

Memorandum

To: ISO Board of Governors
From: Steve Berberich, President and Chief Executive Officer
Date: September 10, 2012
Re: **CEO Report**

This memorandum does not require Board action.

Reliability Update for This Summer

Despite the challenges from the loss of the San Onofre Nuclear Generating Station (SONGS) – 2,200 megawatts of capacity – summer operations have proceeded smoothly. Demand reached a high of almost 47,000 megawatts on August 13 and we have had several other days of substantial load. On many of those days, our ability to serve all loads was a result of the contingency planning, public conservation messages and flex alerts that occurred. We certainly want to express our sincere gratitude for the public conservation response when it was needed most.

Summer 2013 Mitigation Plan

Planning for next summer is already underway with the assumption that neither SONGS units will be available. The current plan, which will be presented at this Board meeting, is to convert Huntington Beach 3 & 4 units into synchronous condensers and add capacitor banks on the Southern California Edison Electric system. These system additions will not provide additional energy, but will provide needed voltage support for high levels of imports into Southern California. We will seek Board authorization at this Board meeting to enter a reliability must-run contract for the Huntington Beach 3 & 4 units to compensate the unit owners for the costs of the synchronous condensers.

FERC Order 1000

At this Board meeting, the ISO will present for approval its compliance filing for FERC order 1000. To a large part, the ISO was proactive in changing the tariff in 2010 in anticipation of many of the considerations ultimately adopted by FERC. This filing will close remaining gaps largely with competitive solicitation and cost allocation. The next phase of compliance will focus on interregional planning and will be more complicated as multiple entities will require coordination.

Convergence Bidding on the Interties

Since the last Board meeting, the ISO announced that it is terminating the stakeholder process on finding near-term solutions to re-implement convergence bidding on the interties. After a nearly year-long stakeholder process, it became obvious that no strategy or consensus could be achieved. The ISO remains committed to the eventual reimplementation of interties convergence bidding but believes it must be done in such a way that provides economic value while not leaving a built-in systematic arbitrage opportunity that load has to pay for. The ISO will instead focus on the underlying issues that lead to the systematic arbitrage opportunity including how the interties are priced and settled. We recognize the angst this has created with some stakeholders and appreciate their feedback on how we could improve the stakeholder process.

Decision on Generator Project Downsizing

At this Board meeting, the ISO is proposing a one-time change to the generator interconnection process that will allow a generation downsizing without condition and still maintain queue positions. This proposal recognizes the vagaries the renewable developers face in obtaining permitting, power purchase agreement details, and financing. We are seeking a one-time window but will consider another in the future, if appropriate.

Stakeholder Symposium

On September 5 and 6, the ISO held its annual stakeholder symposium hosting stakeholders, policy makers, industry leaders and vendors to provide unfettered access to ISO Board members and opportunities to discuss key issues facing the industry. The event included two primary panels. One focused on maintaining key capacity on the system, and the second focused on regional issues, highlighting the issues and the opportunities the industry has as it faces unprecedented change. We deeply appreciate the frank dialogue that occurred and will use it to shape the ISO strategies and long-term planning. Finally, we want to thank all of the companies that participated in the conference's technology showcase.

Planning for the future

As the symposium discussions all acknowledged, we are looking forward to an uncertain future operating a grid in ways that few have experienced. Through it all, reliability will remain our number one priority. The evolution of the electric grid has a long-term change horizon and planning horizons stretch to ten years and beyond. With the long-term nature of planning and implementation, and the related uncertainty, it is critical we anticipate the needs of the future grid now. One of those clear needs is backstop generation for times when conditions limit solar and wind generation. The ISO recognizes the cost of the backstop generation and is committed to find ways to do this as economically as possible and with clear engineering support. Nonetheless, the current abilities of the ISO to maintain backstop generation are limited, particularly when a plant no longer has resource adequacy payments. We will require greater flexibility and seek that by asking the Board and ultimately FERC to approve our risk of retirement backstop authority. If granted that authority, we commit to using it wisely. Ultimately, we do not believe this is the *best* way to ensure backstop generation and we will continue to work with the CPUC and other stakeholders to craft a more responsive capability.