

**GENERAL SESSION MINUTES
ISO BOARD OF GOVERNORS MEETING
December 15-16, 2010
ISO Headquarters
Folsom, California**

December 15, 2010

Mason Willrich, Chair of the ISO Board of Governors, convened the general session meeting at approximately 9:10 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 Habashi
Bob Foster

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

GENERAL SESSION

The following agenda items were discussed in general session:

Board Chair Mason Willrich provided remarks regarding his years of service with the ISO and confirmed that he would not be seeking re-appointment. Chairman Willrich provided further comments and noted it was a pleasure and a privilege to serve a member of the ISO Board of Governors.

PUBLIC COMMENT

Eric Leuze, on behalf of GenOn Energy, provided comments regarding the formation of GenOn and noted he was looking forward to working with the ISO in the areas of product development. Mr. Leuze also acknowledged his appreciation for Chairman Willrich's leadership.

DECISION ON MINUTES

Governor Foster moved for the approval of the Board of Governors general session minutes for November 1-2, 2010. The motion was seconded by Governor Habashi, and approved 3-0-1.

CEO REPORT and DECISION ON 2011 – 2015 STRATEGIC PLAN

Yakout Mansour, President and Chief Executive Officer, provided comments in recognition of Mason Willrich, ISO Board Chair, for his years of service and dedication to the ISO. Mr. Mansour then provided a status update on the move to the Iron Point facility and the continued success of operations in the new control room. Mr. Mansour acknowledged the efforts of everyone involved and noted the project was on schedule and under budget. Mr. Mansour provided an update on the reliability must-run designations and noted that Trans Bay Cable successfully began commercial operation on November 23, 2010 and the final segment of the San Francisco Recabling Project was completed on December 5, 2010. Mr. Mansour also noted that the reliability must-run agreement with Mirant would terminate by February 28, 2011.

Mr. Mansour provided a high-level overview of the transmission development and upgrades that, once completed, would provide access to more than enough in-state renewable resources to meet the 33% RPS requirement for ISO load-serving entities. Mr. Mansour then updated the Board on the newly-implemented internal credit tracking system that represented a step towards greater transparency into a market participant's overall liabilities in the ISO market.

Mr. Mansour provided the Board with an overview of the strategic planning process and stated that the theme of this year's five-year plan was "striking the balance." Mr. Mansour noted that the theme itself was not new, but it now represented added complexity that the ISO and the electric sector must address. Mr. Mansour acknowledged the efforts and level of engagement from the Board throughout the process. Discussion followed and the Board provided comments in support of the process, stakeholder input, and the importance of linking the budget to the strategic planning process.

Motion

Governor Habashi:

Moved, that the ISO Board of Governors approves the ISO's Five-Year Strategic Plan for 2011-2015, titled "Striking the Balance" and dated December 15, 2010, and directs Management to proceed with implementation of the plan.

The motion was seconded by Governor Foster, and approved 3-0-1.

DECISION ON MARKET SURVEILLANCE COMMITTEE APPOINTMENTS

Yakout Mansour, President and Chief Executive Officer, provided an overview of the Market Surveillance Committee appointment process and noted that the tariff requires that the Chief Executive Officer, subject to approval by the Board, make appointments to the Market Surveillance Committee. Mr. Mansour provided comments in appreciation to Dr. Frank Wolak, current Chair of the Market Surveillance Committee, for his thirteen years of service and

dedication to the ISO. Mr. Mansour the provided a high-level overview of the qualifications of Dr. Steven Stoft and Dr. Scott Harvey.

Motion - Stoft

Governor Foster:

Moved, that the ISO Board of Governors appoints Dr. Steven Stoft to the ISO Market Surveillance Committee for a three-year term beginning April 1, 2011 through March 31, 2014; and

Moved, that the Chief Executive Officer is authorized and directed to enter into an appropriate consulting agreement with Dr. Steven Stoft to compensate him for participation on the ISO Market Surveillance Committee.

The motion was seconded by Governor Habashi, and approved 3-0-1.

Motion – Harvey

Governor Foster:

Moved, that the ISO Board of Governors appoints Dr. Scott Harvey to the ISO Market Surveillance Committee for a three-year term beginning April 1, 2011 through March 31, 2014; and

Moved, that the Chief Executive Officer is authorized and directed to enter into an appropriate consulting agreement with Dr. Scott Harvey and compensate him for participation on the ISO Market Surveillance Committee.

The motion was seconded by Governor Habashi, and approved 3-0-1.

DECISION ON 2011 BUDGET

Ryan Seghesio, Chief Financial Officer and Treasurer, provided an overview of the budget development timeline and stated that the proposed revenue requirement was \$189.8 million, which was a decrease of \$5.3 million from 2010. Mr. Seghesio provided a summary overview of the 2011 revenue requirement as compared to 2010. Mr. Seghesio noted the proposed O&M budget decreased from \$162.7 to \$162.5 million in 2011. Mr. Seghesio provided an overview of an actual to budget comparison of the resource components. Mr. Seghesio stated that the debt service component of the revenue requirement declined by \$17.3 million in 2011 and that the proposed 2011 capital funding would be financed through the grid management charge. Mr. Seghesio stated that key grid management charge rates were projected to change based on lower volumes and lower revenue requirement. Mr. Seghesio concluded his presentation by

discussing the grid management charge rate structure and noted that the existing structure was extended through 2011 and work was underway on the new 2012 design. Discussion followed and the Board provided supportive comments regarding the efforts underway to restructure the rate design.

Motion

Governor Habashi:

Moved, that the ISO Board of Governors approves the 2011 Budget and Grid Management Charge Rates as set forth in Attachment A to the memorandum dated December 7, 2010, and authorizes Management to take all necessary and appropriate actions to implement the 2011 Budget and Grid Management Charge Rates.

The motion was seconded by Governor Foster, and approved 3-0-1.

BRIEFING ON TRANSMISSION PLAN

Keith Casey, Vice President, Market and Infrastructure Development, informed the Board that the development of the ISO's 33% Renewable Portfolio Standard Transmission Plan was a major milestone in for transmission planning in 2011. Dr. Casey provided an overview of the following steps taken in developing the 2011 ISO Annual Transmission Plan: (1) development of 33% RPS resource portfolios; and (2) assessment of the transmission needs to reliably accommodate the renewable resource portfolios. Dr. Casey stated that the ISO evaluated the adequacy of approved transmission under four 33% RPS portfolios and that sensitivity scenarios were examined for each portfolio.

Dr. Casey then provided an overview of a plausible hybrid case. Dr. Casey noted that transmission approved to date largely supported the study scenarios in meeting the 33% RPS but noted that to the extent the assumptions behind the plan change, the ISO would reassess and adjust the plan accordingly. Dr. Casey concluded his presentation by discussing next steps and noted that the 2011 Annual Transmission Plan would be presented to the Board in March.

Public Comment

Steve Metague, on behalf of Pacific, Gas and Electric Company, provided comments and noted the importance of transmission planning, including transmission upgrades, in order to meet the 33% RPS goal.

Discussion followed and the Board inquired about recent legislation regarding renewables and the focus of the study scenarios. Discussion ensued and the Board inquired whether the transmission planning analysis considered the need for greater regional coordination on renewable integration through providing 5-minute dispatch balancing services. Dr. Casey responded that current efforts to pilot intra-hour scheduling on the interties and current opportunities for 5-minute dynamic scheduling were positive steps towards this. Discussion

ensued and the Board commented on the need for a national policy on issues like this and the importance of also focusing on efforts to evaluate renewable energy procurement options with the goal of minimizing overall costs. Discussion followed.

BRIEFING ON MARKET INITIATIVES RELEASE PLAN

Steve Berberich, Vice President and Chief Operating Officer, provided the Board with a status update and noted that progress continued on several committed market initiatives with multiple deployments this month. Mr. Berberich stated that Management was mitigating hour-ahead scheduling process and real-time price divergence. Mr. Berberich noted that convergence bidding was on track for deployment on February 1, 2011. Mr. Berberich concluded the presentation by providing a high-level overview of the release plan and noted it had been expanded to show future policy efforts that would require implementation planning.

ACCEPTANCE OF 2010 OPERATIONS REVIEW

Tim Cherry, with PricewaterhouseCoopers, provided the Board with an overview of the background and scope of the operational assessment. Mr. Cherry stated the assessment was required by the tariff, performed annually, and focused on control room operations. Mr. Cherry stated that the 2010 scope covered transmission conforming processes. Mr. Cherry stated the PwC report was issued on December 6, 2010 and clarified it was a report of findings – not an opinion. Mr. Cherry provided an overview of the results and noted that most exception conditions occurred during periods of high system stress.

Debi Le Vine, Director of System Operations, stated the purpose of the 2010 operations review was for transmission conformance and noted the standard logging process included a review prior to the end of shift. Ms. Le Vine provided an overview of the exceptions noted in the report and concluded her presentation by discussing next steps.

Motion

Governor Foster:

Moved, that the Board accepts the report issued on December 6, 2010 by PricewaterhouseCoopers LLC for the testing of the 2010 Operations Review, as attached to the memorandum dated December 7, 2010.

The motion was seconded by Governor Habashi, and approved 3-0-1.

BRIEFING ON ISSUANCE OF 2010 SAS 70 AND SCOPE OF 2011 SSAE

Michael Hulet, with PricewaterhouseCoopers, provided the Board with an overview of the audit results for the 2010 SAS 70 and Audit Plan for 2011. Mr. Hulet discussed the purpose of the report, the expected use of the report, and noted the report period covered November 1, 2009 through October 31, 2010. Mr. Hulet provided an overview of the results of the audit and noted the opinion, issued on December 3, 2010, was unqualified. Mr. Hulet provided an overview of

the 2011 Audit Plan and noted that new guidance was issued and effective for the 2011 audit cycle – Statement on Standards for Attestation Engagements 16 (SSAE 16). Mr. Hulet concluded his presentation by providing an overview of the similarities and differences between SAS 70 and SSAE 16 and noted the impact on the ISO was not expected to be significant but that it would require additional effort from the ISO.

INFORMATIONAL REPORTS

There were no comments on the following informational reports: Regulatory Report, Operations Report, Financial Report, Status of State and Federal Legislative Matters, Market Performance Report, Business Practice Manuals Change Management Report, Compliance Committee Update, Market Surveillance Committee Update, FERC Form 3-Q, and Transmission Maintenance Coordination Committee Update.

ADJOURNED

There being no additional general session items to discuss, the general session of the ISO Board of Governors was adjourned at approximately 11:20 a.m.