

**GENERAL SESSION MINUTES
ISO BOARD OF GOVERNORS MEETING
December 16-17, 2008
ISO Headquarters
Folsom, California**

December 16, 2008

Mason Willrich, Chair of the ISO Board of Governors, called the general session meeting to order at approximately 2:30 p.m. Roll call was taken and the presence of a quorum was determined.

ATTENDANCE

The following members of the ISO 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, Karen Edson, Laura Manz, Steve Berberich, Jim Detmers, and Dan Shonkwiler on behalf of Nancy Saracino.

GENERAL SESSION

The following agenda items were discussed in general session:

PUBLIC COMMENT

No public comment was offered at this time.

DECISION ON MINUTES

Governor Gage moved for the approval of the ISO Board of Governors general session minutes for October 28-29, 2008, and November 24, 2008. Motion seconded by Governor Page, and approved 5-0-0.

CEO REPORT

Yakout Mansour, President and Chief Executive Officer, began his report by providing a high level update on the market redesign and technology update program (MRTU). Mr.

Mansour acknowledged the tremendous progress made and noted his appreciation of the continued feedback from market participants. Mr. Mansour stated the ISO would now focus on testing real-time operations. Mr. Mansour addressed concerns pertaining to price outliers and settlement statements and described processes created to address the concerns.

Mr. Mansour discussed the operations section of his report and described a November 7 disturbance incident on the Southwest Powerlink. On the financial side, Mr. Mansour provided a high level overview of the proposed 2009 budget and noted the increase was less than 1%, although the increase to GMC rates would appear higher due to decreased energy volumes. Mr. Mansour provided the Board with an update on the implementation of the reformed generator interconnection process and noted the reform process has already demonstrated its value.

Mr. Mansour concluded his report by providing congratulations to Chairman Mason Willrich and Governor Laura Doll on the recent State Senate vote that confirmed both of them for appointment to the ISO Board of Governors.

DECISION ON MRTU

Steve Berberich, Vice President of Corporate Services, provided the Board with an update on progress made on MRTU since the last Board meeting and noted that collaboration with market participants remained high. Mr. Berberich stated that a real time test had been performed to address pricing questions. The test held variables constant and minimized simulation issues. Mr. Berberich noted that preliminary results showed that the issues had been narrowed. Mr. Berberich stated that with the conclusion of the test, Management had exhausted its ability to demonstrate more from the simulation environment. Mr. Berberich reported that progress on open issues was a major focus of the team and noted that the efforts were showing positive results. Mr. Berberich reported that settlements issues were narrowed and that Management would continue to work with participants and key vendors to close remaining issues. Mr. Berberich stated that efforts to prepare Grid Operations were continuing and that a move to parallel operations would occur in January during which MRTU will track current operations. Mr. Berberich concluded his presentation by reviewing next steps, including a review of several key tasks to be completed over the next six weeks.

Public Comment

Pedro Pizarro, with Southern California Edison (SCE), provided comments on the progress of MRTU and noted that the ISO systems were showing greater stability and that much progress had been made with settlements charge codes. With regard to quality of solution, Mr. Pizarro noted that in-depth assessment of simulation results had just begun, but that the results were encouraging at first glance. Mr. Pizarro noted that progress had been made on the residual unit commitment (RUC) issue and that the recent stakeholder process had been appreciated. Mr. Pizarro stated that a March 1 go live was no longer feasible. Mr. Pizarro noted that while SCE would prefer two full months of clean statements prior to the 60-day

certification filing, they would be satisfied with one full month and one month of good trajectory. Mr. Pizarro stated that an April 1 go live date would be feasible.

Governor Page inquired of Mr. Pizarro regarding settlement charge codes. Mr. Pizarro described how SCE's charge codes were divided into three levels of priority. In response to an inquiry from Governor Page, Mr. Pizarro provided comments regarding the timing of completion of priority 1 and priority 2 charge codes. Governor Doll inquired about SCE's previously-expressed concerns about RUC. Mr. Pizarro responded that progress had been made and that a separate venue had been established to continue dialog and work on a resolution. In response to comments from Chairman Willrich, Mr. Pizarro noted that implementation delays resulted in costs of 1 million dollars per month but that SCE and California could not afford a market that fails due to premature project implementation.

Dede Hapner, with Pacific Gas and Electric Company (PG&E), provided supporting comments on the increased collaboration efforts between market participants, contractors and the ISO. Ms. Hapner stated that an April 1 go live date was feasible and that PG&E was not looking for system perfection. Although much progress had been made, Ms. Hapner stated that pricing and settlements were the two key remaining issues. Ms. Hapner provided supporting comments on the RUC stakeholder process. Ms. Hapner noted the importance of the roles of the Market Surveillance Committee and the Department of Market Monitoring.

Keith Casey, Director of Market Monitoring, provided an overview of DMM's position on the quality of solution. Mr. Casey noted that additional root-cause analysis was needed to address price spikes that were occurring. Mr. Casey commented on DMM's tools and processes in place and stated that he would provide an overview at the next Board meeting.

Matt Burkhart, with San Diego Gas & Electric Company (SDG&E), commented that although a great deal of progress had been made, it was not enough to support a March 1 go live date. Mr. Burkhart commented on settlements and quality of solution as two outstanding issues and noted that real time prices were the primary area of concern. Mr. Burkhart noted that April 1 was a reasonable go live date.

In response to an inquiry from Governor Page, Mr. Burkhart agreed that SDG&E was in a similarly good position with regard to coding issues.

Dave Dockham, with Northern California Power Agency (NCPA), commented that NCPA was in a similar position as the other public commenters and noted that NCPA's main concern continued to be the functionality of the settlements system. Mr. Dockham discussed two requests by NCPA regarding deviation penalties associated with metered substation agreements and the development of procedures to provide an opportunity for relief to pay large erroneous invoices.

Mr. Berberich responded in part to Mr. Dockham's comments and agreed that having appropriate backstops was a reasonable request. Mr. Berberich stated that processes would be created that would help to avoid erroneous invoices on the front end. Debi Le Vine,

Director of Market Services and MRTU Project Manager, responded to Mr. Dockham's concern regard deviation penalties and stated that a team was in place to address these issues. Governor Capuano stated that should Mr. Dockham's concerns remain unsolved prior to go live, Management would need to update the Board regarding the work-around plan.

Chairman Willrich acknowledged the public comment letter submitted by Powerex dated December 15, 2008.

Tony Braun, with California Municipal Utilities Association (CMUA), echoed the earlier comments by the investor-owned utilities and NCPA. Mr. Braun requested that ISO follow a transparent process and allow for adequate feedback from market participants.

Mr. Mansour responded by confirming that processes leading to go live would be transparent and briefly provided an overview of some of the process components under consideration.

Governor Gage inquired about budget impacts associated with an April 1 go live date. Mr. Berberich stated that the situation was being closely monitored and that, while the situation could change, the project was currently forecasted to remain within the existing budget.

Governor Gage inquired about the status of the exceptional dispatch proceeding. Sidney Davies, Assistant General Counsel – Tariff, responded that the status of proceedings at the Federal Energy Regulatory Commission (FERC) would not impact an April 1 go live date. Ms. Davies noted that a FERC decision could be effective as of April 1 regardless of the date when it is issued.

Further discussion followed regarding the timing of go live in relation to the readiness certification filing at FERC. Mr. Mansour provided additional comments characterizing the types of work that remained to be done before filing a readiness certification. Discussion ensued. Chairman Willrich provided comments regarding the types of matters that could affect an April 1 go live date and acknowledged the unified commitment by market participants, Management, and the Board regarding go live.

Mr. Pizarro and Ms. Hapner provided comments generally supporting an April 1 go live date. Mr. Pizarro noted the importance of defining the meaning of the certification filing. Ms. Hapner noted concern with an early January certification filing. Further discussion followed regarding momentum and the need for check points between the filing and go live. Governor Capuano commented on the natural transition point and suggested January 16 as the date for the certification filing in order to allow stakeholders additional time. Discussion followed.

Board Decision

Motion

Governor Page:

Whereas Management and stakeholders report significant progress on MRTU readiness since the November 24 meeting;

Whereas, assuming progress on certain essential items continues as expected, Management and stakeholders report that a March 31, 2009 go live date is achievable;

Whereas, Management is committed to making every effort to go live on March 31, 2009, and the stakeholders share that commitment;

Therefore,

- 1) The Board directs Management to file a readiness certification with the Federal Energy Regulatory Commission for a March 31, 2009 go live date;*
- 2) The readiness certification should be filed no later than January 16, 2009, and should identify all milestones and assumptions that are essential for a March 31 go live date;*
- 3) The Board will continue to monitor progress toward a March 31 go live date at its scheduled meetings.*

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

RECESSED

There being additional general session items to discuss, the general session of the ISO Board of Governors meeting was recessed at approximately 5:10 p.m. until the following day.

RECONVENED

December 17, 2008

Mason Willrich, Chair of the ISO Board of Governors, reconvened the general session meeting to order at approximately 9:35 a.m. Roll call was taken and the presence of a quorum was determined.

ATTENDANCE

The following members of the ISO 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, Karen Edson, Laura Manz, Steve Berberich, Jim Detmers, and Dan Shonkwiler on behalf of Nancy Saracino.

PUBLIC COMMENT

No public comment was offered at this time.

DECISION ON 2009-2010 FIRM TRANSMISSION RIGHTS AUCTION RELEASE AMOUNTS

Alan Isemonger, Manager of Market Information, provided the Board with a background on Firm Transmission Rights (FTR) and noted that an auction was needed as part of MRTU contingency planning. Mr. Isemonger provided an overview of upcoming key dates and stated that the live FTR auction would be held on January 27 – 29, 2009. Mr. Isemonger concluded his presentation by providing a summary of Management's request.

Public Comment

No public comment was offered at this time.

Board Decision

Brief discussion followed regarding bidding characteristics of the auction.

Motion

Governor Doll:

Moved, that the ISO Board of Governors approves the proposed quantities of Firm Transmission Rights for the 2009-2010 FTR Auction as detailed in the memorandum dated December 8, 2008.

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

DECISION ON 2009 BUDGET, REVENUE REQUIREMENT AND GRID MANAGEMENT CHARGE RATES

Phil Leiber, Chief Financial Officer and Treasurer, provided the Board an overview of the proposed 2009 budget and grid management charge (GMC) rates. Mr. Leiber reviewed

changes made to the budget since the September presentation of the draft budget. Mr. Leiber noted that while costs were reduced from the September preliminary posting, the volumes were also reduced which resulted in an increase in the bundled GMC charge. Discussion followed regarding the analysis of the volume numbers. Governor Doll inquired about how the volume reduction tied to the Energy Commission's load forecast. Jim Detmers, Vice President of Operations, responded that the Energy Commission's forecast was not related as the ISO's budget used data from the investor-owned utilities. Karen Edson, Vice President of External Affairs, noted that the Energy Commission looks at 5- and 12-year forecasts. Discussion followed regarding the characterization of volume decreases.

Mr. Leiber provided an overview of the O&M budget categories and noted that bundled GMC increased only 2.7% despite the need to fund several new initiatives. Mr. Leiber discussed the 2009 budgeted staffing levels and noted the increase reflected the in-sourcing of IT functions, additional staff for MRTU, and other key needs. Mr. Leiber noted that 2009 capital projects would be funded from 2008 bond proceeds and that the 2009 debt service included principal and interest payments on bonds issued in June 2008. Mr. Leiber stated that the revenue requirement increased less than 1% and that the bundled GMC increased about 2.7% due to volume decreases. Mr. Leiber noted that on slide 8, the revenue requirement should be \$192,978 as opposed to \$194,753 and the pro-forma bundled GMC should be \$.0.776 as opposed to \$0.783. Mr. Leiber concluded the presentation by reviewing a six-year projection of the revenue requirement/GMC. Discussion followed.

Public Comment

No public comment was offered at this time.

Board Decision

In response to an inquiry from Governor Gage, Mr. Leiber provided an update on the financing situation for the new facility. Governor Page inquired about the post-MRTU process. Mr. Berberich responded that the ISO had provided for all of the processes that exist for MRTU go live. Mr. Mansour commented that after MRTU go live, MRTU staff would switch focus from implementation to transition during the remainder of 2009. Discussion followed.

Motion

Governor Gage:

MOVED, that the ISO Board of Governors approves the 2009 O&M and Capital/Project Budgets as set forth in the memorandum dated December 8, 2008, and related attachments.

That the ISO Board of Governors authorizes Management to take all necessary and appropriate action to implement the pre-MRTU Grid Management Charge (GMC) rates reflecting the 2009 Budgets consistent with the rate categories set forth in the extension of the

2004-2008 GMC Settlement Agreement filed with FERC in October 2008; and

That the ISO Board of Governors authorizes Management to implement the post-MRTU 2009 GMC rates consistent with the GMC under MRTU rate structure proposal presented to the Board on December 13, 2007, and currently pending FERC approval.

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

DECISION ON CREDIT POLICY ENHANCEMENTS; AND DECISION ON PAYMENT ACCELERATION

Phil Leiber, Chief Financial Officer and Treasurer, began the joint presentation on proposed credit policy enhancements and payment acceleration by reviewing the recently concluded stakeholder process on the credit policy proposal. Mr. Leiber noted the proposed credit policy revisions modified the rules to reduce unsecured credit limits and how they were set, changed the form of guarantees acceptable to the ISO, and added additional measures to reduce credit risk. Mr. Leiber noted that stakeholders generally agreed with Management's proposal but that many wanted further tightening of credit standards. Mr. Leiber described why net creditors believed they bore a disproportionate amount of the risks. In response to an inquiry from Governor Doll, Mr. Leiber stated that there have not been any defaults and that the ISO did not foresee any market participants leaving the market should the proposal be implemented.

Mr. Leiber continued his presentation by noting that Management was also requesting a decision on payment acceleration. Mr. Leiber noted the proposal was needed to further address credit concerns and to enhance efficiency. Mr. Leiber stated the proposal provided for a reduction in the average cash clearing time from approximately 80 to 25 calendar dates for initial settlement statements. Mr. Leiber noted that interest would be charged on the difference between initial settlements and the first two true-up statements. Mr. Leiber stated that the interest helped to ensure that no financial incentives existed to submit unreasonable estimates. Mr. Leiber noted that market participants generally supported the proposal but that they were divided regarding the need for interest charges and that some believed the implementation plan was too aggressive. Mr. Leiber concluded by noting that the implementation workshops were scheduled to begin in January 2009 and that the workshops would further define the implementation plan and exit criteria. Brief discussion followed.

Public Comment

Ali Yazdi, with Powerex, provided comments on the credit policy proposal and noted that credit had remained the top concern throughout the MRTU stakeholder processes. Mr. Yazdi provided an overview of the letter submitted by Powerex and requested an immediate reduction of the unsecured credit limit of \$50 Million. Mr. Yazdi also provided comments on the loss-sharing mechanism. Discussion followed.

Mark Smith, with Calpine, provided comments in support of Management's credit policy and payment acceleration proposals. Mr. Smith noted that Calpine would begin participating in the ISO market once payment acceleration was implemented. Mr. Smith stated that the credit policy proposal was headed in the right direction.

Steve Williams, with San Diego Gas & Electric Company, provided comments in support of payment acceleration. Mr. Williams noted that SDG&E was opposed to credit enhancement prior to the implementation of payment acceleration and requested that the Board defer the proposed credit policy enhancements to mid-2009.

Discussion followed and Chairman Willrich requested further updates to the Board throughout the implementation of MRTU. Governor Capuano commented that the credit proposal reflected a good compromise at this time and concurred that continued monitoring was important. Discussion followed.

Brian Hitson, with Pacific, Gas & Electric Company, provided generally supportive comments on Management's payment acceleration proposal and discussed fine-tuning of a few issues. Mr. Hitson also provided generally supportive comments on Management's credit policy proposal and noted that the tightening of polices was well-timed. Mr. Hitson noted that PG&E supported the change to \$150 million and commented that the further reduction to \$50 million would be premature.

In response to an inquiry from Governor Doll regarding default allocations, Mr. Hitson stated that he was not convinced the change in methodology allocation was warranted. Further discussion followed regarding the timing associated with the two proposals with regard to the stakeholder process and implementation.

Board Decision

Discussion ensued regarding modification of the motion language regarding the timing of payment acceleration filing at the Federal Energy Regulatory Commission. The motion language was modified to reflect that the filing should be made on or before May 1, 2009. Chairman Willrich confirmed that the minutes would reflect that Management would continue to monitor the impact of the payment acceleration and credit policy proposals, including default allocation and the unsecured credit limit, and would report back to Board as necessary.

Motion – Payment Acceleration

Governor Gage:

Moved, that the ISO Board of Governors approves the proposal to accelerate the settlement schedule, as detailed in the memorandum dated December 8, 2008, and

Moved, that the ISO Board of Governors directs Management to make all necessary and appropriate filings with the Federal Energy Regulatory Commission on or before May 1, 2009.

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

Motion - Credit Policy

Governor Gage:

Moved, that the ISO Board of Governors approves the proposed credit policy enhancements, as detailed in the memorandum dated December 8, 2008, and

Moved, that the ISO Board of Governors approves a further reduction in the maximum unsecured credit limit to \$50 million upon implementation of Payment Acceleration, and

Moved, that the ISO Board of Governors authorizes Management to make all necessary and appropriate filings with the Federal Energy Regulatory Commission to implement the proposed credit policy enhancements.

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

DECISION ON INVESTMENT POLICY

Phil Leiber, Chief Financial Officer and Treasurer, began his presentation by noting that the investment policy was last reviewed in 2005. Mr. Leiber stated that the current policy was sound overall but that certain improvements were warranted. Mr. Leiber noted that an outside expert consultant was enlisted to take part in the review. Mr. Leiber stated that two proposed areas of change included administrative updates and enhancements to controls and safeguards. Mr. Leiber provided an overview of the third category of proposed changes that specified the types of investments that the ISO could or could not purchase. Mr. Leiber noted that it was Management's recommendation to retain the ability to invest in corporate bonds. Mr. Leiber noted for the record that an updated copy of the investment policy was provided to the Board at the meeting and briefly reviewed the edits made in the newer version. Discussion followed regarding the use of the term market participant and it was noted that Management's recommended use of the term was consistent with FERC policy.

Governor Gage inquired about percentage limits in terms of holdings. Mr. Leiber responded that this was reviewed carefully and some changes were made but major changes were not needed overall. Governor Gage provided further suggestions as to how the ISO could utilize an outside investment advisor.

Public Comment

No public comment was offered at this time.

Board Decision

Motion

Governor Gage:

Moved, that the ISO Board of Governors approves the changes to the ISO's investment policy, as detailed in the memorandum dated December 8, 2008, and as presented at the meeting.

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

INFORMATIONAL REPORTS

Governor Gage inquired about a spike in volume of unaccounted for energy on the graph on page 5 of the operations report. Mr. Detmers provided responding comments and noted that the source of the June and July was investigated but that it could not be tied back to the settlement process. Mr. Detmers stated that this matter would be taken back to the market participants for further analysis.

ADJOURNED

There being no additional general session items to discuss, the general session of the ISO Board of Governors meeting was adjourned at approximately 12:00 p.m.