

**GENERAL SESSION MINUTES
BOARD OF GOVERNORS MEETING
May 21 - 23, 2008
ISO Headquarters
Folsom, California**

May 21, 2008

Mason Willrich, Chair of the Board of Governors, called the meeting to order at approximately 10:45 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
Linda Capuano
Tom Page
Laura Doll

The following members of the officer team were present: Yakout Mansour, Nancy Saracino, Karen Edson, Steve Berberich, Jim Detmers and Anjali Sheffrin on behalf of Market Development and Program Management.

GENERAL SESSION

The following agenda items were discussed in general session:

PUBLIC COMMENT

James Feider, on behalf of Transmission Association of Northern California (TANC), provided opposing comments regarding management's Integrated Balancing Area Authority proposal. Mr. Feider noted concerns with various aspects of management's proposal and recommended deferral of the proposal so that the counter-proposal, submitted by TANC, could be considered.

Nancy Saracino, Vice President, General Counsel and Corporate Secretary, acknowledged receipt of the two public comment letters received from the California Municipal Utilities Association and City of Santa Clara.

James Shetler, on behalf of the Sacramento Municipal Utility District, provided opposing comments regarding management's Integrated Balancing Area Authority proposal and noted that it did not have conditional stakeholder support as noted in the CAISO materials. Mr. Shetler requested a deferral on the proposal to allow additional time to consider the alternative proposal provided.

John Roukema, on behalf of Silicon Valley Power, provided opposing comments regarding management's Integrated Balancing Area Authority proposal and noted that he was not aware of any market participant that supported the modeling or pricing mechanisms proposed in management's proposal. Mr. Roukema requested a deferral on the proposal to allow time for the outstanding issues to be resolved.

Irene Moosen, on behalf of the City and County of San Francisco, provided opposing comments regarding management's Integrated Balancing Area Authority proposal and stated that the CCSF believed the proposal opened up negotiations on a matter that had already been settled and that management's proposal should not apply to CCSF.

Colin Cushnie, on behalf of Southern California Edison, provided generally supportive comments regarding management's Integrated Balancing Area Authority proposal and noted some concerns regarding the single price option methodology. Mr. Cushnie noted that SCE support was conditional upon CAISO's commitment to its proposed process to establish new or modify existing IBAA's.

Pamela Mills, on behalf of San Diego Gas and Electric, provided supporting comments regarding management's Integrated Balancing Area Authority proposal. Ms. Mills thanked staff for its efforts and noted that input from the stakeholders and the independent authorities that were consulted resulted in a proposal worthy of approval.

Anjali Sheffrin, Director of Market and Product Development, provided responding comments and reviewed the history of the stakeholder process. Ms. Sheffrin noted the importance of having an interim mechanism in place prior to the start of MRTU and stated that the current proposal contained adequate flexibility to allow for continued discussions on outstanding issues. Ms. Sheffrin provided an overview of the following key fundamentals: cost causation, price transparency and feasible day-ahead schedules.

In response to earlier comments from Mr. Feider, Governor Doll inquired about the differences between the two proposals. Mr. Feider responded that the proposals would be further addressed in the afternoon and that TANC preferred a deferral of the matter so that negotiations could continue.

Ms. Sheffrin provided an overview of the historical process, beginning with March 2006, in response to an inquiry from Governor Gage. Governor Gage also inquired as to whether Mr. Feider believed the current proposal addressed stakeholder concerns regarding gaming. Mr. Feider stated that it was his general understanding that there would not be any significant gaming issues. Discussion followed. Governor Capuano inquired about the statement in the CMUA and City of Santa Clara public comment letters regarding violation of existing contracts. Mr. Feider responded that the contracts were under FERC jurisdiction so TANC would deal with FERC and possibly venues beyond that.

In response to earlier comments from Mr. Shetler, Governor Willrich inquired about the request for additional time to discuss the proposal. Mr. Shetler responded by providing the background of the stakeholder process and the time allotted to review and understand the proposal. Further discussion followed regarding transparency of day-ahead schedules and Mr. Shetler noted that SMUD's process did not involve submittal of its day-ahead schedules.

In response to earlier comments from Mr. Roukema, Governor Doll inquired about the cost increases related to Western Area Power Administration transactions. Mr. Roukema responded that they have not yet quantified any cost increase and then further discussed additional concerns with management's proposal. Discussion followed.

DECISION ON MINUTES

Governor Gage requested the addition of a dollar sign on page 8 of the draft minutes. Governor Gage, subject to the above modification, moved for the approval of the Board of Governors general session minutes for March 26-27, 2008. The motion was seconded by Governor Doll, and approved 5-0-0.

CEO REPORT

Yakout Mansour, President and CEO, reported on highlights of events that have affected CAISO since the last Board meeting. Mr. Mansour provided an overview of the April release of the CAISO 2008 Summer Loads and Resources Operations Preparedness Assessment Report. Mr. Mansour provided an update on the status of the MRTU project 's progress, and noted that there had been significant progress to integrate all the functionalities after the planned market simulation down-time in early April. Mr. Mansour stated that the program management team believed that an early fall Go-Live would provide sufficient time to resolve the outstanding issues and to allow the time needed for the market to prepare.

Mr. Mansour provided an update on CAISO's compliance with mandatory reliability standards and provided highlights of the program and expansion of the internal team. Mr. Mansour provided a high-level overview of historical discussions pertaining to the IBAA proposal that began in 2005 and noted that management's current proposal was intended to prevent unjustifiable gain. Mr. Mansour provided an overview of the generator interconnection queue reform and noted that CAISO would be filing a request for waiver of certain requirements so that the processing of current interconnection requests could be expedited. Mr. Mansour provided updates on the Devers-Palo Verde No. 2, 500 kV Transmission Line project and the San Francisco Action Plan.

Mr. Mansour acknowledged the retirement of Armie Perez, Vice President of Transmission Planning.

Resolution:

Governor Willrich:

WHEREAS, Armando Perez began working at the California Independent System Operator Corporation in 1997, and was an integral part of the startup team that made history with the first open access transmission grid operator in the country; and

WHEREAS, Mr. Perez is a recognized expert in the field of transmission planning and electrical engineering and is known throughout the energy industry for his professional expertise, his high degree of personal integrity and his tireless efforts strengthening California's transmission infrastructure; and

WHEREAS, Mr. Perez, during his tenure at the California ISO, has been involved with planning and engineering efforts that resulted in the California ISO Board of Governors approval of 438 projects worth more than \$8.5 billion dollars of improvements to the Golden State's high-voltage grid; and

WHEREAS, Mr. Perez was appointed Vice President of Planning and Infrastructure Development in 2005 and has developed a team of widely respected engineers, planners and project managers that helped advance needed transmission projects and the development of renewable resources in California; and

WHEREAS, Mr. Perez has conducted numerous media interviews in his native language that helped hundreds of thousands of Spanish-speaking Californians understand the role the California ISO plays in the electricity industry and the need for energy conservation during times of peak demand; and

WHEREAS, Mr. Perez has announced his intention to retire from the California ISO; and

WHEREAS, Mr. Perez leaves the California ISO well positioned to pursue needed transmission expansion projects, provide key engineering assessments and continue building the infrastructure needed to interconnect thousands of megawatts in new, renewable resources; now, therefore be it

MOVED, that the California ISO Board of Governors hereby expresses its gratitude to Mr. Perez for a job well done in every respect; and be it further

MOVED, that the ISO Board of Governors hereby presents Mr. Perez with a copy of this resolution.

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

Mr. Perez provided appreciative comments in response to the resolution. Members of the Board provided additional congratulatory remarks in support of Mr. Perez's retirement.

Mr. Mansour continued his report by stating that CAISO received top honors as the 2008 Best Places to Work in the Sacramento Region at the Sacramento Workplace Excellence Leader Awards event. Mr. Mansour reviewed the financial highlights section and concluded his report by announcing that for the third consecutive year, CAISO's credit rating was upgraded from a B+ to an A- by Standard and Poor's.

BRIEFING ON MRTU

Steve Berberich, Vice President of Corporate Services, provided the Board with an introductory overview of the four-part MRTU briefing.

Bob Kinsella, with Science Applications International Corporation (SAIC), provided the Board with an overview of SAIC and noted that the following MRTU systems were within its scope of work for

purposes of the certification: Congestion Revenue Rights (CRR), Market Quality System (MQS), Scheduling Infrastructure and Business Rules (SIBR), Integrated Forward Market (IFM) and Real Time Nodal (RTN). Mr. Kinsella provided an overview of the methodology used to answer the necessary questions in order to obtain the certification. Mr. Kinsella reviewed the metrics summary report and the metrics detail report for each of the systems and noted the mapping completeness results for each system. Mr. Kinsella stated that SAIC delivered executed certification letters to CAISO on April 25, 2008. Mr. Kinsella concluded his presentation by noting that there were numerous outstanding issues as of the certification date that, upon CAISO resolution, would bring the mapping rating to 100%.

Debi LeVine, Director of Market Services and MRTU Program Manager, provided the Board with comments in response to the SAIC presentation. Ms. LeVine provided an overview of the SAIC findings and noted that no major issues were uncovered by SAIC in regards to tariff or software functionality. Ms. LeVine stated that CAISO was evaluating tariff changes to address the issues raised by SAIC. Ms. LeVine concluded her presentation providing an overview of the IFM/RTN test case market certification challenges. Further discussion followed regarding the Business Practice Manuals (BPMs) and it was noted that the BPMs were posted and subject to review by market participants.

Mr. Berberich introduced Scott Harvey of LECG, and noted that he was retained to conduct an analysis track testing of MRTU. Mr. Harvey provided an overview of methodology used to validate that prices were being correctly calculated. Mr. Harvey provided an overview of the remaining and unresolved issues and noted that they still needed to be resolved prior to completion of the analysis. Mr. Harvey further reviewed the test methodology and discussed the seven tests that were applied to the analysis track cases. Mr. Harvey discussed the replication of energy and ancillary services prices and noted it was still an open issue. Mr. Harvey reviewed the analysis of validation of energy and ancillary service prices based on marginal offers. Mr. Harvey stated that resources were dispatched consistent with their bids and offers at almost every location in every case and noted several exceptions. Mr. Harvey concluded his presentation by reviewing the testing of the consistency of unit commitment with locational marginal prices. Further discussion followed regarding non-convexities in ramp rates. In response to Governor Doll's inquiry, Mr. Rothleder, Principal Market Developer, provided additional information pertaining to the data provided to LECG for analysis. In response to an inquiry by Governor Gage regarding the unresolved issues, Mr. Harvey noted that there were not any critical issues that could not be resolved.

RECESSED

There being additional general session items to discuss, the general session of the Board of Governors was recessed at approximately 1:00 p.m.

May 21, 2008

RECONVENED

Mason Willrich, Chair of the Board of Governors, reconvened the general session of the Board of Governors at approximately 1:45 p.m.

ATTENDANCE

The following members of the 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, Nancy Saracino, Karen Edson, Steve Berberich, Jim Detmers and Anjali Sheffrin on behalf of Market Development and Program Management.

MRTU BRIEFING - Continued

Steve Berberich, Vice President of Corporate Services, provided introductory remarks and thanked the market participants and staff for all of their work. Mr. Berberich provided an overview of matters that needed to be resolved in June and stated that CAISO would not start MRTU until CAISO and the market were both ready. Mr. Berberich announced that October 1, 2008 was the targeted MRTU "Go Live" date and that the definitive Go Live date would be announced at the July Board meeting.

Debi LeVine, Director of Market Services and MRTU Program Manager, provided a status update of the MRTU project and noted that significant progress had been made in MRTU market simulation since April 7, 2008. Ms. LeVine noted that six weeks of market simulation testing uncovered issues in the areas of work flow processes, data and settlements charge codes. Ms. LeVine reviewed the five objectives that were targeted to move between the structured phases of market simulation and provided an overview of the MRTU business implementation schedule. Ms. LeVine provided the Board with a status update of internal and external readiness. Ms. LeVine discussed the functionality survey of market participants that was performed in March. Ms. LeVine stated that two additional readiness assessments were scheduled for June and August and noted that the assessments would focus on key readiness areas derived by market participants. Ms. LeVine provided an overview of the five categories of exit criteria that needed completion prior to pre-production in September. Ms. LeVine reviewed the anticipated milestones and activities for the next four months and concluded her presentation by providing an overview of what the FERC 60-day informational filing would include. Brief discussion followed regarding staffing and factors used to determine MRTU readiness.

DECISION ON PALERMO-RIO OSO 115kV LINE RE-CONSTRUCTION PROJECT

and

DECISION ON ATLANTIC-LINCOLN 115kV TRANSMISSION PROJECT

Proposal (Palermo-Rio Oso)

Gary DeShazo, Director of Regional Transmission – North, provided an overview of the Palermo-Rio Oso 115kV line re-construction project and noted the project was needed to meet federal reliability standards. Mr. DeShazo stated the estimated project cost was \$55 million and that all components needed to be in-service by June 2010. Mr. DeShazo reviewed the project location map and noted it was in PG&E's Yuba-Sutter service territory. Mr. DeShazo reviewed a diagram that demonstrated how the project would be integrated into the system. Mr. DeShazo noted that load growth in the area was 2.8% annually and concluded by describing why the proposed preferred alternative was selected.

Proposal (Atlantic-Lincoln)

Gary DeShazo, Director of Regional Transmission – North, provided an overview of the Atlantic-Lincoln transmission project and noted the project was needed to meet federal reliability standards. Mr. DeShazo stated the estimated project cost was \$70 million and that all components needed to be in-service by June 2010. Mr. DeShazo reviewed the project location map and noted it was in the Rocklin-Lincoln city areas. Mr. DeShazo reviewed a diagram that demonstrated how the project would be integrated into the system. Mr. DeShazo noted that load growth in the area was 4% to 5% annually and concluded by describing why the proposed preferred alternative was selected.

Public Comment

Eric Eisenman, on behalf of PG&E, commended staff on their efforts and provided supporting comments on both the Palermo-Rio Oso and Atlantic-Lincoln 115kV projects. Mr. Eisenman noted the importance of the language in the motion that the projects were a necessary and cost effective addition to the CAISO Controlled Grid.

Governor Doll noted the seven-year duration of the projects from start to finish. Governor Willrich commented on the expanding the maps to provide additional detail regarding the placement of the lines.

Board Decisions

Motion

Governor Doll:

Moved, that the ISO Board of Governors finds that the Palermo-Rio Oso 115 kV Re-construction Project, as described in the Board Memorandum dated May 13, 2008, is a necessary and cost effective addition to the CAISO Controlled Grid; and

Moved, that the ISO Board of Governors directs PG&E to continue with the design, licensing, and construction of this project.

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

Motion

Governor Doll:

Moved, that the ISO Board of Governors finds that the Atlantic-Lincoln Transmission Project, as described in the Board Memorandum dated May 13, 2008, is a necessary and cost effective addition to the CAISO Controlled Grid; and

Moved, that the ISO Board of Governors directs PG&E to continue with the design, licensing, and construction of this project.

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

DECISION ON ASSIGNMENT OF REVENUE REQUIREMENT FOR STARTRANS' MEAD FACILITIES

Briefing

Phil Pettingill, Manager – Infrastructure Policy and Contracts, provided an overview of events that occurred since the March 26, 2008 conditional approval by the Board of the Startrans Participating Transmission Owner Application. Mr. Pettingill stated that a decision was needed as far as whether to keep the Mead transmission rights in the East Central Transmission Access Charge (TAC) Area or to establish a new TAC area for the Mead transmission rights. Mr. Pettingill provided an overview of factors that supported management's proposal to integrate Startrans into the East Central TAC Area, including no cost shifts and only a change in facility ownership. Mr. Pettingill described how stakeholders supported the assignment of Startrans' Transmission Revenue Rights (TRRs) to East Central TAC Area, but were split on the TRR collection method. Mr. Pettingill concluded his presentation by recommending that the Board approve the proposed assignment and noted that management would continue to work with stakeholders to implement the collection of the costs, consistent with existing Tariff provisions. Discussion followed regarding grid-wide TAC charges.

Public Comment

There was no public comment.

Board Decision

Motion

Governor Gage:

Moved, that the ISO Board of Governors assigns the Transmission Revenue Requirement for Startrans IO, L.L.C.'s Mead Facilities to the East Central TAC Area, as further described in the memorandum dated May 13, 2008, and related attachments.

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

DECISION ON INTEGRATED BALANCING AUTHORITY AREA (IBAA) PROPOSAL

PROPOSAL

Steve Greenleaf, Director – Regional Market Initiatives, began his presentation by providing context to the use of the term integrated and then discussed the importance of a decision on the proposal so as to not impact the Go Live timing for the MRTU project. Mr. Greenleaf reviewed the five objectives of the proposal, including IBAA modeling methodology and IBAA pricing methodology. Mr. Greenleaf acknowledged earlier public comments made regarding the May 8, 2008 counter-proposal and noted that a response was in process. Mr. Greenleaf also noted that the proposed motion language would allow for continued discussions. Mr. Greenleaf provided an overview of the consultation and stakeholder process that began in February 2006 and described that the original intent of the proposal placed greater emphasis on modeling accuracy. Mr. Greenleaf stated that, based on feedback from the Market Surveillance Committee and CAISO's expert consultant, the CAISO modified the proposal to further address pricing concerns. Mr. Greenleaf noted that stakeholders generally supported better modeling, but either did not support or were uncertain on pricing. Mr. Greenleaf noted that PG&E, SCE, SDG&E, and Powerex now generally support management's proposal.

LECG PRESENTATION

Scott Harvey of LECG was retained to conduct an analysis of the proxy bus pricing mechanisms. Mr. Harvey began his presentation by providing an overview of the use and purpose of proxy buses. Mr. Harvey noted that proxy buses were not used to model or price congestion on constraints secured by another balancing area authority. Mr. Harvey stated that proxy buses could be defined as the weighted average of several locations or as single nodes. Mr. Harvey provided an in depth overview of the PJM proxy buses and described four of the ways they have evolved since 1998. Mr. Harvey discussed some of the lessons learned as a result of the experiences of PJM and the New York ISO. Mr. Harvey concluded his presentation by describing CAISO's proposed proxy bus design for integrated balancing area authorities and how it addressed the key lessons learned from PJM's experience.

PUBLIC COMMENT

Dede Hapner, on behalf of PG&E, provided supporting comments on management's proposal. Ms. Hapner discussed the issue of potential gaming and the oversight of FERC in helping to address the

matter. Ms. Hapner addressed one concern regarding the quality of data and encouraged CAISO to continue work on a better solution.

Doug Boccignone, on behalf of Silicon Valley Power, commented on the following three points as addressed by Ms. Sheffrin earlier in the day: cost causation, market transparency and feasible day-ahead scheduled. Mr. Boccignone agreed with Mr. Roukema's earlier comments in opposition to the proposal and requested a deferral of the decision. Ms. Sheffrin provided responding comments.

MSC COMMENT

Jim Bushnell, with the Market Surveillance Committee, provided an overview of the Market Surveillance Committee Opinion on "Modeling and Pricing Integrated Balancing Areas under MRTU".

Keith Casey, Director of Market Monitoring (DMM), provided an overview of the IBAA section in the DMM Board report. Mr. Casey noted that DMM had been involved with the proposal since its inception in the spring of 2007. Mr. Casey stated that DMM would work very closely with the CAISO team and market participants in supporting the proposal. Mr. Casey concluded by stating that DMM would diligently monitor any IBAA proposal that was adopted.

BOARD DECISION

Governor Page requested clarification on the earlier "we don't schedule like you schedule" comment by SMUD. In the absence of Mr. Shetler, Mr. Mansour responded that SMUD schedules, they just do not submit the schedules. Kevin Smith, on behalf of SMUD, noted that SMUD does not have resource specific schedules, it has a vertically integrated structure.

Governor Page requested clarification on the earlier comments of CCSF regarding prior agreements. Anna McKenna, Legal Counsel, responded and clarified that the CAISO did not intend to violate the contract in any manner. Ms. Moosen expressed appreciation for the clarification.

Governor Gage inquired about proxy buses and when weighted averages price were applicable to a single proxy bus. Mr. Harvey responded by describing PJM's process on the issue. Mr. Casey commented on the potential gaming issue as it pertained to weighted averages.

Governor Capuano commented on the request for delay. Governor Capuano discussed the stakeholder process and noted that the process worked, it was just a complicated issue without a consensus. Governor Capuano also noted that a delay would not solve the concerns regarding an inaccurate model, as there would be no new data and the assumptions had been thoroughly discussed. Governor Capuano also noted that potential conflicts in the contract negotiations were not a cause for delay.

Governor Doll inquired about the effect of a delay on a decision on the proposal. Ms. Sheffrin noted the proposal had already been delayed from last meeting and the same arguments were still at issue. Governor Wilrich commented on MRTU Go Live and noted the importance of facilitating an October 1 Go Live date and commented that a delay in an IBAA decision could lead to a significant risk in MRTU Go Live.

Motion

Governor Capuano:

Moved, that the ISO Board of Governors approves the Integrated Balancing Authority Area (IBAA) proposal, as detailed in the memorandum, and related attachments, dated May 13, 2008, and

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 the IBAA proposal, and

Moved, that the ISO Board of Governors authorizes Management to enter into alternative settlement arrangements as appropriate for intertie transactions between the ISO and IBAA entities or other affected entities based on the provision of additional resource specific detailed data and a demonstrated benefit to CAISO customers, and 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 such agreements, if any.

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

DECISION ON EXCEPTIONAL DISPATCH

PROPOSAL

Udi Helman, Principal Market Economist, provided the Board with an overview of the need for Board approval for new pricing rules for Exceptional Dispatch under MRTU. Mr. Helman discussed various issues with the existing rules for Exceptional Dispatch. Mr. Helman noted Exceptional Dispatch would be minimized over time by updating market models and clarifying interaction with ICPM and the Resource Adequacy (RA) program. Mr. Helman stated that all bids would be subject to mitigation in specific circumstances and that non-RA resources would be subject to relaxed mitigation. Mr. Helman noted the proposed rules included a market start safeguard and a sunset date. Mr. Helman concluded his presentation by describing how the final proposal considered the views of the stakeholders. Discussion followed.

PUBLIC COMMENT

Charlyn Hook, on behalf of California Public Utilities Commission, provided comments in support of management's proposal and requested that CAISO consider extending the 2-month market start safeguard to accommodate any MRTU delays.

Colin Cushnie, on behalf of Southern California Edison, provided comments in general support of management's overall proposal and noted that the stakeholder process was adequate. Mr. Cushnie

requested that CAISO model the constraints within the software as soon as possible to eliminate the need for exceptional dispatches and emphasized the importance of the development of appropriate market monitoring rules.

Brian Hitson, on behalf of Pacific Gas and Electric Company, provided comments in support of management's overall proposal and requested that CAISO consider extending the 2-month market start safeguard to a 12-month safeguard.

Brian Theaker, on behalf of Dynegy, provided comments in opposition to management's proposal. Mr. Theaker addressed several concerns including that the contingency was not modeled in the full network model of the CAISO and that the CAISO needed to procure reliability needs within its own markets.

Mary Lynch, on behalf of Constellation Energy, provided comments of concern regarding the mitigation measures and the predictabilities of dispatch events and requested that management delay implementations of pieces of the proposal until a few months into MRTU Go Live.

MSC COMMENT

Jim Bushnell, with the Market Surveillance Committee (MSC), noted that the MSC Opinion primarily focused on the mitigation measures for the non-resource adequacy units. Mr. Bushnell agreed with Mr. Theaker's earlier comments that the MSC would like to see all of the constraints modeled in the day-ahead market so that it truly was only an exceptional circumstance.

Keith Casey, Director of Market Monitoring, addressed potential market manipulation and stated that the market rules would be very transparent and that they would be subject to modification as applicable.

BOARD DECISION

Governor Gage commented on the 2-month safeguard period and inquired as to management's authority to extend the period beyond 2-months. Mr. Helman responded that FERC was not sympathetic to long safeguard mechanisms. Further discussion followed regarding the extension of the safeguard period. Mr. Helman provided an explanation of relaxed mitigation in response to an inquiry from Governor Willrich. The Board requested that management modify the proposal to change the safeguard period from 2-months to 4-months.

Motion

Governor Gage:

Moved, that the ISO Board of Governors approves the proposal for market power mitigation and revised pricing of Exceptional Dispatch as described in the memorandum dated May 13, 2008, and related attachments, as modified by the ISO Board of Governors in the meeting on May 21, 2008; 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 proposal for market power mitigation and revised pricing of Exceptional Dispatch.

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

DECISION ON CONGESTION REVENUE RIGHTS ENHANCEMENTS

PROPOSAL

David Withrow, Lead Market and Product Economist, provided the Board with an overview of Congestion Revenue Rights (CRRs) and noted that CRRs helped market participants manage the costs of transmission costs. Mr. Withrow stated that key enhancements to the existing CRR rules were needed to reinforce the value of CRRs for load serving entities, enhance the fairness of the CRR release process and to strengthen credit policy for CRRs. Mr. Withrow described how the proposed policy enhancements would promote fairness in the CRR release process and would strengthen the CRR credit policy.

PUBLIC COMMENT

Brian Hitson, on behalf of Pacific Gas and Electric Company, provided generally supportive comments on management's proposal. Mr. Hitson requested that CAISO implement the proposed enhancements prior to the start of the next CRR allocation process. Mr. Hitson also requested that CAISO develop a tool to better analyze transmission maintenance outage requests.

Colin Cushnie, on behalf of Southern California Edison, provided generally supportive comments on management's proposal. Mr. Cushnie requested that CAISO either commit to having the enhancements in place prior to the 2008 CRR process, or create a manual process. Mr. Cushnie also noted that the proposed collateral package needed additional work.

BOARD DECISION

Ms. Sheffrin stated that the concerns addressed by Mr. Cushnie would be addressed in the Business Practice Manuals. Alan Isemonger, Manager of the CRR Group, noted that the current CRR system was strong and that the proposal contained enhancement to an already robust system. Mr. Isemonger stated that a manual workaround could be necessary. Debi LeVine, Director of Market Services and MRTU Program Manager, stated that a CRR status report, including an update on a potential manual workaround, would be provided at the July Board meeting as part of the MRTU readiness briefing. Discussion followed.

Motion

Governor Gage:

Moved, that the ISO Board of Governors approves the policies for Congestion Revenue Rights Policy Enhancements, as outlined in the memorandum dated May 13, 2008, and related attachments; and

Moved, that the ISO Board of Governors approves the policies for Congestion Revenue Rights Related Credit Enhancements, as outlined in the memorandum dated May 13, 2008, and related attachments; 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 these policies.

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

DECISION ON DROPPING THE DEC BIDDING RULE

Proposal

Greg Cook, Manager of Market Design and Regulatory Policy, provided the Board with an overview of management's proposal that addressed concerns regarding the MRTU bidding rule. Mr. Cook noted that there would be further efforts to enhance volume and competitiveness of decremental real-time energy bids. Mr. Cook discussed the original intent of the rule and provided an overview of the concerns raised by LECG. Mr. Cook discussed the stakeholder process and noted consensus had been gained as a result of the process. Mr. Cook concluded by requesting that the Board approve elimination of the rule for MRTU and informed the Board that management would come back to the Board at a future meeting with a proposal for enhancing the bidding rules.

Public Comment

Brian Hitson, on behalf of PG&E, provided comments in support of management's proposal.

Board Decision

Motion

Governor Doll:

Moved, that the ISO Board of Governors approves the policy to drop the DEC Bidding Rule by MRTU start-up as outlined in the memorandum dated May 13, 2008, and related attachments; and

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

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

DECISION ON OUTAGE & AVAILABILITY REPORTING

Proposal

Greg VanPelt, Manager of Outage Management, began his presentation by providing the Board with an overview of issues with the current outage and availability reporting requirements. Mr. VanPelt stated that market participants felt the current requirements presented an excessive administrative burden, focused too much on penalties, and that time constraints were occasionally exceeded given other operational priorities. Mr. VanPelt noted that the proposal recommended changing the timing to report availability changes from 30 minutes to 60 minutes. Mr. VanPelt also noted that the violation penalties for a late report would be expanded to one allowance per month, followed by a warning and then penalties. Mr. VanPelt concluded his presentation by discussing the schedule of events leading up to the filing.

Public Comment

Colin Cushnie, on behalf of Southern California Edison, provided comments in support of management's proposal and urged implementation of the proposal prior to the summer. Mr. Cushnie noted that while some market participants had reliability or market manipulation concerns with the proposal, SCE remained supportive of the proposal and did not see it as a cause for those types concerns.

Charlyn Hook, on behalf of the California Public Utilities Commission, noted that the CPUC did not fully support the proposal and expressed concerns regarding the proposal including extending the reporting requirement from 30 to 60 minutes.

Eric Eisenman, on behalf of Pacific, Gas & Electric, provided supporting comments on management's proposal and noted PG&E's continued commitment to submitting report outages to CAISO and the CPUC as quickly as possible and acknowledged appreciation of the added flexibility provided by the proposal.

Board Decision

Motion

Governor Gage:

Moved, that the ISO Board of Governors approves the refinements to outage and availability reporting requirements as described in the memorandum dated May 13, 2008; 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 refinements to outage and availability reporting requirements.

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

DECISION TO RATIFY CURRENT BOARD COMPENSATION

Nancy Saracino, Vice President, General Counsel & Corporate Secretary, provided highlights of the Board memorandum that recommended approval of a motion that would clarify prior Board resolutions relating to compensation for members of the Board and would consolidate the rules related to Board compensation.

Board Decision

Motion

Governor Gage:

Moved, that in accordance with Article III, Section 17 of the bylaws, the ISO Board of Governors hereby amends the payment structure, effective January 1, 2006, to clarify the intended compensation to Board members for their service to the California ISO:

- *The standard annual retainer paid to a Governor shall be \$20,000;*
- *A fee of \$500 shall be paid for each day of in person participation at a noticed in-person meeting, and a fee of \$250 shall be paid for each day of telephone participation in a noticed teleconference meeting;*
- *An additional fee of \$500 for each meeting day shall be paid for time spent preparing for a noticed in-person meeting, and a fee of \$250 for each meeting day shall be paid for time spent preparing for a noticed teleconference meeting;*
- *If a Board Committee meeting is noticed adjacent to a Board of Governors meeting on the same day, only one meeting fee and preparation fee shall be paid to Committee members. Governors who are not also Committee members will not be compensated*

for optional attendance at a Committee meeting noticed for a date not adjacent to a Board of Governors meeting;

- *Reasonable expenses associated with in-person or teleconference meetings shall be reimbursed;*
- *Governors who attend certain meetings or events, both internal and external, at the request of the Chair or ISO Management in consultation with the Chair, shall be eligible for reimbursement of reasonable expenses, as deemed appropriate and approved by the Chair of the Board;*
- *Governors shall be eligible for conference fees and reasonable expenses associated with seminars, training and conferences related to corporate governance or best practices for Governing Boards, deemed appropriate and approved by the Chair of the Board; and*
- *Reimbursements for reasonable expenses, as set forth above, shall be in compliance with the ISO Corporate Travel Guidelines for Governors.*

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

ADR/AUDIT COMMITTEE UPDATE

Governor Gage, Chair of the ADR/Audit Committee, recommended that the Board accept the audit of financial statements and FERC Form 1 for 2007 and 2006, as recommended by the ADR/Audit Committee.

Motion

Governor Gage:

MOVED, that the ISO Board of Governors (1) accepts the CAISO's financial statements for the years ended December 31, 2007 and 2006 audited by PricewaterhouseCoopers, and (2) accepts the FERC Form 1 for those years, provided FERC approves CAISO's request to cover post-retirement benefits using GASB 45.

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

MARKET PERFORMANCE REPORT – March 2008

The Board noted that the report in the Board materials was sufficient and that a presentation was not necessary for this item.

INFORMATIONAL REPORTS

There were no 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 5:45 p.m.