the grid. The ISO supports the order and believes it will allow us to enhance renewable integration with less operational impact. In addition, the proposed changes also address some fundamental market design challenges that have existed since the new market went live in 2009 – namely a mismatch between the settlement of the interties and the real time market. The ISO has thoroughly stakeholdered the proposed approach and believes it to be a good overall solution.

ENERGY IMBALANCE MARKET

On April 30, the ISO filed with FERC the joint ISO/PacifiCorp Energy Imbalance Market implementation agreement. The agreement spells out the key milestones for implementing the energy imbalance market as well as terms for PacifiCorp to reimburse the ISO for its capital costs specific to the PacifiCorp implementation expected in late 2014. In addition to the implementation agreement filing, the ISO is in the midst of a stakeholder process to consider the design of the energy imbalance market and related policy issues. We expect to bring the issues before the Board in November.

RENEWABLE GENERATION

I am pleased to report that solar and wind generation repeatedly reached new peaks since the last Board report. The most recent solar generation peak of 1790 MW was set on April 18, 2013, at 11:51 a.m. and the wind generation peak of 4196 MW was set on April 7 at 6:44 p.m.