

Memorandum

To: ISO Board of Governors
From: Steve Berberich, President and Chief Executive Officer
Date: July 6, 2011
Re: **CEO Report**

This memorandum does not require Board action.

OPERATIONS UPDATE

The ISO is well into summer operating conditions. So far this year, the peak load reached a high of approximately 43,500 megawatts on July 5, far short of the record of greater than 50,000 megawatts experienced in 2006. The outlook is for a warm summer, and we are working closely with generators to ensure the reliability of the fleet. We continue to see ample hydro generation and growing renewable generation – particularly from solar generation. As is the norm, wind generation is quite low on heavy load days, averaging between 50 and 100 megawatts at peak. Fires have had limited impact so far this year and, like all summers, we are coordinating closely with Cal Fire and the Forest Service.

PG&E's gas division is in the process of replacing elements of its gas pipeline system that are of concern, and has reduced gas pressure in certain lines. Outages on that system and reduced pressures can impact the availability of gas-fired generators in the PG&E service territory. We are coordinating very closely with PG&E gas operators. We appreciate their safety priority and concern for making sure the electric system is not adversely impacted by gas outages, reduced delivery pressures and the coming hydrostatic testing of the pipeline system.

REAL TIME MARKET CHANGES

To better integrate renewable on the system, the ISO has been working with market participants to identify opportunities that create a more effective market that balances the needs of the system with renewable intermittency. For example, the ISO is considering a new fast ramp reserve product to compensate generators for their ability to ramp quickly to offset changes in intermittent generation production. The ISO is also examining a one minute dispatch of the new ramping product and the interplay of the five minute market with how the interties are currently scheduled and settled.

CREDIT RATINGS AFFIRMED

Standard & Poor's Ratings Services and Fitch Ratings completed their annual review of the ISO and both affirmed the ISO's credit ratings at A and A+, respectively. Both rating agencies indicated the ISO's credit outlook remained stable citing continued solid and disciplined financial performance and a healthy credit environment in the California electricity market. Fitch also affirmed the AA- rating on the ISO's 2009 bond issue, which is rated a notch above our issuer rating due to the additional collateral consisting of the Iron Point building. Finally, Standard & Poor's classified the ISO's liquidity as "strong" under their new corporate liquidity methodology, which is the second highest descriptor. The third major rating agency, Moody's, will complete their annual review later this summer.

EXECUTIVE CHANGES

I am humbled by my appointment as the CEO by the Board of Governors. This is a challenging and exciting assignment and I plan to work closely with Board, the ISO team and all stakeholders to ensure reliability on the system, and efficient, fair and effective markets. I am committed to the state's policy objectives related to renewable resource development, distributed generation, greenhouse gas emissions, and the use of ocean water for power plant cooling, and will work closely with policy makers to reliably meet the objectives.

We have begun the search process for a new officer to lead our Operations Division. That role is critical to our operation and carries a heavy responsibility both internally and externally. We will work closely with the Board to select that person with care based on his or her leadership, experience and ability operating in an increasingly complex environment.