Memorandum

To: ISO Board of Governors

From: Steve Berberich, President and Chief Executive Officer

Date: November 1, 2013

Re: **CEO report**

This memorandum does not require Board action.

OVERALL CONDITIONS

Thanks in large part to cooler than average temperatures, system peak demand for this summer was 45,097 MW on Friday June 28 – almost 4% lower than last year's summer peak of 46,847 MW on August 13. We did not encounter any major challenges this summer other than those caused by fires because of extremely dry conditions. The summer operating season has now transitioned into the autumn maintenance and facilities upgrade season. Because of extensive system maintenance and fewer resources online, this is often the most challenging operating period.

ENERGY IMBALANCE MARKET

Management is pleased to present the energy imbalance market design proposal. The energy imbalance market is a major milestone in the evolution of the Western grid that provides multiple benefits in the region. It will lower costs for customers served by California ISO load-serving entities and PacifiCorp by allowing resources to be more effectively utilized across the region. It will enable higher levels of renewable generation to be efficiently supported without the need for additional backup fossil fueled generation. In addition, it will improve reliability by providing information that increases operational awareness and responsiveness to grid conditions across a larger area. Management is optimistic that this new market can be further leveraged to provide these benefits to others in the west, as well. In December, we will propose a transitional stakeholder committee mechanism to give market participants a voice on startup and implementation issues as well as central role in designing an independent governance structure for this market.

INTERCONNECTION PROCESS ENHANCEMENTS FOR DOWNSIZING AND RISK OF DISCONNECTION

As part of continued enhancements to the ISO interconnection process aimed at facilitating the growth of renewables on the grid, Management will be presenting a final proposal that will establish an annual downsizing opportunity, which will provide a clear mechanism enabling project owners to ensure that the ISO will not disconnect generating facilities that are producing power but do not achieve the original development size. We appreciate the continued dialogue with stakeholders on these policy changes that will allow more flexibility for both generation developers and power purchasers. With this proposal, the ISO will offer an ongoing annual window for generation developers to downsize development projects and addresses lingering concerns about project disconnections.

ANNUAL ISO SYMPOSIUM

In October, the ISO hosted its annual stakeholder symposium. This annual event, designed to provide a platform for dialogue with the ISO Board as well as discussion about current issues and the future of the electricity industry, went well with great attendance, great dialogue and excellent keynote speeches from Greg Abel, Chairman, President and CEO of MidAmerican Energy Holdings Co., as well as Joe Kennedy, Chairman and President of Citizens Energy. We also appreciated all of those who contributed to the conversation by being on town hall panels and other discussion forums.

Management is committed to further improving the symposium by looking at what went well and what can be improved as we look toward the 2014 symposium. The dates for next year's symposium are October 22- 23, 2014.

RENEWABLE GENERATION

Solar generation repeatedly reached new peaks since the last Board report. The most recent solar generation peak of 2,886 MW was set September 26, 2013, at 1:07 p.m. The wind generation peak remained as reported in the last memo, of 4,302 MW, June 23 at 12:22 a.m.

REFINANCE OF 2009 BONDS

On October 10, the ISO successfully executed the refinancing of the 2009 bonds -- $191.8 million of bonds were sold at an all-in interest rate of 4.48%. The bonds allow for the advance refunding of the 2009 bonds, resulting in over $30 million in savings over the next 26 years. The bonds were rated AA- by Fitch, A1 by Moody's, and A by Standard & Poor's, and were well received by institutional and retail investors.