

GENERAL SESSION MINUTES
ISO BOARD OF GOVERNORS MEETING
October 29, 2009
ISO Headquarters
Folsom, California

October 29, 2009

Mason Willrich, Chair of the ISO Board of Governors, called the general session meeting to order at approximately 11:05 a.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
Kristine Hafner

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

Chairman Willrich provided welcoming comments to Kristine Hafner as a newly-appointed ISO Board member.

GENERAL SESSION

The following agenda items were discussed in general session:

PUBLIC COMMENT

David Kates, on behalf of Nevada Hydro Company and representing the Lake Elsinore Advanced Pump Storage Project and the Talega-Escondido / Valley-Serrano 500-kV Transmission Line Project, provided comments to the Board regarding the project. Mr. Kates addressed an October 14, 2009 letter from Nevada Hydro to the Board and Yakout Mansour regarding issues raised at the September Board meeting. Keith Casey, Vice President of Market and Infrastructure Development, noted that Management intended to respond to the letter within the next several weeks.

DECISION ON MINUTES

Governor Capuano moved for the approval of the ISO Board of Governors general session minutes for September 10-11, 2009. The motion was seconded by Governor Doll, and approved 5-0-0.

CEO REPORT

Yakout Mansour, President and CEO, provided the Board with an overview of market operations under the new market design and emphasized the success of summer operations. Mr. Mansour continued his report by providing an overview of infrastructure development, including the area of reliability must run (RMR) released capacity. Mr. Mansour provided an overview of the way RMR contracts work and emphasized the importance of RMR and the capacity of the plants even if not under RMR contract, especially in times of emergency. Mr. Mansour continued his report by discussing the success of the stakeholder symposium. Mr. Mansour concluded his report by providing welcoming comments to Governor Hafner. Mr. Mansour also welcomed Keith Casey as Vice President of Market and Infrastructure Development and recognized the elevation of Brenda Thomas to Vice President of Human Resources. Discussion ensued regarding the timing of the tariff amendment to facilitate development of 33% renewables. Management noted that the item was tentatively scheduled for the December Board meeting.

BRIEFING ON 2009-2011 MARKET INITIATIVES RELEASE PLAN

Janet Morris, Program Office Director, provided the Board with an overview of the market initiatives release plan and noted the ISO was on track to deploy key 2009 market initiatives including solar forecasting, payment acceleration, simplified ramping, standard capacity product, and must offer for ancillary services. Ms. Morris provided a high-level overview of each of the initiatives. Ms. Morris also provided an overview of scarcity pricing, proxy demand resource, procurement of ancillary services in hour-ahead scheduling process, and noted they were all on track for deployment on April 1, 2010. Ms. Morris discussed the challenges associated with an April 1 deployment for multi-stage generator modeling. Ms. Morris provided an update on convergence bidding and noted that deployment was targeted for February 1, 2011. Ms. Morris concluded her presentation by reviewing the release plan diagram and discussing future market enhancements as consistent with the strategic plan. Discussion ensued regarding the schedule of the California Public Utilities Commission as related to the proxy demand initiative.

DECISION ON CONVERGENCE BIDDING DESIGN

Dr. Casey provided introductory comments on Management's proposal on convergence bidding design and noted that a good balance had been achieved. Greg Cook, Market Design and Regulatory Policy Manager, provided the Board with an overview of the proposal and stated that convergence bids were financial bids submitted in the day-ahead market to buy or sell energy. Mr. Cook noted that convergence bidding operates successfully in all other U.S. Independent System Operator markets. Mr. Cook reviewed two examples of convergence bidding scenarios. Mr. Cook continued his presentation by reviewing the important benefits of nodal convergence bidding and provided an overview of the proposed design elements. Mr. Cook stated the

proposal included sufficient safeguards to address concerns raised by nodal convergence bidding and that the proposal obtained the objective of mitigating concerns without compromising functionality. Mr. Cook concluded his presentation by discussing the stakeholder process and the issues raised by stakeholders. Mr. Cook noted that corollary issues raised during the process would be addressed through subsequent stakeholder processes. Discussion ensued regarding registration and credit requirements as well as staffing resources.

Public Comment

Ms. Saracino acknowledged receipt of the following public comment letters: DC Energy, Western Power Trading Forum, Alliance for Retail Energy Markets, Financial Institutions Energy Group, EPIC Merchant Energy and JPTC, LLC.

Veronica Andrews, on behalf of Pacific Gas and Electric Company, provided generally supportive comments on Management's proposal and commended the ongoing collaboration. Ms. Andrews addressed matters underway in the stakeholder process and requested that the Board receive a further update at the December meeting.

Steve Williams, on behalf of San Diego Gas and Electric Company, provided generally supportive comments on Management's proposal and recommended that the Market Surveillance Committee provide further guidance on position limits. Mr. Williams commented on outstanding open design issues and requested a report back to the Board at the December meeting.

Jeff Nelson, on behalf of Southern California Edison, made generally supportive comments on Management's proposal and provided the Board with a handout entitled "Comments of Southern California Edison on Convergence/Virtual Bidding". Mr. Nelson addressed the issues raised in the written comments and requested the continued involvement of the Board.

Brian Theaker, on behalf of Dynegy, provided supportive comments on Management's proposal and noted convergence bidding was a best practice at other ISOs. Mr. Theaker addressed several outstanding matters but noted that it was time to move forward as quickly as possible.

Bishu Chatterjee, on behalf of the California Public Utilities Commission, provided comments on Management's proposal and noted the importance of market design implementation. Mr. Chatterjee addressed several areas of importance and commented on the upcoming CPUC proceeding noting that the CPUC would be seeking proposals from utilities. Mr. Chatterjee emphasized the importance of getting it right from the start. Brief discussion followed regarding the status of the CPUC proceeding.

Sean Beatty, on behalf of Mirant, provided generally supportive comments on Management's proposal and requested that implementation be as close to April 1, 2010 as possible.

Chris Carpenter, on behalf of DC Energy, provided generally supportive comments on Management's proposal and noted that the design was an improvement to the Eastern market designs. Mr. Carpenter commented on the areas of nodal design and market monitoring and requested that implementation be as close to April 1, 2010 as possible.

Ellen Wolfe, on behalf of Western Power Trading Forum, provided generally supportive comments on Management's proposal. Ms. Wolfe addressed the five matters raised in the written comments provided to the Board. Ms. Wolfe commented on the extensive stakeholder process and noted that the outstanding matters were being addressed as part of the process.

Mary Lynch, on behalf of Constellation, provided supportive comments on Management's proposal and commended the stakeholder process. Ms. Lynch provided comments from the load serving entity perspective and recommended that the Board approve the proposal.

Steve Greenleaf, on behalf of J.P. Morgan, provided generally supportive comments on Management's proposal and commended the stakeholder process. Mr. Greenleaf requested that implementation take place as soon as possible.

Matt Barmack, on behalf of Calpine, provided generally supportive comments on Management's proposal and noted a few concerns with the position limits element.

Frank Wolak, Chair of the Market Surveillance Committee, provided comments on the MSC Opinion on Convergence Bidding. Dr. Wolak commented on the MSC's support of convergence bidding and further described its benefits. Dr. Wolak noted that it was an ongoing matter and that the MSC would remain an active participant in the process. Dr. Wolak addressed the matters raised during public comment and provided the MSC view on the issues. Dr. Wolak concluded his comments by emphasizing the importance of the CPUC's role.

Discussion followed regarding the release of information piece of the proposal as well the position of the Market Surveillance Committee and the Department of Market Monitoring. The Board acknowledged the importance of its continued involvement throughout the process and the need for routine updates to the Board on convergence bidding. Discussion followed regarding the potential of financial risks associated with convergence bidding. Management noted that convergence bids would not be a dominating factor in the market. Chairman Willrich addressed the FERC mandate to file the proposal and provided summary remarks stating that the Board would remain engaged.

Board Decision

Governor Capuano:

Moved, that the ISO Board of Governors approves the proposed market enhancement, convergence bidding, as described in the memorandum dated October 21, 2009, 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 this proposal.

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

RECESSED

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

RECONVENED

Mason Willrich, Chair of the ISO Board of Governors, reconvened the general session meeting to order at approximately 1:25 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
Kristine Hafner

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

BRIEFING ON RESULTS OF RMR CONTRACT PROCESS

Keith Casey, Vice President of Market and Infrastructure Development, provided introductory comments on the reliability must run (RMR) contract process. Mr. Casey commented on the September briefing to the Board and noted that he wanted to further address circumstances surrounding the Potrero and South Bay RMR units. Mr. Casey stated that Management decided to extend the RMR contracts on the units for 2010 and noted that Potrero 3 could be released mid-year if the TransBay Cable project became operational and performed as expected. Mr. Casey noted that South Bay units 3 and 4 were released as the Otey Mesa power plant recently became operational. However, the RMR contracts for units 1 and 2 were extended until remaining conditions were met.

Gary DeShazo, Director of Regional Transmission North, provided the Board with a briefing on the results of the RMR contract process for 2010. Mr. DeShazo reviewed a listing of RMR units to be retained and released.

Public Comment

Ms. Saracino acknowledged receipt of numerous telephone calls from the San Francisco community as well as receipt of the following public comment letters: the California State Senate, the City and County of San Francisco, and a joint letter from Brightline Defense Project, San Francisco Community Power, San Francisco Green Party, and Geenaction for Health and Environmental Justice. Ms. Saracino noted that it is the ISO's practice to not respond in writing

to public comment letters as it is the public process at the meeting that grants the opportunity for dialog with the Board. Ms. Saracino stated that this also applied to letters received following a Board meeting, where the letter reiterates positions asserted by stakeholders during the comment period.

Jon Lau, on behalf of Supervisor Maxwell with the City and County of San Francisco, noted appreciation for the closure of the Hunters Point plant. Mr. Lau noted he was encouraged by Dr. Casey's opening remarks regarding the impact of the Trans Bay Cable project and requested that an early release clause be added to the Potrero RMR contract. Mr. Lau provided additional comments pertaining to communications regarding system upgrades.

Theresa Mueller, on behalf of the City and County of San Francisco, noted appreciation for the opening remarks of Dr. Casey. Ms. Mueller stated she would like to see commitments to early termination of the RMR contract in writing. Ms. Mueller noted that Mirant was willing to close the Potrero units if they were no longer needed for reliability.

Joshua Arce, on behalf of Brightline Defense Project, provided comments and noted additional support for closure of the Potrero plant units by Mayor Newsom, Senator Yee and Senator Leno as soon as the Trans Bay Cable project becomes operational. Mr. Arce noted that Mirant was willing to close the Potrero units if they were no longer needed for reliability. Mr. Arce also provided the Board with written comments on behalf of Espanola Jackson.

Eddie Ahn, on behalf of Brightline Defense Project, provided comments pertaining to environmental justice policy making. Mr. Ahn noted Brightline would like to collaborate with the ISO in pursuing goals for environmental justice in San Francisco.

Marie Harrison, on behalf of Greenaction for Health and Environmental Justice, provided comments and stated that Mirant was willing to close the plant if the RMR contract was terminated. Ms. Harrison provided comments regarding the stakeholder process and noted that community members were important stakeholders. Ms. Harrison requested to be part of the process as decisions were being made.

Dr. Casey provided remarks in response to the public comment and referenced an April 2009 letter to the CPUC from the ISO that noted Potrero 3 would be closed upon the opening of Trans Bay Cable. Dr. Casey noted that the technical analysis to see what units would be needed was a high priority for the ISO.

DECISION ON OUTAGE AND FORECASTING MODIFICATIONS FOR ELIGIBLE INTERMITTENT RESOURCES

Proposal

Grant Rosenblum, Manager – Integration of Renewable Resources Program, provided the Board with an overview of Management's recommendation for a decision on outage and forecasting modifications for eligible intermittent resources. Mr. Rosenblum stated that two tariff modifications were needed to improve renewable resource forecasting accuracy. The first proposed to extend applicability of forecasting data and equipment requirements to a broader set

of renewable resources. The second tariff modification proposed to reduce the forced outage reporting threshold from 10 MW to 1MW. Mr. Rosenblum noted that the new technical requirements would be included in a Business Practice Manual that would be subject to the change management process, including stakeholder input and routine reports to the Board. Mr. Rosenblum concluded his presentation by providing an overview of concerns raised during the stakeholder process and how they were being addressed by Management.

Public Comment

Ms. Saracino acknowledged receipt of a public comment letter from the California Wind Energy Association.

Susan Schneider, with Phoenix Consulting on behalf of the California Wind Energy Association, provided generally supporting comments on Management's proposal and the stakeholder process. Ms. Schneider emphasized the importance of the participating intermittent resources program to the wind community. Ms. Schneider provided further comments regarding the forecast fee piece of the proposal as further addressed in the written comments provided by CalWEA.

Discussion followed regarding incentives associated with the participating intermittent resources program. Mr. Rosenblum stated that most resources coming on would be in the PIRP program and that the extension will not be as dramatic as it might appear. Mr. Rosenblum noted the importance of the data from all intermittent resources. Discussion followed and Ms. Schneider noted their concern was focused on the forecast fee. Discussion followed regarding revisiting the forecast fee at a future date once data has been collected.

Board Decision

Motion

Governor Capuano:

Moved, that the ISO Board of Governors approves the proposed tariff changes regarding (1) enlarging the applicability of the forecasting and communication equipment and data requirements of the Eligible Intermittent Resource Protocol to specified Eligible Intermittent Resources and (2) reducing for Eligible Intermittent Resources the threshold for reporting Forced Outages from 10 to one MW, as detailed in the memorandum dated October 21, 2009, 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 proposal.

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

BRIEFING ON EXTENSION OF CURRENT GRID MANAGEMENT CHARGES THROUGH 2010 WITH A MODIFICATION TO THE MARKET USAGE FORWARD ENERGY CHARGE

Proposal

Charles Snay, Lead Financial Analyst, provided the Board with an overview of Management's proposal to extend the grid management charge (GMC) through 2010 and to make a modification to the market usage forward energy charge. Mr. Snay provided the Board with a background of the market usage forward energy charge and stated it was designed to recover the ISO's forward market costs. Mr. Snay provided an overview of the following three options that were considered by Management: netting option, gross option and the "greater of" option. Mr. Snay reviewed a chart with monthly examples of the three utilities that portrayed outcomes under each of the options. Mr. Snay described the stakeholder process and provided an overview of the stakeholder positions. Mr. Snay concluded his presentation by reviewing the reasons why the "greater of" option was the recommended option.

Public Comment

Ms. Saracino acknowledged receipt of a public comment letter from the Alliance for Retail Energy Markets.

Jeffrey Nelson, on behalf of Southern California Edison, provided comments on Management's proposal and noted he felt the scope of the proposal was too wide and that the netting issue should be left as is and addressed on an annual basis.

Matt Barmack, on behalf of Calpine, provided supporting comments on Management's proposal and noted Calpine's support for the "greater of" approach.

Ellen Wolfe, on behalf of Western Power Trading Forum, provided comments on Management's proposal and noted WPTF's support of the gross methodology for the rate design. Ms. Wolfe provided further comments regarding the impact of changes to the rate design and noted concern that a two-year timeframe was too long.

Brian Theaker, on behalf of Dynegy, provided comments on Management's proposal and noted consensus with WPTF's comments. Mr. Theaker noted agreement that the right cost causation proposal was to allocate on a gross basis but that the two-year timeframe was too long.

Steve Greenleaf, on behalf of J.P. Morgan, provided comments on Management's proposal and noted appreciation for Management's work in expediting the proposal. Mr. Greenleaf noted that the proposal was a reasonably balanced interim solution. Mr. Greenleaf stated he would like to see the issue further addressed in the 2010 timeframe and in place by 2011.

Steve Berberich, Vice President of Technology and Corporate Services and Chief Financial Officer, provided comments in response to the public comment. Mr. Berberich provided further comments in support of using the gross methodology for cost causation and noted that

Management was prepared to review the GMC structure at the end of 2010. Discussion ensued regarding the impact of cost shifting.

Board Decision

Motion

Governor Capuano:

Moved, that the ISO Board of Governors approves the proposed tariff changes regarding the extension of the grid management charge through December 31, 2010 and modifications to the grid management charge market usage forward energy charge, as detailed in the memorandum dated October 21, 2009; 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 this proposal.

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

DECISION TO MODIFY BOARD COMPENSATION

Nancy Saracino, Vice President, General Counsel and Corporate Secretary, provided the Board with an overview of the proposed modifications to Board compensation. Ms. Saracino noted the modifications allowed for Board members to be compensated for attendance at ISO-sponsored events where the Chief Executive Officer requested Board member attendance. Ms. Saracino also reviewed the modification to allow for Board members to be compensated for participation in the new Board member orientation process. Brief discussion followed.

Motion

Governor Doll:

Moved, that in accordance with Article III, Section 17 of the bylaws, the ISO Board of Governors hereby modifies the compensation to Board members for their service to the California ISO to include compensation at ISO-sponsored stakeholder events where the Chief Executive Officer specifically requests Board member attendance, effective October 1, 2009:

- *The standard annual retainer paid to a Governor shall be \$20,000, paid in accrued quarterly installments;*
- *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;*
- *A fee of \$500 shall be paid for each day of in-person participation at ISO-sponsored stakeholder events where the Chief Executive Officer specifically requests Governor attendance;*
- *A fee of \$500 shall be paid to new Governors for in-person participation in the ISO's new Board member orientation process.*
- *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 meetings or events as representatives of the Board, including ISO/RTO Council meetings and other electric utility or power industry meetings, at the request of the Chair or ISO Management in consultation with the Chair, are not eligible for compensation but 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 Capuano, and approved 5-0-0.

BRIEFING ON IRON POINT FACILITY

Steve Berberich, Vice President of Technology and Corporate Services and Chief Financial Officer, provided the Board with an update on the Iron Point facility and noted that the project remained principally on schedule and budget. Mr. Berberich discussed events that would be occurring by the end of the year. Mr. Berberich concluded his presentation by providing an overview of the project schedule.

INFORMATIONAL REPORTS

There were no comments on the informational reports.

ADJOURNED

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