

Memorandum

To: ISO Board of Governors
From: Steve Berberich, President and Chief Executive Officer
Date: March 21, 2012
Re: **CEO Report**

This memorandum does not require Board action.

Summer Grid Outlook

Every year the ISO forecasts summer supply and demand, estimating operating reserves as well as the risk of customer interruptions. Assuming all resources are available, the 2012 Summer Loads and Resources Assessment shows ample reserves and little chance of customer interruptions. Not all resources may be available, though. As you know, the San Onofre Nuclear Generating Station is off line without a firm date for returning to service. Because it takes adequate lead time to develop effective mitigation measures, the ISO is working with its industry partners to ensure necessary operating contingencies are in place in the event both nuclear units remain off line this summer. Our analysis shows local reliability risks for San Diego and the Los Angeles Basin under the scenario of a summer without SONGS. We, in collaboration with the governor's office, the California Energy Commission and the Public Utilities Commission, are examining various actions to lessen the chance of reliability issues including enabling off-line generation to return to service, stepping up calls for demand response and voluntary conservation, and accelerating transmission upgrades. We hope to know in the next two weeks whether one or both of the units will be back on line. Until then, we will stay focused on preparing for a summer in which we may not have the plant's 2,250 megawatts to meet summer peak demand.

Transmission Plan

At this meeting, Management is presenting the 2011- 2012 Transmission Plan to the Board for approval. Each year the California Independent System Operator Corporation undertakes a comprehensive assessment of the transmission needs of the system over a 10-year planning horizon and produces an annual transmission plan. In this year's plan, approximately 30 reliability driven transmission projects were identified.

Of particular note, this year's plan was based on renewable generation portfolios provided by the PUC and CEC. That coordination allowed us to fine tune the plan to minimize additional

costs of the transmission system. Based on the input, no new projects were identified that are required for achieving the states 33% renewable portfolio standard.

Flexible Capacity Procurement

The ISO continues to work closely with the PUC to define the system's flexible capacity requirements as we integrate higher penetrations of renewables at the same time that we eliminate the use of once-through cooling in coastal power plants. While California has adequate capacity at this time, in the next five years there is a potential for a shortfall of flexible resources that can help maintain reliability by quickly ramping up or down to compensate fluctuations in wind and solar power. The amount of shortfall is highly affected by the potential retirements of coastal gas-fired plants required to comply with a new once-through cooling regulation. Under most likely scenarios, the system is still likely to be short several thousand megawatts of ramping capacity.

In the short term, we are asking the PUC to focus on local capacity requirements in the long term procurement proceedings. Most of the once-through cooled units are needed for local capacity requirements so first addressing key local plants addresses both local and system needs.

MSC Appointments

The Market Surveillance Committee is an advisory committee to the ISO Board of Governors that provides independent expertise and recommendations on market design and monitoring issues to ISO Management and the Board. The tariff requires that the Chief Executive Officer nominate members to the Board for appointment.

This year, I am nominating an existing member and nominating one new member for the MSC: Dr. James Bushnell and Dr. Shmuel Oren. Both of these candidates are nationally recognized experts in electricity market design with considerable experience in energy economics.

Dr. Bushnell has been a valued member of the MSC for 10 years and is currently an Associate Professor in the Department of Economics at University of California, Davis. Dr. Oren has over 30 years of experience providing consulting and expert testimony in energy related matters.