

**GENERAL SESSION MINUTES
ISO BOARD OF GOVERNORS MEETING
July 12-13, 2012
ISO Headquarters
Folsom, California**

July 12, 2012

The ISO Board of Governors convened the general session meeting at approximately 1:00 p.m. and the presence of a quorum was established.

ATTENDANCE

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

Bob Foster, Chair
Ashutosh Bhagwat
Angelina Galiteva
Richard Maullin
David Olsen

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

GENERAL SESSION

The following agenda items were discussed in general session:

PUBLIC COMMENT

Ben Davis, Jr., on behalf of the California Nuclear Initiative, provided comments regarding summer reliability and the loss of the San Onofre Nuclear Generating Station. Discussion followed regarding mitigation measures underway in various areas, including Huntington Beach, in terms of longer-term grid reliability. Mr. Davis provided further comments and requested information pertaining to nuclear plant alternatives.

Dave Wright, on behalf of Riverside Public Utilities, provided comments regarding summer reliability and the loss of the San Onofre Nuclear Generating Station. Mr. Wright further discussed proactive measures underway by Riverside Public Utilities to address the loss of SONGS. Mr. Wright commended the support of ISO staff. Mr. Write provided additional comments of concern regarding the cap and trade

program. The Board and Management acknowledged the importance of the impact of cap and trade throughout the state and committed to working with stakeholders through the process.

Reiko Kerr, on behalf of Riverside Public Utilities, provided comments regarding FERC Order 741 and the ISO potentially becoming a central counter party to all transactions within the ISO. Ms. Kerr commended the ISO staff in working together on this matter. Ms. Kerr noted concern regarding the impact to tax-exempt entities that participate with the ISO. Nancy Saracino, Vice President and Chief Administrative Officer, provided responding comments and noted that the ISO recognized the importance of the issue and had retained tax counsel to work with the ISO on this matter.

DECISION ON GENERAL SESSION MINUTES

Governor Foster moved for approval of the Board of Governors general session minutes for the May 16-17, 2012 meeting. The motion was seconded by Governor Bhagwat and approved 5-0-0.

CEO REPORT

Steve Berberich, President and CEO, provided an update on the grid outlook for the summer with the San Onofre Nuclear Generating Station outage. Mr. Berberich provided an overview and congratulatory comments on the Sunrise Powerlink and Barre-Ellis upgrades. Mr. Berberich provided additional comments regarding reliability planning for the future. Mr. Berberich provided highlights of the following sections of his report: flexible capacity, renewable generation, cap and trade implementation, energy imbalance market, and the annual budget process.

Public comment

Ben Davis, Jr., on behalf of the California Nuclear Initiative, provided additional comments regarding emission credits. Mr. Davis read a list of questions to the Board and Management. Mr. Berberich noted that the system peak in May was about 28,000 and about 48,000 in July. Mr. Davis inquired about a nuclear power plant study and Keith Casey, Vice President of Infrastructure and Development, informed Mr. Davis that the study was still on track to be completed by the end of the year.

Ms. Saracino reminded the Board and the public that the ISO operates under an information availability policy with regards to these types of inquiries and that the policy permitted access to existing publicly-available documents but did not require the ISO to create documents in response to a request.

APPOINTMENT OF AUDIT COMMITTEE CHAIR AND MEMBER

Ms. Saracino provided an overview of audit committee membership requirements as well as a brief historical review of past committee structures. Chairman Foster recommended Governor Bhagwat and Governor Olsen as members, with Governor Bhagwat serving as Chair of the Audit Committee.

Motion

Governor Foster:

Moved that the ISO Board of Governors elects Ash Bhagwat and Dave Olsen to serve as members of the Audit Committee and appoints Ash Bhagwat to serve as chair of the Audit Committee.

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

DECISION ON REPLACEMENT REQUIREMENT FOR SCHEDULED GENERATION OUTAGES

Greg Cook, Director – Market and Infrastructure Policy, provided an overview of Management’s proposal. Mr. Cook began his presentation by noting that the resource adequacy program ensured that sufficient generation was offered into the ISO market to maintain grid reliability and that the replacement requirement proposal would provide greater certainty for availability of resource adequacy resources. Mr. Cook stated the proposal would ensure a 115% planning reserve margin through a process for replacement of capacity unavailable due to scheduled outages. Mr. Cook noted that short-term opportunity outages provided resource adequacy resources the ability to perform maintenance during the month and further described a few scenarios. Mr. Cook stated that an electronic bulletin board would be provided to facilitate transactions for replacement capacity. Mr. Cook concluded his presentation by discussing the stakeholder process and noted that the proposal was generally supported by stakeholders.

Public comment

Brian Theaker, on behalf of NRG Energy, provided comments and noted his appreciation to ISO staff. Mr. Theaker provided comments of concern regarding the 72-hour notice requirement and potential financial implication associated with the provisions related to the ISOs authority to move or cancel a planned outage. Mr. Casey provided responsive comments and noted that the ISO would explore whether a planned outage stakeholder initiative would be of general interest to stakeholders. Discussion followed regarding how the ISO’s outage coordination team communicates with providers regarding moving or canceling planned outages.

Eric Little, on behalf of Southern California Edison, provided comments in support of Management's proposal and noted his appreciation of ISO staff in working through various stakeholder issues. Mr. Little noted the importance of making the filing in a timely manner.

Steve Williams, on behalf of San Diego Gas & Electric Company, stated it was appreciated that the ISO made system reliability a fundamental component of the proposal. Mr. Williams provided further comments and noted several concerns with the proposal including not addressing related standard capacity product issues.

Ed Charkowicz, on behalf of the California Public Utilities Commission, provided comments on Management's proposal and noted appreciation of ISO staff. Mr. Charkowicz provided comments of concern and requested consistency in tariff requirements and the timing of existing CPUC requirements. Discussion followed and Management requested further clarification to be provided regarding the concerns.

Roy Kuga, on behalf of Pacific Gas & Electric Company, provided comments on Management's proposal and commended the stakeholder process. Mr. Kuga provided further comments regarding work still to be done and requested that the decision on the proposal be deferred to a later time. Discussion followed regarding timing issues and Management committed to working with stakeholders on transitional issues.

Ellen Wolfe, on behalf of Western Power Trading Forum, provided comments on Management's proposal and commended the efforts of ISO staff. Ms. Wolfe provided further comments of concern and noted there were still implementation issues to work out.

Motion

Governor Maullin:

Moved, that the ISO Board of Governors approves the proposal for the ISO to adopt a replacement requirement for scheduled generation outages for resource adequacy resources, as described in the memorandum dated July 5, 2012; 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 proposal on January 1, 2013.

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

In closing remarks, the Board acknowledged the importance surrounding the stakeholder concerns regarding excess costs and that they would take them very seriously. The Board requested that Management report back on the status of the initiative at the November meeting.

DECISION ON MODIFYING RULES FOR RESCISSION OF ANCILLARY SERVICE CAPACITY PAYMENT

Greg Cook, Director – Market and Infrastructure Policy, provided the Board with an overview of Management’s proposal to address a situation where some ancillary services payments were rescinded where others were not when a unit experienced an outage. Mr. Cook reviewed two scenarios that resulted in the same availability regardless of when the outage occurred, yet resulted in different financial treatment. He then described how the proposed tariff change would remedy the concern. Mr. Cook stated that stakeholders were generally supportive of the proposal as the major concerns had been addressed through the stakeholder process.

Public comment

Brian Theaker, on behalf of NRG Energy, provided comments on Management’s proposal and commended the stakeholder process as their concerns had been addressed.

Mark Smith, on behalf of Calpine, provided comments noting some concerns with Management’s proposal regarding treatment of external generation. Mr. Smith noted that Calpine became engaged in the process late and would therefore need to file the comments with FERC, as they were not raised as part of the stakeholder process. Mr. Casey provided responding comments and noted that Management would work with Mr. Smith to see if his concerns could be addressed prior to filing with FERC.

Motion

Governor Galiteva:

Moved, that the ISO Board of Governors approves the proposed tariff change regarding modifying the rules for recession of ancillary service capacity payment, as described in the memorandum dated July 5, 2012; 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 proposed tariff change.

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

DECISION ON APPROVAL OF TRANSMISSION ELEMENTS LESS THAN \$50 MILLION

Neil Millar, Executive Director – Infrastructure Development, provided an overview of Management’s proposal to seek Board approval to extend Management’s authority to approve urgent policy-driven or economically-driven elements. Mr. Millar noted that

Management currently had the authority to approve reliability-driven transmission projects less than \$50 million. Mr. Millar stated that the proposal would provide additional flexibility to enable the ISO to expeditiously approve smaller transmission elements that may be needed to support state policy or provide economic benefits. Mr. Millar noted the proposal would also add flexibility to conduct a limited competitive solicitation process. Mr. Millar described the stakeholder process and noted it was an expedited but thorough process. Mr. Millar stated that stakeholders generally supported the proposal and provided an overview of their comments, including a request for access to the Board on a complaint basis.

Chairman Foster addressed a transparency concern of the Board and requested that Management provide the Board with general session briefings on the proposed transmission upgrades prior to a decision being made by Management so that stakeholders could have an opportunity to comment. Mr. Casey committed to incorporating this recommendation into the process.

Motion

Governor Foster:

Moved, that the ISO Board of Governors approves the proposed policy change regarding approval of transmission elements estimated to cost less than \$50 million, as described in the memorandum dated July 5, 2012, and as modified by the Board at the July 12, 2012 meeting; 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 proposed tariff change.

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

BRIEFING ON FLEXIBLE RAMPING CAPACITY PRODUCT

Mark Rothleder, Executive Director – Market Analysis and Development, provided the Board with a briefing on the flexible ramping product initiative. Mr. Rothleder provided the Board with a background overview beginning with Board approval of a flexible ramping constraint in August 2011. Mr. Rothleder noted that flexible ramping was needed to balance for the range of expected net load conditions and that it enabled the ISO to reliably and efficiently manage the generation fleet. Mr. Rothleder provided an overview of three major issues that were addressed in the stakeholder process. Mr. Rothleder noted the importance of aligning cost allocation with the guiding principles and reviewed a graph that provided an overview of each of the principles and corresponding cost allocation design elements. Mr. Rothleder concluded his presentation by reviewing next steps, including Board decision in November 2012 and a target implementation in fall 2013. Discussion followed regarding the cost allocation process.

BRIEFING ON LOCAL MARKET POWER MITIGATION SCHEDULE DELAY

Khaled Abdul-Rahman, Director – Power Systems Technology Development, provided the Board with a briefing on the local market power mitigation initiative. Mr. Abdul-Rahman noted that the Board approved the local market power mitigation initiative in July 2011 and that the Board was last briefed in February 2012 regarding the impact of using a phased approach for dynamic competitive assessment in real-time. Mr. Abdul-Rahman then described how the phase 2 software implementation was more challenging and that keeping local market power mitigation phase 2 in the fall release would risk delay of the other twelve fall release projects. Mr. Abdul-Rahman stated that Management did not want to rush implementation of the initiative and elected to defer phase 2 to the spring 2013 release. Discussion followed and the Board acknowledged the importance of taking the time needed for a successful implantation.

BRIEFING ON RENEWABLE INTEGRATION – OPERATIONAL REQUIREMENTS

Mark Rothleder, Executive Director – Market Analysis and Development, provided the Board with the routine briefing on operational requirements associated with integration of renewables. Mr. Rothleder described a number of updates made to the renewable integration analysis. Mr. Rothleder stated that large amounts of wind and solar resources would greatly increase ramping requirements. Mr. Rothleder noted that supply variability and uncertainty would increase while the flexible capability of the fleet would decrease. Mr. Rothleder concluded his presentation by reviewing upcoming steps that would factor into the renewable integration analysis.

QUARTERLY BRIEFING ON MARKET PERFORMANCE

Mark Rothleder, Executive Director – Market Analysis and Development, provided the Board with the routine briefing on market performance. Mr. Rothleder noted that there was good market performance overall, however challenges remained in several areas since the March update. Mr. Rothleder discussed the following areas still needing improvement: hour ahead and real-time price convergence, real-time imbalance energy offset level, and exceptional dispatch and bid cost recovery. Mr. Rothleder stated the use of capacity procurement mechanism increased in May and June in response to the SONGS outage. Mr. Rothleder concluded his presentation by reviewing the following next steps: improve forecast conditions leading to divergence of prices, address conditions leading to manual intervention including exceptional dispatch, and enhance the price validation and correction process.

ACCEPTANCE OF 401(k) AUDIT

Ryan Seghesio, Chief Financial Officer & Treasurer, provided the Board with a background overview of the retirement savings benefit plan audit and noted that the U.S. Department of Labor required employee benefit plans to file audited financial

statements. Mr. Seghesio informed the Board that the plan assets increased by \$3.7 million in 2011.

Mr. Seghesio then introduced Brad Wall with Mohler, Nixon and Williams. Mr. Wall provided the Board with an overview of the firm and noted that Mohler was California's largest provider of audits of ERISA plans. Mr. Wall stated that Mohler performed approximately 400 audits annually with plans holding assets from \$.5 million to \$6 billion. Mr. Wall reviewed with the Board the auditor communications that are required as part of the rules of professional responsibility. Mr. Wall described three audit adjustments and noted they were standard. Mr. Wall stated the 2011 audit was performed and completed on time with a high level of commitment and cooperation from ISO staff and the plan's service provider. Discussion followed regarding the prior auditing firm and Ms. Saracino provided an overview of the competitive solicitation process that took place last year for an external auditor.

Motion

Governor Galiteva:

Moved, that the ISO Board of Governors accepts the financial statements and supplemental schedule of the California ISO Retirement Savings Benefits Plan for the year ended December 31, 2011, as audited by Mohler, Nixon and Williams CPAs and as attached to the memorandum dated July 5, 2012.

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

DECISION ON CONDITIONS FOR INTER-SC TRADES

Dan Shonkwiler, Senior Counsel, provided the Board with an overview of Management's proposal and stated the tariff amendment would impose additional conditions on inter-SC trades. Mr. Shonkwiler stated that a tariff amendment was necessary to implement the proposed exemption for inter-SC trades. Mr. Shonkwiler explained how inter-SC trades helped scheduling coordinators adjust payments to match agreements. Mr. Shonkwiler stated the tariff amendment would link inter-SC trades to their intended purpose and that by entering into an inter-SC trade, scheduling coordinators would be representing that there was a corresponding bilateral transaction. Mr. Shonkwiler concluded his presentation by describing the stakeholder process and noted that stakeholders supported the proposed amendment. Mr. Shonkwiler stated that Board approval was conditional and that Management would only file with FERC if it were needed to secure approval by the CFTC of a supplemental exemption request. Brief discussion followed.

Motion

Governor Olsen:

Moved, that the ISO Board of Governors approves the proposed tariff change regarding inter-SC trades, as described in the memorandum dated July 5, 2012; 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 proposed tariff change, only if it is needed to secure approval by the CFTC of a supplemental exemption request for inter-SC trades.

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

DECISION ON 2012 CAPITAL PROJECT BUDGET AMNEDMENT

Ryan Seghesio, Chief Financial Officer & Treasurer, provided the Board with an overview of Management's capital project budget amendment proposal. Mr. Seghesio described the capital expenditures budget process and noted the 2012 capital expenditure budget had been approved at \$20.8 million. Mr. Seghesio stated that there were two unplanned projects Management would like to move forward with that would result in an increase of \$3.6 million to the capital expenditure budget. Mr. Seghesio noted that this amendment would have no impact on the current grid management charge rates. Mr. Seghesio further described to the vendor contract and FERC settlement projects. Discussion followed regarding why these projects were not captured as part of the initial budget planning process.

Motion

Governor Maullin:

Moved, that the ISO Board of Governors authorizes an increase to the 2012 capital project budget of \$3.6 million for a total 2012 capital project budget of \$24.4 million, as described in the memorandum dated July 5, 2012.

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

INFORMATIONAL REPORTS

There were no questions or comments on the following informational reports: regulatory report, legislative and state regulatory update, business practice manuals change management report, Market Surveillance Committee update, Department of

Market Monitoring report, and the market initiatives release plan and stakeholder engagement charts.

ADJOURNED

There being no additional general session matters to discuss, the general session was adjourned at approximately 4:30 p.m.