

**GENERAL SESSION MINUTES
ISO BOARD OF GOVERNORS MEETING
September 12, 2013
ISO Headquarters
Folsom, California**

September 12, 2013

The ISO Board of Governors convened the general session meeting at approximately 1:00 p.m. and the presence of a quorum was established.

ATTENDANCE

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

Bob Foster, Chair
Ash Bhagwat
Angelina Galiteva
David Olsen

The following members of the officer team were present: Steve Berberich, Eric Schmitt, Keith Casey, Petar Ristanovic, Mark Rothleder, Karen Edson, Nancy Saracino, and Greg Fisher, Corporate Secretary

GENERAL SESSION

The following agenda items were discussed in general session:

PUBLIC COMMENT

Michael Garabedian, on behalf of the Sierra Club, provided comments regarding the ISO's planning assumptions and further discussed the following handouts: "CAISO Peak Load in Megawatts" graph, August 29, 2013 letter from Sierra Club to the ISO regarding energy peak demand projections and natural gas assumptions, July 29, 2013 Joint Comments of the California Environmental Justice Alliance and Sierra Club California in CEC Docket No. 13-IEP-1D Workshop, and the July 29, 2013 Draft Report titled "Meeting California's Electricity Needs without San Onofre or Diablo Canyon Nuclear Power Plants." Brief discussion followed and Chairman Foster stated that the Board was aware of the importance of these issues and that ISO staff would continue to brief the Board on the issues.

Kevin Davis, on behalf of the AV Clearview Transmission Project, provided comments regarding the status of the ISO's ongoing evaluation of the AV Clearview and the Coolwater-Lugo transmission projects. Mr. Davis provided a background overview of the planning process that led to the CPCN application submitted to the CPUC in late August.

DECISION ON GENERAL SESSION MINUTES

Governor Galiteva moved for approval of the Board of Governors general session minutes for the July 11, 2013 meeting. The motion was seconded by Governor Olsen and approved 4-0-0.

CEO REPORT

Steve Berberich, President and CEO, provided an overview of the following sections of his CEO report: overall conditions, San Onofre working group, energy imbalance market and renewable generation. He noted appreciation for the responsiveness of the public to the Flex-Alerts that were declared in early July. Regarding renewable generation, he highlighted the increase of the solar generation peak of 2,573 megawatts compared to approximately 1000 megawatts last year around this time.

DECISION ON 2014-2016 STRATEGIC PLAN

Steve Berberich, President and CEO, provided an overview of the 2014-2016 strategic plan titled "Building a Sustainable Energy Future" and noted the ISO decided to create a three-year strategic plan rather than a five-year plan to better align with State policy timelines the ISO's internal processes. He noted his appreciation to the Board for its engagement in strategic planning as well as guidance and input on the plan. He provided an overview of the opening message in the plan from the Board and further discussed the following three strategies: lead the transition to renewable energy, reliably manage the grid during industry transformation, and expand regional collaboration to unlock mutual benefits. Discussion followed and Board members provided positive feedback on the planning process and resulting plan.

There was no public comment on this item.

Motion

Governor Galiteva:

Moved, that the ISO Board of Governors approves the ISO's Three-Year Strategic Plan for 2014-2016, titled "Building a Sustainable Energy Future" and directs Management to proceed with implementation of the plan.

The motion was seconded by Governor Foster and approved 4-0-0.

DECISION ON FERC ORDER No. 764 MARKET CHANGES

Greg Cook, Director – Market and Infrastructure Policy, provided the Board with an overview of Management’s proposal regarding the proposed protective measure associated with the participating intermittent resource program. Mr. Cook noted that FERC Order No. 764 accelerated necessary market design changes. He provided a background overview and stated that since 2010, the ISO and stakeholders had worked to orient the market design around variable energy resources. He described how the proposed design would provide variable energy resources with more granular and accurate 15-minute scheduling opportunities and would reduce exposure to the 5-minute market. Mr. Cook reminded the Board that Management had previously committed to consider offering protective measures for older technology resources. He provided an overview of the July briefing to the Board and noted that 19 requests for protective measures had been received at that time. He provided an update on the status of the IOU contract negotiations and noted that SCE and SDG&E were optimistic that contract revisions could be timely implemented but that PG&E noted negotiations were on hold pending the outcome of this Board decision.

Mr. Cook then provided an overview of the ISO’s proposed protective measure for qualifying resources. He provided an overview of the three qualifying criteria that resources would need to meet and noted the protective measure would be provided for a limited transition period of three years. He stated that the stakeholder process was complete and that stakeholders remained divided on the proposed protective measure. He recommended that the Board approve the proposed protective measure as it would provide a limited transition period for resources unable to respond to ISO dispatch, it would incentivize participation in the market under FERC Order No. 764 design changes, and it would minimize implementation cost by leveraging existing PIRP settlement and allocation.

Public comment

Joe Karp, on behalf of California Wind Energy Association, provided comments in support of establishing a protective measure but noted concerns with the proposed qualifying criteria and requested that it be expanded to include resources that were contractually prohibited from effectively operating under the new market structure. Mr. Karp noted additional concerns with the proposal and requested that the transition period go beyond three years.

Steven Kelly, on behalf of IEP, provided comments in support of establishing a protective measure but noted concerns with the proposed qualifying criteria and requested that it be expanded to include resources that were contractually prohibited from effectively operating under the new market structure. Mr. Kelly

requested additional transition assistance provisions for existing contracts throughout the duration of the contract.

Roy Kuga, on behalf of Pacific Gas and Electric Company, provided comments in support of the proposed market design improvements necessary to comply with FERC Order No. 764, but requested that the ISO not interfere with contract negotiations by implementing special protective measures for resources with existing contracts as well as qualifying facilities.

Eric Little, on behalf of Southern California Edison, provided comments on Management's proposal, commended the ISO stakeholder process and noted the ISO initially informed stakeholders that PIRP was going away in July 2010. Mr. Little noted that SCE had resolved its contract issues at the request of the Board and was concerned that SCE would have to sustain additional cost allocation fees.

Discussion ensued and the Board requested that Management provide further information on why the protective measure should not apply to existing contracts. Mr. Cook provided responsive comments and further described how it was initially considered, but Management determined it would reduce incentives for restructuring contracts, therefore it was not proposed. Keith Casey, Vice President of Market and Infrastructure Development, further described how each party to the contract was equally incentivized to revisit the contract provisions and work it out amongst themselves. Discussion followed regarding the mechanics of contract negotiations, with the stakeholder commenters providing additional information.

Mr. Kuga provided additional comments and stated that PG&E was willing to renegotiate the targeted provision but that it was likely the generators would open up the pricing components of the contract. He advised the Board not to get involved with contracting issues and noted that a modernized power purchase agreement was not a one-size-fits-all contract. Mr. Karp provided additional comments and noted that additional contract provisions would need to be renegotiated and suggested the modernized power purchase agreement as a solution. He noted that the cost provisions could remain the same. Discussion ensued.

Nancy Saracino, Vice President and Chief Administrative Officer, provided comments and noted that the ISO could not dictate contractual terms between private parties. Discussion followed regarding the contract amendment process. Governor Bhagwat requested a briefing on the numbers to determine if the solution was working or if the transition period should be extended. Chairman Foster emphasized the importance of sending the signal that this was serious while still allowing a reasonable transition period. He noted that quarterly updates on the progress would be helpful. Governor Olsen requested that the ISO's commitment to reconsider extending the transition period should be included in the motion language. He also stated that the eligibility criteria were too restrictive. Mr. Casey

provided an overview of the required criteria and noted it was limited to those resources that were physically unable to comply with the dispatch requirements – not those that were contractually prohibited. Governor Galiteva noted the importance of one party not having an edge in negotiations. She suggested that if the protective measure was extended to resources that were contractually prohibited, that it be revisited in one year to determine if it was an effective solution.

Ms. Saracino read the proposed new motion provisions (paragraphs 2 and 3 in bold) for the record.

Moved, that the ISO Board of Governors approves the proposed intermittent resource transitional protective measure, as described in the memorandum dated September 5, 2013; and

Moved, that the ISO will monitor and report back to the Board semi-annually regarding the effect of the protective measure, and

Moved, that the ISO will evaluate in Spring 2015 whether the protective measure should be extended, 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 tariff change.

The motion was moved by Chairman Foster. Governor Olsen requested that the “contractually prohibited” language be added to the motion. Chairman Foster requested that Ms. Saracino read the proposed motion and offered that Governor Olsen could request an amendment after the proposed motion was on the table.

Ms. Saracino read the following proposed motion:

Moved, that the ISO Board of Governors approves the proposed intermittent resource transitional protective measure, as described in the memorandum dated September 5, 2013; and

Moved, that the ISO will monitor and report back to the Board semi-annually regarding the effect of the protective measure, and

Moved, that the ISO will evaluate in Spring 2015 whether the protective measure should be extended, 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 tariff change.

Governor Foster moved to approve the motion and Governor Maullin seconded the motion. Chairman Foster reemphasized that the Board could reconsider the “contractually prohibited” provision at any time. Prior to the vote on the proposed motion, Governor Olsen requested that it be amended to extend protective measures to resources which were contractually prohibited from responding to ISO dispatch signals.

Substitute Motion

Governor Olsen:

Moved, that the ISO Board of Governors approves the intermittent resource transitional protective measure proposal, as described in the memorandum dated September 5, 2013 and as modified by the Board at the September 12, 2013 meeting, and

Moved, that the ISO will monitor and report back to the Board semi-annually regarding the effect of the protective measure, and

Moved, that the ISO will evaluate in Spring 2015 whether the protective measure should be extended, and

Moved, that the protective measure will be extended to include resources which are contractually prohibited from responding to ISO dispatch signals; 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 tariff change.

The motion was seconded by Governor Galiteva and approved 3-2-0, with Governor Foster and Governor Bhagwat opposing.

DECISION ON REVISIONS TO PRICE CORRECTIONS

Guillermo Bautista Alderete, Manager – Market Validation & Quality Analysis, informed the Board that Management was proposing enhancements to three areas of the price correction process. He stated Management was proposing to adjust the time horizon for price corrections from five calendar days to three business days for the day-ahead market and five business days for the real-time market. He also stated that Management was proposing to include additional details in the tariff about the four types of processing and publication issues. He described how a weekly report containing details of price corrections would be posted a week after the completion of the corrections. He provided an overview of the stakeholder process and noted the proposal was generally supported. He concluded by

recommending that the Board approve the proposal as the proposed enhancements would provide greater price accuracy, transparency and clarity in the price correction process. He stated that implementation was targeted for spring 2014. Brief discussion followed.

Public comment

Mark Smith, on behalf of Calpine, provided comments in support of Management's proposed revisions to the price correction process.

Governor Bhagwat:

Moved, that the ISO Board of Governors approves the proposed tariff change to implement the enhancements to the ISO price correction processes as described in the memorandum dated September 5, 2013; 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 proposed tariff change.

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

DECISION ON INTERCONNECTION PROCESS ENHANCEMENTS FOR QUEUE MANAGEMENT

Keith Casey, Vice President of Infrastructure and Market Development, acknowledged the public comment letter from Large Scale Solar Association. He informed the Board that Management was proposing to modify the motion language to address LSA's concerns regarding the provision around suspension rights for serial projects.

Debi Le Vine, Director of Infrastructure Contracts & Management, provided the Board an overview of Management's proposed interconnection process enhancements for queue management. Ms. Le Vine noted that the interconnection process enhancements initiative addressed 15 topics, seven of which were before the Board at this meeting. She noted that the seven topics were largely administrative in nature and that stakeholders supported bringing these to the Board prior to completion of the initiative. She provided an overview of the seven topics under consideration and noted that resolution of these topics would improve the ISO's ability to administer the interconnection queue more efficiently. Ms. Le Vine informed the Board that there was broad support for the majority of the proposal but that a few concerns remained. She then provided an overview of the remaining concerns and noted that the proposal had been refined to address many of the stakeholders' comments and concerns. Brief discussion followed.

There was no public comment on this item.

Motion

Governor Galiteva:

Moved, that the ISO Board of Governors approves the proposal for queue management changes, as described in the memorandum dated September 5, 2013, except for the proposal regarding suspension rights for serial projects; 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 tariff change.

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

DECISION ON CONDITIONAL APPROVAL TO EXTEND EXISTING RELIABILITY MUST-RUN CONTRACTS FOR 2014

Neil Millar, Executive Director of Infrastructure Development, provided the Board with an overview of Management's proposal to authorize Management to conditionally approve to extend existing reliability must-run contracts for 2014. Mr. Millar stated that reliability must-run designations were conditionally extended because resource adequacy capacity from one specific unit may not be contracted by a load serving entity and there was a reliability need in the local area as determined by ISO studies. He also reviewed the situations where the ISO might make the determination to go beyond the existing resource adequacy contract to request a reliability must-run designation. Mr. Millar provided an overview of the resource adequacy process timeline that concluded with letters for reliability must-run extensions or terminations being sent to resource owners on October 1, 2013. He requested that the Board authorize Management to extend existing reliability must-run contracts for 2014, conditional upon the results of resource adequacy showings process for the Oakland combustion turbines and the Huntington Beach 3 & 4 synchronous condensers. He stated that Management would report back the results at the November Board meeting.

There was no public comment on this item.

Governor Olsen:

Moved, that the ISO Board of Governors authorizes Management to extend reliability must-run contracts for any of the reliability must-run units listed on Attachment 1, consistent with the criteria described in the memorandum dated September 5, 2013.

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

BRIEFING ON MARKET PERFORMANCE

Nan Liu, Manager – Market Development and Analysis, provided the Board with an update on market performance and noted that the market performed well last quarter and improved in several areas. He stated that real-time average prices were lower than day ahead from March to July and higher than day ahead in August. He noted the total real time congestion offset and imbalance energy offset were lower than last year and that bid cost recovery cost peaked in May but had since declined. Mr. Liu noted that the total exceptional dispatch as percent of load was lower than in 2012 and further described efforts underway to improve exceptional dispatch. He noted that software issues related to database model promotion resulted in a higher number of price corrections in July. Mr. Liu informed the Board that Management would continue to review and refine the residual unit commitment process to better reflect the renewable expectations and improve load forecast accuracy.

INFORMATIONAL REPORTS

Nancy Saracino, Vice President and Chief Administrative Officer, provided highlights of FERC's July 30, 2013 order approving a stipulation and consent agreement between FERC's Office of Enforcement and JP Morgan. She noted that JP Morgan agreed to pay a civil penalty of \$285,000,000 and informed the Board that the ISO had received \$124,000,000 that had been fully paid back out to ratepayers as of September 4, 2013. Ms. Saracino commended the efforts of FERC enforcement staff, as ratepayers received full recovery from JP Morgan.

There were no additional questions or comments on the following informational reports: legislative and state regulatory update, business practice manual change management report, Department of Market Monitoring update, Market Surveillance Committee update, and master stakeholder engagement and release plans.

ADJOURNED

There being no additional general session matters to discuss, the general session was adjourned at approximately 4:00 p.m.