

Memorandum

To: ISO Board of Governors
From: Steve Berberich, President and Chief Executive Officer
Date: October 20, 2011
Re: **CEO Report**

This memorandum does not require Board action.

Operations Update

On September 8, 2011, there was a widespread power outage in the Pacific Southwest. It impacted load in California, Arizona and Baja Mexico for approximately 12 hours. The incident began with an outage on the Hassyampa-N. Gila 500 kv line which touched off a series of events leading to a system collapse. From that incident to the final loss of load in San Diego was approximately 11 minutes. On Sept. 12, a team of engineers from Western Electric Coordinating Council (WECC), Western Area Power Administration – Lower Colorado, Arizona Public Service, San Diego, Comision Federal de Electricidad , Imperial Irrigation District, Southern California Edison and the ISO was convened at the ISO to develop a timeline of events and create a base set of facts for all participants. The team identified more than 20 separate events that occurred including transmission and generation trips. That report was filed jointly and, in some cases, also separately with WECC. The ISO, in coordination with all of the participating entities, is also developing a set of simulations to isolate the underlying causes of the event. Finally, the team also identified several short-term operational initiatives to guard against this kind of event happening again until the final root cause is determined.

Renewable Integration

At the previous Board meeting, the ISO presented the system needs to support 33% renewables. We highlighted the need to keep significant ramping and load following capabilities on the system to maintain reliability. During the October meeting, the ISO will be highlighting the market vision and roadmap for renewable integration. Market changes are planned for the near, mid and long term and will include such things as lowering bid floors to encourage wind generation to back down output when system conditions warrant, changes to compensation for units providing ramping capability and changes to the real time market to better accommodate high levels of renewables both in state and out-of-state. Those initiatives, as well as coordination with the other key state items, represent a large part of the ISO's preparation for 33% renewables in 2022.

Gas/Electric Coordination

Two of the major gas systems in California are undergoing extensive maintenance and testing at this time. The ISO is coordinating closely with the gas system operators to ensure the reliable flow of gas and the resulting electric power, and we expect the tight coordination to continue for at least two more years as the gas systems strive to improve the reliability and safety on the systems. With the vast majority of California generation coming from gas-fired generating plants, the synchronization of the gas and electric system is an important consideration for regulators and system operators to keep in mind as outages are planned and policies and regulations are set.

Generation Interconnection Queue

The generation interconnection queue has presented the ISO with a vexing problem for some time. The queue has an overwhelming amount of generation seeking interconnection – equal to four times the renewable generation to fulfill California's 33% Renewable Standard. The ISO has reformed the queue several times and applied additional resources with some level of success in reducing the backlog. Financial postings have been a key tool to ensure that interconnecting generators represented viable business models. As the queues start to come to points where significant financial postings are required, we are seeing high attrition. For instance, since the last update, we have seen 13,000 megawatts drop from the queue and we have seen heavy attrition in cluster 3 after phase 1 studies were complete. This massive attrition will work in our favor to help expedite studies.

GMC Redesign

The ISO and stakeholders undertook a year and a half long effort to redesign the grid management charge. We are happy to report that this effort was very successful. For the first time in the ISO's history, there were no protests to a GMC filing and FERC approved the grid management charge redesign with no changes. The new design offers superior cost causation using activity based costing, reduces the number of charge codes, and simplifies who is being charged for what services. Customers should be able to readily incorporate the charges in their forecasts and business plans. The new grid management charge structure will be effective on January 1, 2012.

Personnel Changes

We are pleased that in September Eric Schmitt joined us as the Vice President of Operations. Eric joins us from SAIC where he was a senior vice president in the Environmental & Infrastructure practice and brings a wealth of talent to the ISO from his technology and utility operations background. He brings spirited leadership and a collegial approach that will serve us well as Eric begins his rounds to meet market participants.