

GENERAL SESSION MINUTES BOARD OF GOVERNORS MEETING January 28-29, 2008 ISO Headquarters Folsom, California

January 29, 2008

Mason Willrich, Chair of the Board of Governors, called the meeting to order at approximately 9:00 a.m. Roll call was taken and the presence of a quorum was determined.

On behalf of the Board, Governor Willrich provided welcoming comments to new Board member: Governor Laura Doll.

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: Chuck King, Jim Detmers, Nancy Saracino, Steve Berberich, Karen Edson, and Bill Regan.

GENERAL SESSION

The following agenda items were discussed in general session:

RECOGNITION OF DEPARTING GOVERNOR LOWE

Karen Edson, Vice President of External Affairs, provided comments acknowledging the contributions made by former Governor Lowe. Tom Doughty, Manager – Stakeholders and Industry Affairs, presented Ms. Lowe with a framed document pertaining to stakeholder matrixes. Jim Detmers, Vice President of Operations, provided comments acknowledging the ISO's appreciation for the value added by her presence of the Board.

Resolution:

WHEREAS, Elizabeth Lowe was appointed to the Board of Governors of the California Independent System Operator in 2005 by Governor Arnold Schwarzenegger and served a three year term; and

WHEREAS, Ms. Lowe's Board participation included enhancing the stakeholder process so market participants have the opportunity to fully voice their views before the Board on important issues affecting the operations and markets of the California ISO; and

WHEREAS, Ms. Lowe continually championed green power, helping bolster California's power grid by approving transmission expansions that included the Sunrise and Tehachapi projects that will help renewable resources gain access to the grid as well as approving the development of an innovative new financing mechanism helping projects in remote renewable resource areas link to the transmission system; and

WHEREAS, Ms. Lowe supported management and staff in their efforts to launch the Market Redesign and Technology Upgrade, which will help transform the ISO markets and bring operational benefits that enhance reliability; and

WHEREAS, Ms. Lowe exhibited a commitment to the consumers of California, ensuring their interests were taken into consideration regarding energy policy decisions; and, now, it is therefore

MOVED, that the ISO Board of Governors hereby expresses its gratitude to Ms. Lowe for her pursuit of excellence as well as the commitment and dedication she displayed; and be it further

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

The resolution was moved by Governor Gage, seconded by Governor Capuano, and approved 5-0-0.

Governor Gage and Governor Capuano provided comments that acknowledged the contributions made by Ms. Lowe.

Ms. Lowe provided departing comments and acknowledged the efforts of the stakeholders and the ISO.

RECESSED

There being additional general session items to discuss, the general session of the Board of Governors was recessed until later in the morning.

RECONVENED

Mason Willrich, Chair of the Board of Governors, reconvened the general session of the Board of Governors at approximately 10:15.

ATTENDANCE

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

Mason Willrich, Chair
Tim Gage
Linda Capuano
Tom Page
Laura Doll

GENERAL SESSION

The following agenda items were discussed in general session:

PUBLIC COMMENT

Sue Mara, Alliance for Retail Energy Markets (AREM), provided general remarks regarding the need for resource adequacy tradable capacity products and requested that the ISO keep this a priority.

Chuck King, Vice President – Market Development and Program Management, responded by referencing the ongoing Market Initiatives Roadmap Ranking process and encouraged AREM to raise this issue as part of that process so that it could be prioritized accordingly.

Sidney Davies, Assistant General Counsel – Tariff, provided an update on the Resource Adequacy proceeding at the California Public Utilities Commission. Mr. King described the correlation between the CPUC process and the Roadmap process. Ms. Mara responded by noting the CPUC proceeding was separate and that the hold up was the on the part of the ISO.

Karen Edson, Vice President of External Affairs, stated that ISO would be in contact with AREM to ensure the concerns were understood and options were looked at.

Nancy Saracino, Vice President and General Counsel, acknowledged receipt of public comment letters from Western Power Trading Forum, Independent Energy Producers and Alliance for Retail Energy Markets.

DECISION ON MINUTES

Governor Gage moved for the approval of the Board of Governors general session minutes for December 12-13, 2007. Motion seconded by Governor Capuano, and approved 5-0-0.

CEO REPORT

Nancy Saracino, Vice President and General Counsel, noted that the CEO Report was posted and that copies were made available at the meeting. There were no questions from the Board regarding the CEO Report.

BRIEFING ON MRTU

BRIEFING

Chuck King, Vice President – Market Development & Program Management, advised the Board of a project management shift due to the completion of the software development stage. Steve Berberich, Vice President of Information Technology, would now be responsible for integration and delivery going forward while Mr. King will focus on solution quality and pricing areas.

Mr. King began the presentation by providing the Board with a background of MRTU program assessments since August 2007.

Debi LeVine, Director of Market Services and MRTU Program Manager, continued the presentation by discussing risk impacts and providing the Board with an overview of what had happened since the last Board meeting. Ms. LeVine noted that it had been announced to market participants the day prior that market simulation would be delayed from January 2, 2008 to February 19, 2008. Ms. LeVine discussed small issues that have been encountered and provided an overview of progress made. Ms. LeVine stated that the following four elements were required prior to the start of the next market simulation: Stability, Performance, End-to-End Testing and Quality of Solution. Ms. LeVine concluded her presentation by announcing that the MRTU Go Live date would not be April 1, 2008 and that a new date would not be determined until market participants have had an opportunity to test and provide feedback on MRTU functionality. Brief discussion followed regarding the impact on market participants.

PUBLIC COMMENT

Doug Parker, with Southern California Edison, provided supporting comments on management's decision to delay the MRTU Go-Live date. Mr. Parker stated that it was not necessary for the ISO to announce a Go Live date at this time but that SCE was recommending October or November 2008 as a Go Live date.

Jan Smutny-Jones, with Independent Energy Producers (WPTF), provided supporting comments on management's decision to delay the MRTU Go-Live date and noted that IEP and Western Power Trading Forum (WPTF) was requesting that the ISO announce a new early fall Go Live date by the June 1, 2008.

Dede Hapner, with Pacific Gas & Electric Company, provided supporting comments on management's decision to delay the MRTU Go-Live date and noted the importance of 'going slow to go fast'. Ms. Hapner commented on the difficulty of having a May or June 'maybe date' out there and recommended that ISO announce when it was are not going forward as soon as possible so that market participants could plan accordingly.

Carolyn Kehrein, with California Manufacturers & Technology Association (CMTA) and Energy Users Forum (EUF), provided the Board with a background on CMTA and EUF representations. Ms. Kehrein provided supporting comments on management's decision to delay the MRTU Go-Live date and noted concern about costs associated with too early of a start-up and requested that for planning purposes, the ISO announce as soon as possible that there will be a delay and that it would be delayed until at least October 1, 2008.

Ellen Wolfe, with Western Power Trading Forum, provided supporting comments on management's decision to delay the MRTU Go-Live date. Ms. Wolfe expressed concern regarding the uncertainty surrounding a new date and requested that the ISO state now that it will not go live prior to September 1, 2008 and that the ISO would commit to provide the new date by June 1, 2008.

Governor Willrich acknowledged the comments from the public and noted appreciation for the remarks. The Board thanked the public for its comments and for supporting the decision not to go live on April 1, 2008. Governor Capuano stated that the Board was working very hard on what date to set and that the public would be informed as soon as possible. Governor Gage noted that the comments from the public were appreciated and would be taken seriously. Governor Doll expressed appreciation to the ISO and the public for the work done on MRTU and stated the Board was very clear on what needed to be done, including determination that the criteria had been met. Governor Page inquired about system integration and confirmed that the level of communication between market participants and the ISO was occurring. Governor Willrich provided closing remarks and noted that it was clear what was being asked of the Board for consideration.

Steve Berberich, Vice President of Information Technology, assured the Board and market participants that the ISO would not open the market until the criteria was met and the ISO and market participants were ready. Mr. Berberich also stated that the ISO would not open the market on a date that is not acceptable to market participants and that the ISO understand the need to preserve test time for market participants. Mr. Berberich noted that the ISO would be better positioned to determine the Go Live date at the conclusion of the February 19, 2008 market simulation.

BRIEFING ON BID MITIGATION FOR EXCEPTIONAL DISPATCHES UNDER MRTU

BRIEFING

Chuck King, Vice President – Market Development and Program Management, introduced the topic and noted that the item was before the Board as a briefing as opposed to a decisional item to allow for the stakeholder process to continue.

Keith Casey, Director of Market Monitoring, provided the Board with further explanation as to why the decision on this matter was deferred to a later Board meeting.

Eric Hildebrandt, Manager - Analysis & Mitigation, began his presentation by providing an overview of the potential reasons for Exceptional Dispatches that included: System Energy, Reliability requirements not incorporated or fully met by MRTU network model, or other unit operating or environmental constraints not incorporated in the MRTU model. Mr. Hildebrandt reviewed the two types of Exceptional Dispatches and the associated payouts.

Mr. Hildebrandt provided an overview of the proposed tariff changes and discussed the impact of those changes on MRTU implementation. Mr. Hildebrandt stated that the proposed mitigation could be implemented without change in scope or functionality of MRTU by using manual workarounds if necessary. Mr. Hildebrandt concluded his presentation by providing an overview of stakeholder

comments and noted that while the proposal was strongly supported by Load Serving Entities and the California Public Utilities Commissions, there were concerns expressed by the Generator owners.

PUBLIC COMMENT

Ellen Wolfe, with Western Power Trading Forum, noted that WPTF is a strong supporter of competitive markets and noted concern with management's proposal to eliminate the payment of bid amounts for exceptional dispatches. Ms. Wolfe referenced the memo from WPTF dated January 24th regarding the same. Discussion followed regarding fixed costs recovery scenarios and PJM's exceptional dispatch provisions.

Brian Theaker, with Dynegy, supports management's decision to delay the decision as additional stakeholder process is needed. Mr. Theaker noted concerns with management's proposal and stated that procuring more from SP26 would be a solution that would not warrant exceptional dispatch.

Brian Hitson, with Pacific Gas & Electric Company, provided supporting comments on management's proposal and expressed appreciation of the work currently been to mitigate and test potential market power situations.

David Schiada, with Southern California Edison, provided supporting comments on management's proposal and noted support with the comments expressed by PG&E. Mr. Schiada stated that SCE would continue to work with the ISO Department of Market Monitoring on the proposal.

Carolyn Kehrein, with California Manufacturers Technology Association and Energy Users Forum, noted support with management's proposal and noted support with the comments expressed by PG&E and SCE.

Charlyn Hook, with the California Public Utilities Commission, provided supporting comments on management's proposal and noted that the mitigation proposal now addresses the concern by the CPUC pertaining to market power mitigation. Ms. Hook noted that the CPUC supported the decision delay to allow for additional stakeholder process.

BOARD DISCUSSION

Governor Page inquired as to whether exceptional dispatch would be a manual process. Mr. Hildebrandt responded that payment adjustments might be applied through a manual settlement workaround. Discussion followed. Jim Detmers, Vice President of Operations, noted that it was management's intention to minimize the number of exceptional dispatches. Further discussion followed. Mr. Detmers stated that management's objective was to have all of this reflected in the day-ahead market runs. Governor Gage requested that management continue to explore the issue of transparency. Discussion followed.

MARKET PERFORMANCE REPORT – November and December 2007

Alan Isemonger, Manager – Market Information, provided a brief overview of November 2007 market

highlights, noting it was a quiet month. Mr. Isemonger reviewed the monthly market performance metrics for 2007, real time balancing energy prices, cost of balancing energy, costs of out of sequence energy, ancillary services markets, resource adequacy unit commitment costs, FERC must offer obligation commitment costs, and inter-zonal congestion costs.

Mr. Isemonger then provided a brief overview of December 2007 market highlights, noting it was also a quiet month. Mr. Isemonger reviewed the monthly market performance metrics for 2007, real time balancing energy prices, cost of balancing energy, costs of out of sequence energy, ancillary services markets, unit commitment costs, and inter-zonal congestion costs.

RECESSED

There being additional general session items to discuss, the general session of the Board of Governors was recessed at approximately 12:20.

RECONVENED

Mason Willrich, Chair of the Board of Governors, reconvened the general session of the Board of Governors at approximately 1:20.

ATTENDANCE

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

Mason Willrich, Chair
Tim Gage
Linda Capuano
Tom Page
Laura Doll

DECISION ON INTERIM CAPACITY PROCUREMENT MECHANISM

PROPOSAL

Phil Pettingill, Manager of Infrastructure Policy and Contracts, began his presentation by provided the Board with a history of the Interim Capacity Procurement Mechanism (ICPM) initiative, including its relation to the Reliability Capacity Services Tariff. Mr. Pettingill discussed the purpose of the initiative and noted that it would provide the California ISO with the ability to procure capacity, if necessary, to serve load and reliably operate the grid. Mr. Pettingill reviewed reasons as to interim nature of the proposal and then further discussed seven of the key elements of the ICPM proposal. Mr. Pettingill demonstrated how the ICPM elements worked together by walking through an example timeline of a significant event that lasted five months. Mr. Pettingill concluded his presentation by providing an overview of how the proposal appropriately balanced the diverse interests of the stakeholders as a result of a robust and lengthy stakeholder process.

Discussion followed regarding the types of resource revenues in response to an inquiry from Governor Gage. Governor Willrich inquired as to whether auctions were considered in lieu of ICPM. Mr. Pettingill responded that auctions were considered, however the risk of a potential market power situation or surplus situation was too high. Brief discussion followed regarding the voluntary nature of the sale in response to an inquiry from Governor Doll.

PUBLIC COMMENT

Carolyn Kehrein, with California Manufacturers Technology Association, Energy Users Forum, and California Large Energy Consumers Association, provided supporting comments on management's proposal. Ms. Kehrein noted a few concerns regarding high payments, declined designations and the credit for dispatch for exceptional events. Ms. Kehrein also commented on the need for a standardized capacity market.

David Schiada, with Southern California Edison, provided generally supporting comments on management's proposal. Mr. Schiada noted a few concerns regarding the definition of a significant event.

Sue Mara, with Alliance for Retail Energy Markets, provided generally supporting comments on management's proposal. Ms. Mara acknowledged the January 25, 2008 AReM letter provided to the Board and noted a few concerns regarding Resource Adequacy credit.

Bob Tang, on behalf of the Six Cities, provided generally supporting comments management's proposal. Mr. Tang noted a few concerns regarding the scope of the proposal and the pricing signals.

Tony Braun, with California Municipal Utilities Association, provided generally supportive comments and noted agreement with the concerns addressed by Mr. Tang on behalf of Six Cities.

Brian Hitson, with Pacific Gas and Electric Company, provided supportive comments on management's proposal, noted that it was reasonable, and acknowledged that difficult compromises had to be made. Mr. Hitson noted a few concerns regarding the voluntary aspect of the ICPM designation as well as Board involvement earlier in the process.

Mike Florio, with The Utility Reform Network, provided supporting comments on management's proposal and commended the rigorous and participatory stakeholder process. Mr. Florio noted agreement with many of the public comments and agreed that the proposal remained fair and balanced.

Elizabeth Dorman, with the California Public Utilities Commission, provided supporting comments on management's proposal and commented on the success of the stakeholder process. Ms. Dorman noted that sometimes the best proposal was one that made all equally dissatisfied.

Linda Sherif, with Calpine, provided generally supporting comments on management's proposal. Ms. Sherif reviewed several elements of management's proposal and discussed several Calpine counter-proposals as outlined in the handout materials. Alex Makler, also with Calpine, acknowledged the stakeholder process and noted a few additional comments.

Market Surveillance Committee Opinion

Frank Wolak, Chairman of the Market Surveillance Committee, provided the Board a general overview of the MSC Opinion entitled "Opinion on Interim Capacity Payment Mechanism under MRTU".

BOARD DECISION

Discussion followed pertaining to whether a significant event could result in an exceptional dispatch in response to an inquiry from Governor Page. Mr. Pettingill discussed sample situations and noted that it could start out as an exceptional dispatch and ultimately become a significant event and procure under ICPM. Discussion followed regarding pricing, Residual Unit Commitments (RUC), and offer obligations in response to inquiries from Governor Willrich and Governor Gage. Keith Casey, Director of Market Monitoring, provided additional clarification regarding the payment options and comparison of RUC. Governor Capuano noted that opposing parties did not make public comment, acknowledgement of the comments in the stakeholder matrix and encouraged stakeholders to make public comment.

Motion

Governor Gage:

Moved, that the ISO Board of Governors approve the Interim Capacity Procurement Mechanism as outlined in the memorandum dated January 18, 2008, and related attachments; and

That the ISO Board of Governors authorizes 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 Doll, and approved 5-0-0.

DECISION ON CONGESTION REVENUE RIGHTS CONTINGENCY PLAN

PROPOSAL

Debi LeVine, Director of Market Services, began her presentation by providing the Board with a background on congestion revenue rights and provided an overview of what needed to be done in light of the delay of the MRTU Go-Live date. Ms. LeVine thanked the stakeholders for their participation in the process. Ms. LeVine provided a brief overview of three options that were considered regarding congestion revenue rights. Ms. LeVine stated that management was recommending option 2 and proposed to resettle the CRR Auction. Ms. LeVine provided a brief overview of three options that were considered regarding firm transmission rights. Ms. LeVine stated that management was recommending option 2 and proposed holding an expedited FTR auction. Ms. LeVine provided an

overview of the stakeholder process and highlighted comments submitted by the stakeholders. Ms. LeVine concluded her presentation by requesting approval to immediately file the requested tariff language with the Federal Energy Regulatory Commission.

PUBLIC COMMENT

David Schiada, with Southern California Edison, provided generally supporting comments on management's proposal and noted it was consistent with SCE's expectations.

Brian Hitson, with Pacific Gas and Electric Company, provided supportive comments on management's proposal and noted that it was a practical solution.

BOARD DECISION

Governor Gage acknowledged the efforts on the process under the circumstances. Governor Willrich noted the backstop was good in light of the stress levels of the ISO and market participants. {John: appropriate to include this level of comment? If not – nothing else was said in Board discussion}

Motion

Governor Doll:

*Moved, that the ISO Board of Governors approve the Congestion Revenue Rights Contingency Plan as proposed in the memorandum, dated January 28, 2008, and related attachments; and
That the ISO Board of Governors approve, as part of the CRR Contingency Plan, the proposed quantities of Firm Transmission Rights for the FTR Auction for 2008-2009, as described in the memorandum dated January 28, 2008 and related attachments; and
That the ISO Board of Governors authorizes 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 Page, and approved 5-0-0.

DECISION ON REIMBURSEMENT RESOLUTION AND BRIEFING ON 2008 PROPOSED BOND ISSUANCE

PROPOSAL

Phil Leiber, Treasurer and Director of Financial Planning, began his presentation by noting this was the fifth bond offering and that management was requesting a decision on one piece of the transaction, the reimbursement resolution. Mr. Leiber provided the Board a summary of the proposed bond issue and provided an overview of the positive and negative factors in the issuance environment. Discussion followed pertaining to a fixed rate vs. variable rate in response to an inquiry from Governor Willrich. Governor Gage inquired as to whether the stakeholders had any preferences. Mr. Leiber responded that the ISO would face opposition if we tried to get directly from the rates. Further discussion followed

regarding the size of the bond offering. Mr. Leiber provided an overview of the members of the financing team and discussed the planned schedule. Mr. Leiber reviewed several potential risks and noted the various mitigations in response. Mr. Leiber concluded his presentation by noting that preparations for the bond issuance was underway and that a Board decision was needed in order to provided management with the needed flexibility. Discussion followed regarding who would be the ultimate buyer of the bonds in response to an inquiry by Governor Page.

PUBLIC COMMENT

There was no public comment.

BOARD DECISION

Motion

Governor Gage:

***RESOLUTION DECLARING OFFICIAL INTENT OF
CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION
TO REIMBURSE CERTAIN EXPENDITURES FROM PROCEEDS OF INDEBTEDNESS
ADOPTED JANUARY 29, 2008***

WHEREAS, the California Independent System Operator Corporation (the "Corporation") expects to pay certain expenditures (the "Expenditures") in connection with its 2008-2009 capital and project budgets (collectively, the "Project") prior to and in anticipation of the issuance of indebtedness for the purpose of financing the capital expenditures on a long-term basis;

WHEREAS, the Corporation reasonably expects that debt obligations will be issued in one or more series and that certain proceeds of such debt obligations will be issued to pay or reimburse the Expenditures for the Project in an amount not to exceed \$60,000,000; and

WHEREAS, Section 1.150-2 of the Treasury Regulations requires the Corporation to declare its official intent to reimburse itself for prior expenditures for the Project with proceeds of debt obligations;

NOW, THEREFORE, THE CORPORATION hereby resolves:

- 1. The Corporation finds and determines that the foregoing recitals are true and correct.*
- 2. The Corporation hereby declares its official intent to use proceeds of indebtedness to pay or reimburse itself for Expenditures in an amount not expected to exceed \$60,000,000.*
- 3. This Resolution shall take effect from and after its adoption.*

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

ADR/AUDIT COMMITTEE UPDATE

Governor Gage, Chair of the ADR/Audit Committee, recommended that the Board accept the report on

testing of the California ISO 2007 Code of Conduct Certification Process issued by PricewaterhouseCoopers, as recommended by the ADR/Audit Committee.

Motion

Governor Gage:

MOVED, that the ISO Board of Governors accept the report on the testing of the CAISO 2007 Code of Conduct Certification Process issued by PricewaterhouseCoopers on January 18, 2008.

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

BRIEFING ON 2008 TRANSMISSION PLAN

Gary DeShazo, Director of Regional Transmission North, began his presentation by reviewing the transmission planning accomplishments over the last year. Mr. DeShazo noted the 64 transmission projects that were placed into service during 2007, the 90 new transmission projects that were proposed as part of the 2007 planning cycle, and provided a status overview of the 54 proposed projects by the PTOs for California ISO approval. Mr. DeShazo reviewed the forward and backward looking reliability management cost analysis. Mr. DeShazo discussed local capacity requirements and concluded his presentation by providing an overview of further enhancements and new initiatives. Further discussion followed regarding the definition and measurements of local capacity requirements in response to an inquiry from Governor Gage. Mr. DeShazo noted that the plan was another step in the process and there was additional work to be done. Further discussion followed regarding what is done with the information that was compiled as part of the short-term plan, in response to an inquiry from Governor Doll.

INFORMATIONAL REPORTS

Bill Regan, Vice President and Chief Financial Officer, provided the Board with a brief overview of the year-end financial slides.

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 4:00 p.m.