

**GENERAL SESSION MINUTES
ISO BOARD OF GOVERNORS MEETING
May 17-18, 2010
ISO Headquarters
Folsom, California**

May 17, 2010

Mason Willrich, Chair of the ISO Board of Governors, convened the general session meeting at approximately 1:00 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
Laura Doll
Kristine Hafner
Tom Habashi
Bob Foster

The following members of the officer team were present: Yakout Mansour, Steve Berberich, Jim Detmers, Karen Edson, Keith Casey, Brenda Thomas and 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 Doll moved for the approval of the ISO Board of Governors general session minutes for March 25-26, 2010. The motion was seconded by Governor Hafner, and approved 5-0-0.

CEO REPORT

Yakout Mansour, President and Chief Executive Officer, provided the Board with an overview of several highlights from the 2009 Market Issues and Performance Report. Mr. Mansour provided a status update on recent deployments of new market functionalities, including

ancillary services procurement in the hour-ahead scheduling process, deployed on April 1, and forbidden operating regions, deployed on April 15.

Mr. Mansour next provided the Board with an overview of the transmission planning process and the collaboration needed between the ISO and other planning authorities. Mr. Mansour described the characteristics of the transmission projects approved in recent years and noted that if the renewable generation expected to interconnect to these projects materialized, their production, coupled with output from other existing renewable resources, would meet the 20% renewable portfolio standard goal. Mr. Mansour also discussed the challenges associated with the 33% renewable portfolio standard goal. Mr. Mansour announced the May 13, 2010 signing of a Memorandum of Understanding between the California Public Utilities Commission and the ISO regarding the revised transmission planning process.

Mr. Mansour concluded his report by discussing the 2010 summer assessment and noted that supply for summer 2010 was adequate to handle a broad range of conditions but that system operations may nonetheless be challenged if extreme conditions occur.

Brief discussion followed regarding the implementation status of proxy demand resource and Mr. Berberich noted that implementation was planned for August 2010.

DECISION ON POST-FIVE DAY PRICE CORRECTION PROCESS

Nancy Traweek, Director of Market Services, provided the Board with an overview of Management's proposal regarding the post-five day correction process. Ms. Traweek noted that the initiative addressed the need for greater price certainty and transparency. Ms. Traweek discussed the stakeholder process and noted that stakeholders provided feedback that price certainty was extremely important. Ms. Traweek reviewed the various options that were considered and noted that most participants agreed that any price corrections after five days would not provide the price certainty required. Ms. Traweek reviewed the key components of the proposal and provided an overview of the benefits of the proposal. Ms. Traweek stated that Management would address data processing issues that resulted in reposting of prices. Ms. Traweek concluded her presentation by noting that formalization of the post-five day correction provisions was targeted for September 2010.

No public comment was offered at this time. Brief discussion followed regarding shortening of the window in the future to less than five days. Ms. Traweek noted it was a possibility and that it would be reviewed on an annual basis. Brief discussion followed regarding the number of price corrections within the five-day period.

Motion

Governor Habashi:

Moved, that the ISO Board of Governors approves the proposed tariff changes regarding post-five day price corrections, as detailed in the memorandum dated May 10, 2010; 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 Foster, and approved 5-0-0.

DECISION ON STANDARD CAPACITY PRODUCT II

Briefing

Keith Casey, Vice President, Market and Infrastructure Development, provided introductory comments on the proposal and noted that concerns surrounding implementation of the first phase of standard capacity product would be resolved prior to implementation of the current proposal before the Board. Greg Cook, Director of Market and Infrastructure Policy, provided the Board with an overview of Management's standard capacity product proposal. Mr. Cook stated that the standard capacity product provided standard availability measures for resource adequacy resources. Mr. Cook provided an overview of resources that were currently exempt from standard capacity product provisions.

Mr. Cook reviewed a diagram that described how the proposed availability calculation was based on proportional de-rate of capacity and actual energy delivered. Mr. Cook provided an overview of the proposed tariff language modifications to the standard capacity product tariff language. Mr. Cook stated that the proposed standard capacity product enhancements were targeted to be in place for the 2011 resource adequacy compliance year. Mr. Cook noted that most stakeholder concerns were centered around application of the availability standard but that the proposal provided a well-balanced approach. Mr. Cook concluded his presentation by noting that the ISO was working with stakeholders to address implementation concerns with phase 1 of the standard capacity process.

Nancy Saracino, Vice President, General Counsel and Corporate Secretary, acknowledged receipt of a public comment letter on behalf of the Cogeneration Association of California (CAC). Ms. Saracino noted that Management had revised the stakeholder matrix to address CAC's concerns and that the memo should have been corrected to reflect the same.

Public Comment

Brian Theaker, on behalf of Dynegy, commended staff on the process and provided comments in support of the decision to defer consideration of the schedule outage replacement rule. Mr. Theaker provided further comments and noted concerns regarding the applicability of the proposal to intermittent resources.

Susan Schneider, on behalf of California Wind Energy Association and Large-scale Solar Association, provided comments concerning how qualifying capacity numbers are determined. Ms. Schneider provided further concerns regarding the de-rate and grandfathering provisions.

Doug Parker, with Southern California Edison, provided congratulatory comments on a successful first year of the new market as well as comments commending the Department of Market Monitoring's annual report. Mr. Parker acknowledged SCE's written comments and provided further comments regarding concern with implementation of the proposal. Brief discussion followed regarding implementation of phase 1. Mr. Parker noted that SCE supported the phase 2 proposal and requested that focus continued to address the phase 1 concerns. Discussion followed and Mr. Mansour provided comments regarding lessons learned.

Discussion ensued and Dr. Casey noted in response to the public comment that a balanced set of comments had been received. Dr. Casey provided further comments to address stakeholder concerns. Mr. Cook provided clarifying comments regarding the date associated with the grandfathering provisions and further addressed stakeholder concerns. Discussion followed regarding the grandfathering provisions and Mr. Cook confirmed the provisions would become effective upon FERC's approval of the proposal. Ms. Schneider provided further comments. Discussion followed regarding the process used in evaluating the fleet average and penalties associated with forced outages. Management noted that the penalty concern would be reevaluated if necessary.

Motion

Governor Habashi:

Moved, that the ISO Board of Governors approves the policy to implement the second phase of standard capacity product and approves the modifications to existing resource adequacy rules, as detailed in the memorandum dated May 10, 2010; 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 Foster, and approved 5-0-0.

BRIEFING ON MARKET 2009 ANNUAL REPORT ON MARKET ISSUES AND PERFORMANCE

Eric Hildebrandt, Director of Market Monitoring, provided the Board with an overview of the 2009 annual report on market issues and performance. Dr. Hildebrandt stated that total wholesale costs had decreased primarily due to a drop in gas prices and noted that the new market design also contributed to lowered costs. Dr. Hildebrandt stated that day-ahead and real-time prices had been about equal to a perfectly competitive baseline and that ancillary service costs had decreased due to co-optimization. Dr. Hildebrandt noted that bid cost recovery uplift payments and the number of units impacted by local market power mitigation procedures had been relatively low. Dr. Hildebrandt stated that the month-ahead resource adequacy capacity showing exceeded system and local requirements. Dr. Hildebrandt noted that over 2,400 MW of new generation capacity was added in 2009, including 86 MW of renewables. Discussion followed regarding the importance for the ISO and CPUC to work together to ensure adequate

safety nets were in place to ensure sufficient capacity was built for reliability. Discussion ensued regarding the use convergence bidding in the market. Dr. Hildebrandt concluded his presentation by providing an overview of DMM's recommendations with regard to market power mitigation and market design issues. Discussion followed regarding the findings and the Board commended Dr. Hildebrandt on the report and noted that an executive summary in future reports would be of value.

DECISION ON REFINEMENTS TO CONGESTION REVENUE RIGHTS PROCESS

Margaret Miller, Manager, Market Design and Regulatory Policy, provided the Board with an overview of Management's proposal to enhance congestion revenue rights. Ms. Miller stated that experience with the new market had led to the identification of enhancements to facilitate congestion revenue rights auction participation. Ms. Miller provided an overview of the following proposal components: revise load migration process, revise modeling and treatment of trading hubs in congestion revenue rights allocation, eliminate multi-point congestion revenue rights, refine tiers in monthly congestion revenue rights allocation, and create a new method for distributing reductions to congestion revenue rights nominations to mitigate congestion. Ms. Miller noted that the majority of stakeholders supported the modifications and that the proposal would increase ISO efficiency in administering congestion revenue rights. Discussion followed regarding the simulation process and Ms. Miller noted that the stakeholder process would be re-opened should the proposed approach be unsuccessful during simulation. Discussion followed regarding market solutions.

Motion

Governor Hafner:

Moved, that the ISO Board of Governors approves the proposal regarding the refinements of congestion revenue rights processes, as detailed in the memorandum dated May 10, 2010; 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 Foster, and approved 5-0-0.

BRIEFING ON 2010 SUMMER LOADS AND RESOURCES OPERATIONS PREPAREDNESS ASSESSMENT

Bob Emmert, Lead Interconnection Services Engineer, provided the Board with an overview of the 2010 summer loads and resources operations preparedness assessment. Mr. Emmert noted that the summer assessment was a critical input to the summer preparedness activities and was based on a well-established methodology. Mr. Emmert reviewed a table that depicted the summer 2010 supply and demand outlook. Discussion followed regarding the forecasting

process. Mr. Emmert provided an overview of the key differences from the 2009 assessment results with regard to supply and demand. Mr. Emmert discussed several scenario forecasting tool diagrams. Mr. Emmert concluded his presentation by noting that the ISO had completed its annual summer preparedness meetings. Discussion followed regarding the importance of training as well as forecasting and operational assessments.

RECESSED

There being additional general session items to discuss, the general session of the ISO Board of Governors meeting was recessed at approximately 4:15 p.m.

May 18, 2010

RECONVENED

Mason Willrich, Chair of the ISO Board of Governors, reconvened the general session meeting at approximately 9:30 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
Laura Doll
Kristine Hafner
Tom Habashi

The following members of the officer team were present: Yakout Mansour, Keith Casey, Jim Detmers, Steve Berberich, Brenda Thomas, Karen Edson, and Nancy Saracino.

GENERAL SESSION

The following agenda items were discussed in general session:

PUBLIC COMMENT

No public comment was offered at this time.

ADR/AUDIT COMMITTEE UPDATE

Governor Hafner, Chair of the ADR/Audit Committee, recommended that the Board accept the audit of financial statements and FERC Form 1 for 2009, as already accepted by the ADR/Audit Committee.

MOTION

Governor Doll:

Moved, that the ISO Board of Governors (1) accepts the California Independent System Operator Corporation's financial statements for the years ended December 31, 2009 as audited by PricewaterhouseCoopers, and (2) accepts the corresponding Federal Energy Regulatory Commission's Form 1 as attached to the memorandum dated May 10, 2010, and as recommended by the ADR/Audit Committee.

The motion was seconded by Governor Willrich, and approved 4-0-1

DECISION ON MARKET RECALCULATION WINDOW

Governor Foster joined the meeting.

Brad Bouillon, Manager – Billing and Settlements, provided the Board with an overview of Management's proposal to modify the market recalculation window. Mr. Bouillon stated that the market recalculation window initiative was started in response to stakeholder questions. Mr. Bouillon noted that a processing timing gap currently existed between new market implementation and payment acceleration and that stakeholders requested predictability in closing out new market issues to avoid old market conditions. Mr. Bouillon concluded his presentation by noting that the proposal increased financial certainty, lowered overall credit exposure, and was generally supported by stakeholders. Brief discussion followed.

Motion:

Governor Habashi:

Moved, that the ISO Board of Governors approves the proposal to process and settle true-up adjustments for the trading period from April 1 through October 31, 2009, as detailed in the memorandum dated May 10, 2010; 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 Foster, and approved 5-0-0.

DECISION ON AUDIT COMMITTEE CHARTER AND ADMINISTRATION OF ALTERNATE DISPUTE RESOLUTION PROCESS

Nancy Saracino, Vice President, General Counsel and Corporate Secretary, provided the Board with an overview of the Committee member responsibilities under the current ADR/Audit Committee charter. Ms. Saracino discussed proposed revisions to the charter and noted the changes were consistent with corporate best practices. Ms. Saracino further clarified roles and responsibilities of Committee members and stated the proposed revisions would require a minor tariff amendment. Ms. Saracino stated that the revisions also resulted in a formal assignment of

responsibility for administering the alternative dispute resolution process to Management. Brief discussion followed regarding the proposed charter.

Motion:

Governor Habashi:

Moved, that the ISO Board of Governors approves the proposed revisions to the charter of the ADR/Audit Committee, as detailed in the memorandum dated May 10, 2010; and

Moved, that the ISO Board of Governors approves the proposal regarding changes to the administration of the alternative dispute resolution process, as detailed in the memorandum dated May 10, 2010; 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 Hafner, and approved 5-0-0.

DECISION ON INTERCONNECTION REQUIREMENTS REFORM FOR RENEWABLE RESOURCES

Proposal

Grant Rosenblum, Manager – Renewable Integration, provided the Board with an overview of Management’s proposal to refine interconnection requirements for renewable resources. Mr. Rosenblum noted that the proposed requirements promoted renewable development by maintaining future grid reliability. Mr. Rosenblum noted the proposed refinements were critical in helping to achieve the State’s renewable portfolio standards goals. Mr. Rosenblum described how the stakeholder process had been accelerated to align with interconnection study timelines that have been modified to accommodate operational and financing issues of renewable developers.

Mr. Rosenblum provided an overview of a graph that depicted the differences in existing and new standards for wind, solar thermal, solar PV and conventional resources. Mr. Rosenblum noted the proposed requirements account for commercial considerations by excluding certain renewable projects that have either entered into an existing interconnection contract with the ISO or have made other binding financial commitments. Mr. Rosenblum described the stakeholder process and stated that many, but not all, of the issues had been resolved. Mr. Rosenblum stated that the ISO intended to file with FERC in early to mid-June and that the filing would not disrupt execution of interconnection agreements. Mr. Rosenblum concluded his presentation by discussing two recent changes to the proposal in the Board memorandum related to the ride-through requirement and synchronous machines.

Public Comment

Ms. Saracino acknowledged receipt of the following two public comments letters: SunPower Corporation and Division of Ratepayer Advocates-California Public Utilities Commission

Jon Eric Thalman, on behalf of Pacific Gas and Electric, provided comments in support of Management's proposal and noted it was a reasonable and well-balanced proposal.

Darius Shirmohammadi, on behalf of California Wind Energy Association, provided comments on Management's proposal and stated that additional stakeholder process time had been needed. Mr. Shirmohamadi emphasized the importance of coordinating efforts with national and regional entities.

Steven Kelly, on behalf of Independent Energy Producers, provided comments on Management's proposal and noted concerns with process issues surrounding too short of a stakeholder process. Mr. Kelly requested a few modifications to the proposal.

Susan Schneider, on behalf of Large-scale Solar Association, provided comments on Management's proposal and stated that the proposal was immature as the stakeholder process was too short. Ms. Schneider provided further comments noting several concerns with the proposal.

Greg Blue, on behalf of SunPower, provided comments on Management's proposal and stated that the proposal was immature and needed to be further vetted in the stakeholder process. Mr. Blue provided cautionary remarks regarding expert reports and requested that the Board defer decision on the proposal.

David Branchomb, on behalf of Sierra Pacific Industries, provided comments regarding delays in the interconnection process and getting shovel ready projects online.

Hank Pielage, on behalf of the California Public Utilities Commission Division of Ratepayer Advocates, provided comments on Management's proposal and requested that the Board defer decision on the proposal.

Tom Flynn, on behalf of Southern California Edison, provided comments in support of Management's proposal. Mr. Flynn provided further comments and highlighted several components of the proposal and requested the Board approve the proposal.

Mark Smith, on behalf of Calpine, provided comments in support of Management's proposal and noted the importance of timing. Mr. Smith requested that the Board approve the proposal.

Board Decision

Discussion ensued and Dr. Casey acknowledged public comment remarks in the following areas: availability and feasibility of technology, whether the requirements should be applied to all generators, and the relation of non-conforming LGIAs to exempt projects. Mr. Rosenblum provided further comments in response to the public comment regarding whether the results of ongoing 33% renewables studies constituted necessary inputs to the formulation of

interconnection requirements. Mr. Rosenblum also addressed concerns regarding exemptions and the large generator interconnection agreements process.

Reigh Walling, with General Electric Energy consulting group, provided the Board with an overview of his independence from the manufacturing division of General Electric. Mr. Walling provided further comments on the availability of the various types of equipment and feasibility of the technology. Discussion followed and Mr. Walling addressed Board inquiries regarding costs and noted that the cost could be relatively low for non-wind resources.

Discussion ensued regarding the stakeholder process and the potential impact of a deferred Board decision to July. Dr. Casey responded that the urgency involved the projects in the current interconnection queue. Karen Edson, Vice President of Policy and Client Services, noted that the stakeholder process was accelerated as a result of the acceleration of the queue process to accommodate the timing of projects eligible for American Recovery and Reinvestment Act funding. Discussion followed regarding the applicability of the standards to all renewable resources. Jim Detmers, Vice President of Operations, provided further comments regarding the proposed technology.

Mr. Rosenblum addressed Board inquiries regarding cost recovery for unanticipated development expenses. Discussion ensued regarding the need for an accelerated process and the importance of having a process in place to address unanticipated costs.

Ms. Saracino acknowledged the modified motion language.

Motion:

Governor Doll:

Moved, that the ISO Board of Governors approves the proposal to modify existing tariff requirements to interconnect large generating facilities to the ISO controlled grid, as detailed in the memorandum dated May 10, 2010, and as modified by the Board on May 18, 2010; 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 Habashi, and approved 5-0-0.

DECISION ON REVISED TRANSMISSION PLANNING PROCESS

Proposal

Lorenzo Kristov, Principal, Market and Infrastructure Policy, provided the Board with an overview of Management's proposal for a revised transmission planning process. Mr. Kristov stated that a revision to the transmission planning process was needed in order to achieve the 33% renewable energy goal. Mr. Kristov provided an overview of the eight-month stakeholder process and noted that the final proposal addressed the following most contentious stakeholder

issues: opportunities for independents to build transmission, deciding between competing proposals, and expedient processing of interconnection agreements. Mr. Kristov reviewed a diagram that depicted the three-phase annual transmission planning process. Mr. Kristov noted that staff was reviewing draft tariff language with stakeholders and FERC and that a filing was planned for June 1, 2010. Mr. Kristov concluded his presentation by providing an overview of how the proposal would enable transmission development for 33% renewable energy.

Public Comment

Colette Kersten, on behalf of the California Public Utilities Commission, provided comments in support of Management's proposal and commended the stakeholder process, noting the proposal struck the right balance. Ms. Kersten presented Mr. Mansour with the signed Memorandum of Understanding between the ISO and CPUC.

Jim Avery, on behalf of San Diego Gas and Electric, provided comments in support of Management's proposal and noted the importance of certainty in a regulatory environment. Mr. Avery emphasized the importance of implementation of the proposal.

David Mead, on behalf of Southern California Edison, provided generally supportive comments on Management's proposal but noted concern regarding the backstop obligation to build provision. Mr. Mead stated that the proposal struck the right balance.

Tony Braun, on behalf of California Municipal Utilities Association, provided comments on the progress made in the area of transmission planning, including the work of the California Transmission Planning Group. Mr. Braun further commented in support of Management's proposal.

Governor Foster made comments in support of the proposal prior to departing the meeting.

Jenny Mueller, on behalf of Startrans IO, LLC, provided comments on Management's proposal and requested that the Board direct staff to make the transmission planning policy uniform, transparent and evenhanded. Ms. Mueller provided additional comments noting concerns with the proposal, including the right of first refusal provisions.

Garrett Evans, on behalf of Pittsburg Power Company, provided comments in support of Management's proposal and commended the stakeholder process and work from staff.

Christian Hackett, on behalf of Pattern Energy, provided comments in support of Management's proposal and commended the improvements to the proposal as it was vetted throughout the process.

Darius Shirmohammadi, on behalf of California Wind Energy Association, provided comments on the progress made in the area of transmission planning, including the work of the California Transmission Planning Group. Mr. Shirmohammadi provided comments noting concern with the proposal stating it was overly broad.

Susan Schneider, on behalf of Eagle Crest Energy, provided comments regarding importance of integration resources and requested that the ISO work with the California Transmission Planning

Group to develop a consistent process. Ms. Schneider providing further comments concerning timing associated with the interconnection process.

Susan Schneider, on behalf of Large-scale Solar Association, provided comments concerning the large generator interconnection process and requested that the ISO be transparent throughout the process.

Hank Pielage, on behalf of California Public Utilities Commission - Division of Ratepayer Advocates, provided comments on Management's proposal and emphasized the importance of cost consideration. Mr. Pielage provided comments noting concern with the proposal and stated the draft tariff language was overly broad.

P. J. Martinez, on behalf of Pacific Gas and Electric, provided comments in support of Management's proposal and noted it struck a fair balance. Mr. Martinez provided further comments commending the efforts of the California Transmission Planning Group.

Ms. Saracino acknowledged receipt of the following two public comment letters: California Municipal Utilities Association and a joint letter from Alameda Municipal Power, City of Palo Alto Utilities, and Silicon Valley Power.

Board Decision

Dr. Casey provided comments in response to the public comment and emphasized the importance of statewide efforts in the transmission planning process. Dr. Casey stated that Management was sensitive to cost concerns. Dr. Casey expressed appreciation to the stakeholders for compromises that were made throughout the process. Discussion followed regarding the backstop and right of first refusal provisions.

Discussed ensued regarding criteria and the level of detail in the proposed tariff language and business practice manual. Discussion followed regarding cost prevention language and American Recovery and Reinvestment Act project qualifications. Discussion followed and the Board acknowledged the efforts of the California Transmission Planning Group.

Motion:

Governor Habashi:

Moved, that the ISO Board of Governors approves the proposal to revise the transmission planning process, as detailed in the memorandum dated May 10, 2010; 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 Hafner, and approved 4-0-1.

INFORMATIONAL REPORTS

There were no comments on the informational reports.

ADJOURNED

There being no additional general items to discuss, the general session of the ISO Board of Governors meeting was adjourned at approximately 1:10 p.m.