



CALIFORNIA ISO

FINAL
Approved: February 25, 1999

MINUTES
BOARD OF GOVERNORS MEETING
November 19, 1998
The Grand
Sacramento, California

Jan Smutny-Jones, Chairman of the Board, called the meeting to order. Roll call was taken and the presence of a quorum was determined.

ATTENDANCE

The following Board members were in attendance:

Paul Arnold (Advisory)
Barbara Barkovich
Greg Blue
Bill Carnahan
Gary Cotton
Richard Ferreira
John Fielder
Mike Florio
Karen Johanson
Stephen Kashiwada
Carolyn Kehrein
Dan Kirshner
Jim Macias
John McGuire
Jack McNally
Zora Lazic (Advisory)
Stacy Roscoe
Elena Schmid
Jan Smutny-Jones (Board Chairperson)
Patricia Spangler
Jerry Toenyes
Jeffrey Tranen
V. John White
Ken Wiseman

APPROVAL OF CONSENT AGENDA – ALL COMMITTEES

MOTION:

Ms. Kehrein moved that the Board of Governors approve the following items from the Consent Agenda:

- Finance Committee Extension of Temporary Debt Limit (Resolution 98-11-01)
 Generator Communication Project
- Market Issues / ADR Committee Redesignation of Market Surveillance Committee
 Extension of Ancillary Services Damage Control Cap
 Suspension of REPA Payment
 Miscellaneous Tariff Amendments

Ms. Barkovich seconded the motion, which passed unanimously.

COMMITTEE REPORTS

MARKET ISSUE / ADR COMMITTEE (Continued)

BEEP CAP

Mr. Kirshner discussed with the Board the positions of the involved parties and the options for solution with regard to the Balancing Energy Ex-post Pricing issue.

Mr. Tranen described Management’s reasoning for its recommendation, particularly regarding the need for addressing demand-side issues.

The Board discussed the Management recommendation, noting their support based on following points:

- belief that this addresses the demand side of the market and is a step toward a workably competitive marketplace;
- that the transmission system is operating differently than originally designed and until the necessary design fixes are implemented, and there is evidence of a competitive market, that some form of cap should remain in place; and
- that it incorporates the steps needed for implementation, allows for time to change the Tariff where necessary, and demonstrates to market entities the ISO’s commitment to a competitive market;

The sense of the Board was that while there is support for this recommendation, it remains important that the market be continuously reviewed and every attempt be made to continue to raise the caps. The Board discussed market pricing from Summer 1998 and the need to retain some sort of ‘safety net’ that will protect consumers from volatile market pricing after the rate freeze lifts. Various members stressed the importance of demonstrating to the market, through products such as Firm Transmission Rights and the raising of caps when appropriate, that there are viable market opportunities in California.

MOTION:

Mr. Blue moved that the Board of Governors authorize the President and Chief Executive Officer to finalize and file a Tariff Amendment on the establishment of a BEEP Price Cap, substantially in the form presented below, with such changes as he determines are necessary or appropriate considering Stakeholder comments, be

included provided that any such changes be subject to further review and comments, if any, of the Market Issues / ADR Committee.

For purposes of the motion, the proposal is that the ISO:

- 1) request that FERC grant authority for it to establish a BEEP damage control price cap for up to two years after the current cap is removed;
- 2) set an initial damage control BEEP cap of \$250/MWh and raise the cap to \$750 when the coordinated changes necessary to ensure that energy and ancillary service markets function effectively have been made. These changes include the following items or substantially equivalent actions as determined by the Board (a) implementation of Rational Buyer Protocols, and (b) modification of Reliability Must Run (RMR) agreements to eliminate or substantially reduce potential incentives for withholding of capacity from the ancillary service and other markets. The ISO intends to make these changes by May 31, 1999, when it also anticipates being able to raise the price caps in the A/S markets; and
- 3) raise the BEEP cap to \$2,500/MWh by October 1, 1999; provided, that the Board reserves the right to file with FERC a lower cap if there is clear and compelling evidence that the A/S and real time energy markets are not functioning effectively.

Ms. Kehrein seconded the motion. Mr. Carnahan, Mr. Cotton, Mr. Fielder, and Mr. Kashiwada opposed the motion. Mr. McNally and Mr. Toenyes abstained. The motion passed.

NEGATIVE SUPPLEMENTAL ENERGY PRICING

Mr. Tranen summarized the Negative Supplemental Energy Pricing issue and discussed with the Board the Management recommendation, resulting in the following action.

MOTION:

Mr. Blue moved that the Board of Governors authorize the President and Chief Executive Officer to finalize and file a Tariff Amendment on Negative Pricing of Supplemental Energy, substantially in the form presented at this meeting, with such changes as he determines are necessary or appropriate considering Stakeholder comments; provided that any such changes be subject to further review and comments, if any, of the Market Issues / ADR Committee; and provided further that the amendment provide for changing the floor from one symmetrical with the BEEP Cap to an amount up to zero, upon approval of the Board, based on any finding of substantial gaming practices. Mr. Cotton seconded the motion. Mr. Florio, Ms. Johanson, and Ms. Schmid opposed the motion. Mr. Macias abstained. The motion passed.

REPLACEMENT RESERVES

Ms. Emery summarized the reason for this proposed amendment, including a description of zonal pricing and the related cost allocation. She stated that the zones were based on anticipated congestion, and that there is inconsistency between the software and the Tariff. She noted that Generator pricing is currently calculated by zones, and will remain unchanged by this amendment.

MOTION:

Mr. Kirshner moved that the Board of Governors authorize the President and Chief Executive Officer to finalize and file a Tariff Amendment on Replacement Reserves, substantially in the form presented in the materials and

at this meeting, but excluding any retroactive effective date with such changes as he determines are necessary or appropriate considering Stakeholder comments; provided that any such changes be subject to further review and comments, if any, of the Market Issues / ADR Committee. Ms. Barkovich seconded the motion. Mr. Macias opposed the motion. Mr. Carnahan, Mr. Ferreira, and Mr. Fielder abstained. The motion passed.

Mr. Kirshner noted that the Ancillary Services Market Redesign and the role of the Market Surveillance Committee will be discussed at upcoming Committee meetings.

NEW BUSINESS AND FUTURE AGENDA ITEMS

There was no new business and no future agenda items.

CLOSING

A motion was made, seconded and unanimously approved to adjourn the General Session segment of the meeting. The Board moved into Executive Session.

EXECUTIVE SESSION

Please see separate Executive Session Minutes for this segment of the meeting.