

GENERAL SESSION MINUTES
ISO BOARD OF GOVERNORS MEETING
July 20, 2009
ISO Headquarters
Folsom, California

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Mason Willrich, Chair of the ISO Board of Governors, called the general session meeting to order at approximately 1:30 p.m. Roll call was taken and the presence of a quorum was established.

ATTENDANCE

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

Mason Willrich, Chair
Tom Page
Linda Capuano
Laura Doll

The following members of the officer team were present: Yakout Mansour, Karen Edson, Laura Manz, Steve Berberich, Jim Detmers, 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 Capuano moved for the approval of the ISO Board of Governors general session minutes for May 18, 2009. The motion was seconded by Governor Doll, and approved 4-0-0.

CEO REPORT

Yakout Mansour, President and CEO, provided the Board with an overview of market operations under the new market design and noted that two areas of focus centered on improvements in price correction and exceptional dispatch processes. Mr. Mansour continued his report by providing an overview of the long-term timeline for future market enhancements. Mr. Mansour concluded his

report by providing a high-level overview of the Operations, Compliance, Finance and External Activities sections of his report.

Public Comment

Ellen Wolfe, with Western Power Trading Forum, provided a high-level summary of the written comments submitted to the Board on July 16, 2009, regarding the ISO's price correction policy. Ms. Wolfe also addressed transparency concerns regarding the ISO's failure to post comments submitted during the process. Discussion ensued and Management noted that this was an unusual circumstance as the comments were submitted in response to a routine periodic call outside of the stakeholder process. Management informed the Board that internal processes would be updated so that in those instances where the ISO solicits written comments from stakeholders, those comments will be posted. Ms. Wolfe requested that the ISO provide market participants with additional information pertaining to the timing and notice of upcoming market corrections. At the request of the Board, Management agreed to provide advance notice in addition to addressing process issues as outlined in the written comments. Management confirmed that it would provide the Board with updates on market improvements in periodic reports. Ms. Wolfe also provided supportive comments on the stakeholder process and appreciated the accessibility to the Board. Ms. Wolfe concluded by addressing concerns pertaining to the timing of convergence bidding implementation and requested that Management present the convergence bidding policy to the Board at the October meeting.

Colette Kersten, with the California Public Utilities Commission, provided comments regarding the timing of convergence bidding implementation. Ms. Kersten discussed the importance of having the right market oversight in place prior to implementation as well as having resolution of any associated market issue anomalies.

David Schiada, with Southern California Edison, provided comments regarding the implementation schedule for convergence bidding. Mr. Schiada emphasized the importance of taking the necessary time to work out the details prior to implementation.

Brian Theaker, with Dynegy, provided comments and noted concerns pertaining to the frequency of exceptional dispatching and associated pricing. Mr. Theaker also provided comments regarding convergence bidding and requested that there be no delays in implementation.

Steve Williams, with San Diego Gas and Electric Company, provided comments on convergence bidding implementation and noted the importance of doing it right, not just quickly.

Brian Hitson, with Pacific Gas and Electric Company, provided comments related to the convergence bidding implementation schedule and noted the importance of full testing and consultations with software developers prior to implementation. Mr. Hitson emphasized the importance of lessons learned from MRTU.

Mark Smith, with Calpine, provided comments concerning the high frequency of exceptional dispatches and noted that he would be monitoring the occurrences to see if they were only high as part of a transitional phase in the new market. Mr. Smith noted concerns with ISO tariff language that states no exceptional dispatch can set the market clearing price.

Discussion followed and Mr. Mansour reiterated the ISO's commitment to address the exceptional dispatch process. Discussion ensued regarding convergence bidding and the Board emphasized its high priority and the importance of project management, schedule and tracking by the Board. In response to the Board's request, Management stated it would provide an updated release plan for new market implementations at the next Board meeting.

BRIEFING ON ISO MARKETS

Briefing

Nancy Traweek, Director of Operations Support, provided the Board with an overview of the performance of the new markets during the first 90 days. Ms. Traweek noted that daily process and outcome review indicated the markets were running well and were publishing as expected. Ms. Traweek reviewed performance of the integrated forward market, residual unit commitment capacity, five-minute interval price excursions, and exceptional dispatch. Ms. Traweek stated that settlement statements were timely processed and published and that disputes of settlement statements were less than expected. Ms. Traweek concluded her presentation by providing an overview of the following opportunities for improvement: system tuning, market modeling, price correction process and the reduction of exceptional dispatch.

Keith Casey, Director of Market Monitoring, provided the Board with an overview of the performance of the new markets during the first 90 days. Mr. Casey stated that the markets were generally performing well. Mr. Casey stated that the areas of focus for market monitoring were as follows: market competitiveness, real-time dispatch price volatility, price convergence, exceptional dispatch, and transmission biasing. Mr. Casey stated the day-ahead market continued to produce competitive outcomes. Mr. Casey noted the real-time market was also producing competitive results, when excluding hours that reflected scarcity prices. Mr. Casey discussed several price volatility graphs and concluded his presentation by comparing real-time exceptional dispatch graphs and noted the decline in **real-time** exceptional dispatches in June. Discussion ensued regarding exceptional dispatch.

Mark Rothleder, Principal Market Developer, provided an overview of real-time market performance improvements including load forecast and distribution, transmission limit management, low generation ramping available, and hour-ahead scheduling process. Mr. Rothleder noted that while average 5-minute load aggregation point (LAP) prices had decreased, extreme positive 5-minute LAP priced had moderated. Mr. Rothleder stated that the rate of real-time commitments had eased and that real-time commitment performance improved in late May and June. Mr. Rothleder concluded his presentation by noting that the hour-ahead scheduling process success rate had improved. Brief discussion followed.

DECISION ON PROPOSED NEW TARIFF MODIFICATIONS

Proposal

Mark Rothleder, Principal Market Developer, stated that Management had identified three modifications to the market that were needed to better align operational outcomes with actual costs and to avoid market or settlement distortions that arose out of existing market rules. Mr.

Rothleder provided an overview of the first proposed change to address frequency and cost of real-time unit commitment. Discussion followed regarding the affected units and Mr. Rothleder noted that all unit owners participated in the stakeholder process and supported the short-term proposal. Mr. Rothleder reviewed the second proposed change to eliminate unnecessary congestion revenue right shortfall allocation equation. Mr. Rothleder concluded his presentation by reviewing the third proposed change to address how electrically disconnected PNodes were priced. Discussion followed.

Public Comment

There was no public comment.

Board Decision

Motion

Governor Doll:

Moved, that the ISO Board of Governors approves the following rule modifications, as set forth in the memorandum dated July 10, 2009:

- *modifying the rule regarding the frequency with which market participants may modify their election regarding recovery of start-up and minimum load costs from once every six months to once every thirty days;*
- *modifying settlements to represent the hourly payments and charges for congestion revenue rights consistent with the actual settlement and without pro-ratio of hourly amounts to reflect deficiencies or surplus in the hourly congestion revenues; and*
- *selecting locational marginal price for an electrically disconnected pricing node based on the closest electrically connected node.*

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 these changes.

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

ADR/AUDIT COMMITTEE UPDATE

Governor Page recommended that the Board accept the Audit of the 2008 Financial Statements and FERC Form 1 and accept the Audit of the ISO Retirement Savings Benefits Plan for 2008 & 2007, as already accepted by the ADR/Audit Committee.

Acceptance of Audit of 2008 Financial Statements and FERC Form 1

Motion

Governor Capuano:

Moved, that the ISO Board of Governors accept (1) the ISO's financial statements for the years ended December 31, 2008 and 2007, and (2) the FERC Form 1 for 2008 and 2007, both audited by PricewaterhouseCoopers, as recommended by the ADR/Audit Committee.

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

Acceptance of Audit of ISO Retirement Savings Benefits Plan for 2008 & 2007

Motion

Governor Capuano:

MOVED, that the ISO Board of Governors accept the audited financial statements of the California ISO Retirement Savings Benefits Plan for the years ended December 31, 2008 and 2007, as audited by PricewaterhouseCoopers, as recommended by the ADR/Audit Committee.

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

BRIEFING ON THE STATUS OF TRANSMISSION PROJECTS

Ali Chowdhury, Director – Regional Transmission South, provided the Board with an overview of the status of three major transmission projects in the southern California region. Mr. Chowdhury reviewed the Tehachapi Renewable Transmission project that was approved to connect wind generation. Mr. Chowdhury noted the Tehachapi project was under construction and on schedule for commissioning. Discussion followed regarding characteristics of the project including ownership, financing and cost recovery. Mr. Chowdhury then reviewed the Devers-Palo Verde No. 2 (DPV2) project that had been approved by the Board as an economic project. Mr. Chowdhury noted that Southern California Edison had recently modified the DPV2 project to only include the California portion. Discussion followed regarding the status of the project. Chairman Willrich confirmed that no further Board action was required as a result of the changed nature of the project from an economic project to a network upgrade associated with generator interconnections. Discussion followed and the Board requested a future educational briefing regarding the financial and ownership aspects of transmission projects. Mr. Chowdhury concluded his portion of the presentation by reviewing the Sunrise Powerlink project that was approved on the grounds of reliability, economics and connecting renewables. Mr. Chowdhury noted the Sunrise project was under way and on schedule.

Gary DeShazo, Director – Regional Transmission North, provided the Board with an overview of the Trans Bay Cable project that was approved as a reliability project to support the retirement of old thermal generation in San Francisco. Mr. DeShazo noted the Trans Bay Cable project was under construction and on schedule. Mr. DeShazo concluded his presentation by reviewing the key milestone dates for the Trans Bay Cable project. Discussion ensued and at the request of the Board, Management agreed to provide transmission project updates to the Board twice per year.

BRIEFING ON ONCE-THROUGH COOLING (OTC)

Dennis Peters, External Affairs Manager, provided the Board with a background overview and stated that the OTC policy was issued in March 2008 by the Water Board. Mr. Peters noted the policy affected 38% of the installed generation in California. Mr. Peters stated that the ISO submitted comments to the Water Board in May 2008 and that the ISO, along with the California Energy Commission and the California Public Utilities Commission, submitted joint recommendations to the Water Board on May 19, 2009. Mr. Peters noted that final compliance would likely be a combination of generation and transmission solutions. Mr. Peters stated that the Water Board incorporated the May 19 joint recommendations into its June 30, 2009 draft policy. Mr. Peters concluded his presentation by reviewing Management's upcoming involvement in the process including written comments, attendance at workshops and public hearings, as well as participation in a statewide task force and nuclear study review committee. Discussion followed regarding plant capacities, environmental offsets and State policy.

INFORMATIONAL REPORTS

Chairman Willrich commented on the Renewable Energy Transmission Initiative update and applauded the efforts of non-ISO and ISO balancing authorities within California working together on the initiative. Brief discussion followed regarding the diagrams within the update.

ADJOURNED

There being no additional general session items to discuss, the general session of the ISO Board of Governors meeting was adjourned at approximately 5:00 p.m.