

**GENERAL SESSION MINUTES**  
**CAISO BOARD OF GOVERNORS MEETING**  
**July 9, 2008**  
**CAISO Headquarters**  
**Folsom, California**

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Mason Willrich, Chair of the CAISO Board of Governors, called the meeting to order at approximately 12:20 p.m. Roll call was taken and the presence of a quorum was determined.

Chairman Willrich acknowledged Governor Capuano's career change. Governor Capuano stated that effective June 23, 2008, she was the Vice President of Emerging Technologies at Marathon Oil in Houston, Texas, and briefly described her role in the alternative energies field. Nancy Saracino, Vice President, General Counsel and Corporate Secretary, provided congratulatory remarks and noted for the record that outside counsel conducted a thorough review and concluded that there was no conflict of interest associated with Governor Capuano's new position.

**ATTENDANCE**

The following members of the CAISO Board of Governors were in attendance:

Mason Willrich, Chair  
Tim Gage  
Linda Capuano  
Tom Page  
Laura Doll

The following members of the officer team were present: Yakout Mansour, Nancy Saracino, Karen Edson, Steve Berberich, Jim Detmers and Anjali Sheffrin on behalf of Market Development and Program Management.

**GENERAL SESSION**

The following agenda items were discussed in general session:

**PUBIC COMMENT**

No public comment was provided at this time. Ms. Saracino acknowledged the receipt of the following three letters from the public: OptiSolar, State Water Contractors and Powerex.

## **DECISION ON MINUTES**

Governor Gage inquired about a clarification concerning a reference in the minutes to the CAISO credit rating. Discussion followed. Governor Gage moved for the approval of the Board of Governors general session minutes for May 21 - 22, 2008. Motion seconded by Governor Page, and approved 5-0-0.

Subsequent clarifying statement for the record: For the third consecutive year, CAISO's credit ratings continue to improve. In the past 3-4 years, we have had three ratings upgrades, most recently from BBB+ to A- by Standard and Poor's.

## **CEO REPORT**

Yakout Mansour, President and Chief Executive Officer, reported on highlights of events that have affected CAISO since the last Board meeting. Mr. Mansour provided an operations update and discussed recent challenges including wildfires and low hydro. Mr. Mansour provided an overview of a May and June peak comparison chart for the years 2004 through 2008.

Mr. Mansour provided an update to the CEO report as it pertained to the MRTU program and noted a few challenges that had surfaced since the submittal of the report to the Board. Mr. Mansour emphasized the importance of everyone coming together in a collaborative balanced effort to determine reasonable timing pertaining to a MRTU Go Live date.

Mr. Mansour stated that the written update in his report on Legal/Compliance and Transmission Planning and Infrastructure Development remained unchanged and did not necessitate a verbal briefing.

Mr. Mansour provided the Board with an update pertaining to subsequent validation of the March 2008 refinance decision by the Board.

Mr. Mansour concluded his report by referencing the *Summary of Progress on Five-Year Strategic Plan* attachment and noted that CAISO was on track to meet the goals as set forth in the plan.

## **ASSESSMENT OF PROGRESS TOWARDS FALL 2008 MRTU GO LIVE**

Steve Berberich, Vice President of Corporate Services, provided introductory remarks and extended thanks to both the market participants and the Board for the valued feedback received as part of CAISO's executive outreach efforts and routine Board updates. Mr. Berberich provided a high-level overview of progress made and outstanding issues. Mr. Berberich stated that Management continued to strive towards a Fall MRTU Go Live date and announced that a Special Board meeting had been scheduled on August 14, 2008 to assess MRTU Readiness.

Mr. Berberich introduced Scott Harvey, with LECG, and noted that Mr. Harvey was retained to conduct analysis track testing of MRTU. Mr. Harvey noted that analysis track testing and validation of CAISO day-ahead market, real-time predispatch, and real-time software had been largely completed. Mr. Harvey noted that the software was generally working as designed and intended. Mr. Harvey concluded his presentation by discussing remaining issues and noted that outstanding issues did not appear to involve any fundamental problems with price calculations, unit commitment or dispatch. Discussion followed regarding the timing associated with remaining issues.

Debi LeVine, Director of Market Services and MRTU Program Manager, provided the Board with CAISO's response to SAIC's report on MRTU market certification. Ms. LeVine provided a summary overview of SAIC's findings and noted that no major issues were uncovered by SAIC in regards to tariff or software functionality. Ms. LeVine stated that CAISO had agreed to accept the majority of the 88 potential tariff changes recommended by SAIC and noted that none of the proposed changes required a policy change. Ms. LeVine provided an overview of the test cases in process of review and testing. Discussion followed.

Keith Casey, Director of Market Monitoring, provided the Board with an update on MRTU market monitoring readiness. Mr. Casey noted that MRTU market monitoring capabilities were comprised of three functional areas and provided an overview of the following: Base Monitoring – General Market Performance, Specific Issue Monitoring and Analysis, and Rapid Response Capabilities. Mr. Casey stated that base monitoring capabilities and specific issues monitoring were on track for a Fall 2008 MRTU Go Live date. With regards to the rapid response capabilities, Mr. Casey stated that a cross-divisional rapid response team would be ready to quickly address any market issues that could arise after MRTU Go Live. Mr. Casey noted that monitoring metrics and a contingency plan were under development and that processes, roles and responsibilities were being finalized. Mr. Casey concluded his presentation by providing an overview of the various tools in place that would address market issues under MRTU. Discussion followed regarding the simulation testing systems.

Governor Gage inquired about the high prices that some of the market participants were seeing as part of the market simulations. Mark Rothleder, Principal – Market Developer, responded by stating that while some special scenarios ended up being on the extreme side of the equation, prices had been very much as expected and he was confident with the performance of the integrated forward market. Mr. Harvey supplemented the response by noting that LECG had put the system through analysis track testing of prices that would rarely, if ever, happen, and noted that he had not seen anything lower than \$-30 or higher than \$640.

Ms. LeVine provided the Board with a general assessment of progress towards a Fall 2008 MRTU Go Live and noted that while substantial progress had been made, there was still a lot of work to be done. Ms. LeVine noted that since the preparation of the presentation, the day-ahead market results had been publishing below 82%. Ms. LeVine emphasized the importance of providing market participants with ample opportunity to test their internal

systems and processes. Ms. LeVine provided an overview of the Update 2 market simulation exit criteria that remained outstanding. Ms. LeVine noted that CAISO Operators had tested the systems and affirmed the systems were ready for a Fall Go Live. Ms. LeVine stated that the market simulation quality of solution was good and that it was primarily an alternating current solution. Ms. LeVine stated that settlements was the last major hurdle to overcome and provided a status overview of the 124 charge codes and noted that settlement statements and invoices were being published. Discussion followed regarding issues pertaining to charge codes.

Ms. LeVine provided an overview of key internal and external readiness accomplishments as well as on-going activities and noted that MRTU readiness criteria was on-track for a Fall MRTU Go Live. Ms. LeVine stated there were 19 exit criteria in 5 categories to be completed prior to beginning pre-production. Ms. LeVine reviewed market participant readiness statistics and provided an overview of participant scenarios that still needed to be completed. Ms. LeVine concluded her presentation by providing a status overview of the MRTU cutover/reversion plan and noted that a draft plan was scheduled to be posted on July 21. Discussion followed.

Jim Detmers, Vice President of Operations, provided the Board with an overview of the scenario testing that was being performed by the operations staff and noted that dispatchers were finding results that they had been looking for for years.

Sidney Davies, Assistant General Counsel – Tariff and Tariff Compliance, provided the Board with an overview of key elements from several June 2008 MRTU related FERC orders that accepted various CAISO filings. Ms. Davies briefly described various CAISO compliance and tariff amendment filings that were pending a FERC decision. Ms. Davies concluded her presentation by reviewing four MRTU amendment filings needed prior to MRTU Go Live.

#### Public Comment

Jeff Nelson, with San Diego Gas & Electric, provided comments in support of Management's presentation and stated that November 1 was the recommended start date as December 1 would cause Sarbanes-Oxley issues and a January 1 Go Live date could lead to resource issues during the holidays.

Dave Dockham, with Northern California Power Agency, noted that NCPA filed comments at FERC the day prior. Mr. Dockham expressed concern regarding the market simulation guidebook and issues associated with charge code validations. Mr. Dockham requested three months of testing once the Update 2 market simulation exit criteria had been met.

Steve Scortino, with the City of Anaheim, acknowledged the efforts of CAISO staff and stated they would continue to work with staff on outstanding issues. Mr. Scortino noted some concerns with the simulation testing, including an outdated market simulation

guidebook and issues pertaining to the system's ability to manage resources outside of the CAISO control area.

Gary Nolff, with the City of Riverside, commended the joint efforts of CAISO and market participants as part of the Go Live effort but cautioned that the timing of MRTU Go Live had to be carefully deliberated. Mr. Nolff stated that three months of testing would be adequate and noted concern with settlements issues and stated they needed to be resolved in order to avoid disputes in the future.

Veronica Andrews, with Pacific Gas & Electric Company, commented on the reasoning behind the need for the high number of charge codes. Ms. Andrews stated that November 1 was a feasible Go Live date as long as issues pertaining to scenario testing, market monitoring and charge code issues have been resolved with enough time for market participants to adequately test the systems.

Ali Yazdi, with Powerex, noted that 90 days was a reasonable time to allow market participants to test readiness and stated that Powerex supported a November 1 Go Live date. Mr. Yazdi echoed prior comments that commended the efforts of the CAISO. Mr. Yazdi referenced the written comments submitted by Powerex that noted some concerns, including credit exposure.

Doug Parker, with Southern California Edison, noted thanks to CAISO Management for its candid neutral remarks regarding the status of the MRTU program. Mr. Parker stated that SCE was committed to a November 1 Go Live date and expressed concerns with a December or January Go Live date. Mr. Parker noted that SCE was confident that CAISO would not Go Live without the market participants also being ready.

Discussion followed and the Board acknowledged its appreciation of the candidness of the stakeholders. Mr. Mansour stated that CAISO and the market participants would be ready prior to a MRTU Go Live determination.

## **DECISION ON GENERATOR INTERCONNECTION PROCESS REFORM INITIATIVE**

Dennis Peters, External Affairs Manager, began his presentation by stating that in the Strategic Plan, CAISO committed to the development of grid resources that were aligned with state and federal policies. Mr. Peters stated that in response to a March 2008 FERC Order that called for nationwide reforms, CAISO began a stakeholder process in January 2008 to reform the existing generator interconnection process. Mr. Peters stated that interconnection projects presently in the queue exceeded the CAISO all-time system peak of 50,270 MW. Mr. Peters noted that interconnection requests for renewable projects continued to grow from year to year. Mr. Peters provided an overview of the following proposal objectives: (1) clear the backlog, (2) increase overall process efficiency and (3)

support the timely interconnection and development of new generating capacity to meet future demand and achieve state environmental policy goals. Mr. Peters described how the reform proposal was substantially more efficient than the existing generator interconnection process. Mr. Peters reviewed stakeholder concerns and discussed how Management's proposal addressed the issues that had been raised by stakeholders.

#### Public Comment

Karen Shea, with Southern California Edison, commended the CAISO stakeholder process and noted strong support for Management's proposal. Ms. Shea noted that the proposed process was innovative and much more efficient.

Susan Schneider, with Phoenix Consulting and representing the Wind-Solar Coalition, provided the Board with written comments. Ms. Schneider commended the CAISO stakeholder process and provided generally supporting comments. Ms. Schneider addressed concerns with the process for the transition cluster timing and the process for optimizing transmission planning.

Grant Rosenblum, Senior Counsel for CAISO, addressed how CAISO would be addressing Ms. Schneider's concerns regarding the timing of transition clustering and optimizing transmission planning, including upcoming tariff language that would impose upon the CAISO to meet certain standards.

Ms. Schneider, provided supplemental comments and noted that the language referenced by Mr. Rosenblum was currently reflected in a flow chart and not actually in the tariff. Ms. Schneider requested that the language also be incorporated into the tariff.

Greg Blue, with OptiSolar, noted concern that wind and solar companies were alike in that it comes down to a fairness issue as to whether you are in the serial group or if you are in the transition group. Mr. Blue provided an overview of OptiSolar's written comments concerning queue positions.

Mr. Rosenblum commented that the CAISO proposal attempted to be fair and transparent in the criteria that was used to separate a serial and a transition cluster. Mr. Rosenblum noted the definition of serial vs. transition cluster was currently before FERC for decision and that CAISO would incorporate FERC's recommendation.

Mr. Blue provided supplemental comments and stated it was appropriate to address OptiSolar's concerns before the Board as they were tariff language related concerns.

Keith White, with the California Public Utilities Commission, commended the CAISO stakeholder process and provided supporting comments to Management's proposal. Mr. White noted that the CPUC looks forward to future refinements to the transmission planning process.

Gloria Freeman, with Radback Energy, commented that the existing process was not necessarily flawed and provided an overview of the written comments made by Radback Energy. Ms. Freeman requested that CAISO hold market participants to the existing schedule. Ms. Freeman addressed several concerns, including the lack of adequate Board approvals throughout the process.

Karen Edson, Vice President of External Affairs, responded to Ms. Freeman's comments and stated that Management's revised proposal was necessary in order to meet the renewable portfolio standards. Ms. Edson noted that GIPR had been a fair and open process. Mr. Mansour stated that CAISO had filed a waiver with FERC and that waivers do not require Board approval.

Eric Eisenman, with Pacific Gas & Electric Company, commended CAISO for its work throughout the stakeholder process. Mr. Eisenman provided generally supportive comments to Management's proposal and noted a few concerns, including the coordination between the interconnection process and transmission planning process.

Ms. Edson acknowledged CAISO's appreciation of PG&E throughout the process and looked forward to PG&E's feedback on continued improvements to the process. Mr. Mansour commented on the interconnection process and expressed appreciation for Mr. Eisenman's comments pertaining to process.

Ali Amirali, with LS Power, commended CAISO on the extensive stakeholder process. Mr. Amirali provided a background overview of the interconnection process. Mr. Amirali noted various concerns with Management's proposal and commented that one solution could be to fix the existing process.

### Board Decision

Chairman Willrich noted that Governor Capuano recused herself from the Board vote. Governor Doll provided supporting comments to Management's proposal and acknowledged that it was a process improvement and should also be recognized as an additional piece of the renewable initiative.

Ms. Saracino stated that the motion had been revised to address stakeholder requests to add language pertaining to the incorporation of a process to ensure coordination between the GIPR and the CAISO's transmission planning process. Ms. Saracino read the revised language for the record.

### MOTION

#### **Governor Doll:**

***Moved, that the ISO Board of Governors approves the Generation Interconnection Process Reform (GIPR) proposal as outlined in the***

*memorandum dated July 1, 2008 and related attachments and incorporating a process to ensure coordination between the GIPR and the CAISO's transmission planning process; and  
Moved, that the ISO Board of Governors authorizes Management to make all the necessary and appropriate filings with the Federal Energy Regulatory Commission to implement the GIPR proposal.*

**The motion was seconded by Governor Gage, and approved 4-0-1. Governor Capuano recused herself and was not present for the discussion or deliberation.**

## **DECISION ON UNECONOMIC ADJUSTMENT POLICY**

Lorenzo Kristov, Principal Market Architect, provided an overview of Management's proposal regarding an uneconomic adjustment policy. Mr. Kristov noted that software testing had revealed a need for tariff changes for MRTU Go Live. Mr. Kristov stated that uneconomic adjustments to self-schedule follow priority order as specified in the tariff and noted that the market would utilize effective self-schedules within each priority class before resorting to higher priority class. Mr. Kristov stated that Management's proposal revised an inflexible rule to ensure operationally prudent schedules. Mr. Kristov provided an overview of stakeholder concerns pertaining to uneconomic adjustment and described further planned activities to address those issues. Mr. Kristov concluded his presentation by discussing next steps and noted that CAISO would continue to monitor parameter settings during market production to promptly identify any need to revise values.

### Public Comment

Brian Hitson, with Pacific Gas & Electric Company, commended CAISO on the stakeholder process. Mr. Hitson provided generally supportive comments to Management's proposal. Mr. Hitson requested that the parameter issues be part of the business practice manual process.

Ellen Wolfe, with Western Power Trading Forum, provided comments and agreed that a change to the policy was needed. Ms. Wolfe noted that WPTF comments were not adequately addressed in the Board package. Ms. Wolfe addressed several concerns with the proposal and provided a revised motion language handout to the Board for consideration.

Anjali Sheffrin, Chief Economist, provided some responsive comments to Ms. Wolfe's remarks and deferred in part to the Opinion of the Market Surveillance Committee. Mr. Kristov provided supplemental responsive comments.

Rick Buckingham, with California Department of Water Resources, provided an overview of the written comments provided by DWR that noted various health, safety and environmental concerns with Management's proposal. Mr. Buckingham provided an overview of three recommendations to the proposal.



Governor Gage inquired if Mr. Buckingham agreed with the earlier comment by Mr. Kristov that CAISO could not ask DWR to do something that was in violation of the law. Mr. Buckingham responded that he hoped that was the case but wanted to see that language in writing. Governor Gage also inquired about the parameter definitions and the extent to which DWR would be exposed. Mr. Buckingham responded that it could create additional exposure. Mr. Kristov provided responding comments pertaining to the protection surrounding existing contract schedules. Mr. Mansour commented on the long-standing relationship between CAISO and DWR. Mr. Buckingham noted DWR's concerns pertaining to the voluntary nature of the relationship. Discussion followed.

Craig Jones, with State Water Contractors, provided an overview of the written comments by SWC to the Board. Mr. Jones discussed several concerns, including issues surrounding the rights of holders of existing transmission contracts. Mr. Jones requested that the Board either direct CAISO to modify its proposal or to further consider the alternative proposals submitted by SWP.

Jeffrey Nelson, with Southern California Edison, provided some supporting comments on Management's proposal and then further described serious concerns about California policy implications related to parameters and pricing. Mr. Nelson requested that CAISO work closely with State policy makers.

Ms. Sheffrin responded that CAISO will work with stakeholders and the Board on the implications of the policy and will provide status updates to the Board. Mr. Mansour noted that CAISO was currently working on how to tie parameters to price caps.

Tony Braun, with California Municipal Utilities Association, provided comments on Management's proposal and further described how the proposal violated existing transmission rights and transmission owner rights. Mr. Braun addressed further concerns regarding the parameters and referenced several points made in the Market Surveillance Committee Opinion.

Mr. Kristov responded to Mr. Braun's comments pertaining to concerns regarding existing transmission contracts. Mr. Kristov noted that you could not have a sequence of priorities without having parameters.

Governor Doll inquired as to whether CAISO could assure that the parameter setting process occurred through the business practice manual process. Governor Gage concurred and noted that flexibility was important. Governor Capuano noted the importance of streamlining.

Mr. Berberich responded that the issue had been addressed by the CAISO Executive Team and it was agreed that the parameter setting process should be part of the business practice manual process. Chairman Willrich emphasized the importance of getting the parameter values right by utilizing real time exercises.

Ms. Sheffrin provided comments and recommended adding language to the Board motion that would help to assure stakeholders that all legal and appropriate protections for existing transmission contracts and transmission ownership rights would be honored.

Frank Wolak, Chair of the Market Surveillance Committee, provided the Board with an overview of the MSC Opinion and addressed several concerns made during public comment. Discussion followed. In response to an inquiry from Chairman Willrich, Chairman Wolak stated he would recommend approval of Management's proposal.

#### Board Decision

The Board discussed proposed edits to the motion language. Ms. Saracino read the revised motion for the record.

#### MOTION

##### **Governor Gage:**

*Moved, that the ISO Board of Governors approves the proposed rule changes regarding Uneconomic Adjustments, as detailed in the memorandum dated July 1, 2008, and ensuring all legal and appropriate protections for Existing Transmission Contracts and Transmission Ownership Rights, as provided in the CAISO Tariff; and*  
*Moved, that the ISO Board of Governors authorizes Management to make all of the necessary and appropriate filings with the Federal Energy Regulatory Commission to implement the proposed rule changes regarding Uneconomic Adjustments.*

**The motion was seconded by Governor Doll, and approved 5-0-0.**

#### **DECISION ON POLICY TO IMPLEMENT RESOURCE-SPECIFIC SYSTEM RESOURCES**

Daune Kirrene, Senior Contracts Negotiator, provided the Board with an overview of Management's request for a decision on policy to implement resource-specific system resources. Ms. Kirrene described how import resources that identify the energy source receive bid cost recovery according to the MRTU tariff. Ms. Kirrene noted that the service was requested by market participants and that a FERC filing was required. Ms. Kirrene noted the proposed pro forma agreement and tariff language would clarify rights and obligations. Ms. Kirrene concluded her presentation by providing an overview of Management's adoption of suggested stakeholder revisions that resulted in stakeholder support for the proposal. Discussion followed.

## **MOTION**

### **Governor Gage:**

*Moved, that the ISO Board of Governors approves the proposal to implement Bid Cost Recovery for Resource-Specific System Resources, as detailed in the memorandum dated July 1, 2008; and*

*Moved, that the ISO Board of Governors authorizes Management to make all of the necessary and appropriate filings with the Federal Energy Regulatory Commission to implement Bid Cost Recovery for Resource-Specific System Resources.*

**The motion was seconded by Governor Page, and approved 5-0-0.**

## **MARKET PERFORMANCE REPORT**

The Board noted that the market performance report in the Board materials was sufficient and that a presentation was not necessary for this item.

## **INFORMATIONAL REPORTS**

There were no comments or questions regarding the informational reports.

## **ADJOURNED**

There being no additional general session items to discuss, the general session of the CAISO Board of Governors meeting was adjourned at approximately 7:00 p.m.