

GENERAL SESSION MINUTES BOARD OF GOVERNORS MEETING September 6 - 7, 2007 ISO Headquarters Folsom, California

September 6, 2007

Mason Willrich, Chair of the Board of Governors, called the meeting to order at approximately 10:10 a.m. Roll call was taken and the presence of a quorum was determined.

ATTENDANCE

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

Mason Willrich, Chair
Tim Gage
Elizabeth Lowe
Linda Capuano
Tom Page

GENERAL SESSION

The following agenda items were discussed in general session:

PUBLIC COMMENT

No public comment was provided at this time.

DECISION ON MINUTES

Governor Gage moved for the approval of the Board of Governors general session minutes for July 18, 2007. Motion seconded by Governor Lowe, and approved 5-0-0.

CEO REPORT

Yakout Mansour, President and Chief Executive Officer, reported on his updated CEO Report dated September 5, 2007. Mr. Mansour provided highlights of events that have affected the CAISO since the last Board meeting. Mr. Mansour provided an update on the Market Redesign & Technology Upgrade (MRTU) Program and discussed the prior announcement regarding March 31, 2008 as the new implementation date for MRTU. Mr. Mansour noted that the addition of 60 days to the schedule was to ensure that sufficient time was allotted for market simulations and testing and was not indicative of any significant problems. Mr. Mansour reviewed the operational update section of his report and discussed the recent heat wave. Mr. Mansour concluded his presentation by noting that the informational Board memo on the GMC rate adjustment was no longer applicable due to increased revenues from the late summer heat wave. Further discussion followed.

Chairman Willrich noted the Board's acknowledgement of support of Management's decision to change MRTU implementation to March 31, 2008.

DECISION ON PROPOSAL TO ADDRESS POTENTIAL LOAD UNDERSCHEDULING

Proposal

Chuck King, Vice President – Market Development & Program Management, provided an introduction of the proposal noting that the Board was briefed at the July Board meeting. Mr. King reviewed the proposal and stated it represented a balance among stakeholder interests. Mr. King provided an update of the stakeholder process since the July Board meeting. Mr. King reviewed Management's recommendations for Bright Line Trigger and Small Load Exemptions and concluded by providing an overview of stakeholder positions on the two recommendations. Brief discussion followed.

Public Comment

Sue Mara, Alliance for Retail Markets, provided supporting comments on Management's recommendations noting that the proposal was reasonable and balanced.

Carolyn Kehrein, on behalf of California Manufactures & Technology Association and Energy Users Forum, provided supporting comments on Management's proposal.

Further discussion followed regarding the stakeholder positions.

Governor Capuano acknowledged previous stakeholders comments regarding access to the Board and noted that this forum was the opportunity for stakeholders to provide such comments.

Board Decision

Motion:

Governor Gage:

Moved, that the ISO Board of Governors approve the "Proposal to Address Potential Load Underscheduling Until Implementation of Convergence Bidding," as outlined in the memorandum dated August 29, 2007, and related attachments; and

That the ISO Board of Governors authorize Management to make all the necessary and appropriate filings with the Federal Energy Regulatory Commission to implement this proposal.

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

DECISION ON CONDITIONAL APPROVAL TO EXTEND EXISTING RMR CONTRACTS FOR 2008

Proposal

Gary DeShazo, Director of Regional Transmission North, reviewed the reasons why Reliability Must Run designations will be managed in relation to the CPUC's resource adequacy proceeding. Mr. DeShazo reviewed the timeline that ended with letters for RMR extensions or terminations to be sent to resource owners on October 1, 2007. Brief discussion followed regarding the Board's delegation of discretionary authority to Management. Governor Lowe requested an update at the next Board meeting.

Public Comment

No public comment was offered at this time.

Board Decision

Motion:

Governor Lowe:

That the ISO Board of Governors authorize Management to extend the Reliability Must Run Contracts for any RMR Unit listed in Attachment 1 for any reason described in the memorandum dated August 29, 2007; and

That the ISO Board of Governors authorize Management to terminate the RMR Contracts of those units determined by Management to be no longer necessary as result of the Preliminary Local Resource Adequacy procurement decisions, effective January 1, 2008.

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

BRIEFING ON MARKET PERFORMANCE REPORT

Alan Isemonger, Manager – Market Information, provided highlights related to market performance in June 2007. Mr. Isemonger provided an overview of market highlights including review of monthly market performance metrics for 2007, the balancing energy perspective, real time balancing energy prices, cost of balancing energy, ancillary service markets, resource adequacy unit commitment costs, FERC must offer obligation costs, and inter-zonal congestion costs. Further discussion followed regarding the timeliness of the information contained in the report. The Board requested that Management consider what market information would be available at the time of the meetings while taking into consideration any disclosure requirements or policies, and to come back to the Board with the optimal approach with regards to Board presentations.

BRIEFING ON PRICE BEHAVIOR IN THE CALIFORNIA ISO BALANCING ENERGY MARKET

Alan Isemonger, Manager – Market Information, provided a historical background of the report entitled “Price Behavior in the California ISO Balancing Energy Market”, dated July 12, 2007. Mr. Isemonger discussed the nature of the balancing market and balancing energy volume and pricing. Mr. Isemonger reviewed characterizing price events and discussed the legitimacy of price spikes as well as conditions that create short duration spikes. Mr. Isemonger provided an overview of ramp underestimations and the mitigation of ramp underestimation in MRTU. Mr. Isemonger concluded his presentation by discussing predispatch declines and reviewing highlights of the report. The Board made inquiries on various aspects of Mr. Isemonger’s report. Discussion followed.

RECESSED

There being additional general session items to discuss, the general session of the Board of Governors was recessed at approximately 12:10 p.m.

RECONVENED

Mason Willrich, Chair of the Board of Governors, reconvened the meeting at approximately 2:20 p.m. Roll call was taken and the presence of a quorum was determined.

ATTENDANCE

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

Mason Willrich, Chair
Tim Gage
Elizabeth Lowe
Linda Capuano
Tom Page

DECISION ON BID CAPS FOR START-UP AND MINIMUM LOAD BIDS UNDER MRTU

Proposal

Eric Hildebrandt, Manager – Market Analysis & Mitigation, provided an introduction of the proposal noting that the Board was briefed at the July Board meeting. Mr. Hildebrandt reviewed the two options, under the MRTU tariff, for start-up and minimum load bids: Cost-based and bid-based. Mr. Hildebrandt stated that the lack of any limit on start-up and minimum load bids had been identified as a gap in MRTU rules that needed to be addressed. Mr. Hildebrandt reviewed the proposed tariff changes as related to bid cap levels and provisions for gas price increases. Mr. Hildebrandt reviewed benchmarking with other ISO’s and concluded by providing an overview of Stakeholder comments. Discussion followed.

Public Comment

Brian Hitson, with Pacific Gas & Electric, provided supporting comments on Management's proposal as an interim measure.

Market Surveillance Committee

Frank Wolak, Chairman of the Market Surveillance Committee, provided a brief overview of the MSC's Opinion on "Start-Up and Minimum Load Bid Caps under MRTU", dated August 20, 2007.

Board Decision

Further discussion followed regarding cost-based and market-based approaches.

Motion:

Governor Lowe:

Moved, that the ISO Board of Governors authorize Management to make all necessary and appropriate filings with the Federal Energy Regulatory Commission to establish caps on start-up and minimum load bids under MRTU as described in the memorandum dated August 29, 2007.

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

ADR/AUDIT COMMITTEE UPDATE

Governor Gage, Chair of the ADR/Audit Committee, recommended that the Board accept the audited financial statements of the CAISO Retirement Savings Benefits Plan for the years ended December 31, 2006 and 2005, as accepted for recommendation to the Board earlier by the ADR/Audit Committee.

Motion:

Governor Page:

Moved, that the ISO Board of Governors accept the audited financial statements of the CAISO Retirement Savings Benefits Plan for the years ended December 31, 2006 and 2005.

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

BRIEFING ON BOARD SELECTION PROCESS

Nancy Saracino, Vice President, General Counsel & Corporate Secretary, provided an overview of the Board Selection process and noted that Larry Klock with Russell Reynolds Associates, had been selected as the independent search consultant. Ms. Saracino stated that four candidates would be identified for each open Board seat and noted that Chairman Willrich's and Governor Lowe's terms would expire at the end of the year. Ms. Saracino provided a general overview of the Board Nominee Review Committee process and concluded by noting that the ranked list would be provided to the ISO by Mr. Klock for submittal to the Governor by December 1, 2007.

POTENTIAL DISCUSSION REGARDING INFORMATIONAL REPORTS

Governor Lowe inquired about FERC's August 29, 2007 decision regarding the Congestion Revenue Rights policy tariff amendment, as described in the Regulatory Report. Sidney Davies, Assistant General Counsel – Tariff, provided an update in response to the inquiry.

There were no additional questions regarding the informational reports.

NEW GENERAL SESSION BUSINESS ISSUES AND FUTURE AGENDA ITEMS

There were no new general session business issues.

ADJOURNED

There being no additional general session items to discuss, the general session of the Board of Governors was adjourned at approximately 3:00 p.m.