

**GENERAL SESSION MINUTES
ISO BOARD OF GOVERNORS MEETING
May 15, 2013
ISO Headquarters
Folsom, California**

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The ISO Board of Governors convened the general session meeting at approximately 2:00 p.m. and the presence of a quorum was established.

ATTENDANCE

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

Ash Bhagwat, Acting Chair
Angelina Galiteva
Richard Maullin
David Olsen

The following members of the officer team were present: Steve Berberich, Eric Schmitt, Keith Casey, Petar Ristanovic, Mark Rothleder, Karen Edson, and Nancy Saracino

GENERAL SESSION

The following agenda items were discussed in general session:

PUBLIC COMMENT

David Schiada and Chuck Anderson, on behalf of Southern California Edison, provided comments in response to a request by the Board at its March meeting to provide an update on the status of SCE's filing with the CPUC seeking a certificate of public convenience and necessity for the Coolwater-Lugo Transmission Project. Mr. Schiada provided an overview of the project description and its purpose. Mr. Anderson provided an overview of the conceptual development schedule and noted that they were on track to file with the CPUC in August 2013. Brief discussion followed.

DECISION ON GENERAL SESSION MINUTES

Governor Bhagwat moved for approval of the Board of Governors general session minutes for the March 20-21, 2013 meeting. The motion was seconded by Governor Olsen and approved 4-0-0.

CEO REPORT

Steve Berberich, President and CEO, provided an overview of the following sections of his CEO report: Overall system conditions, Southern California contingencies, summer assessment, FERC Order 764, energy imbalance market, and renewable generation. Mr. Berberich stated the ISO was concerned about a potentially difficult fire season given the dry conditions across the state. He noted that the ISO would be working closely with state and federal fire agencies to manage the situation. Brief discussion followed.

DECISION ON FERC ORDER 764 MARKET DESIGN CHANGES

Greg Cook, Director – Market Design and Infrastructure Policy, provided the Board with an overview of Management’s proposal regarding FERC Order 764 market design changes. Mr. Cook provided a background overview of FERC Order 764 and described how it helped to remove barriers for the integration of variable energy resources. He then described various areas that Management sought to address during the stakeholder process. Mr. Cook described how the 15-minute market would allow for more resources to address intra-hour variability and uncertainty. He noted that the ISO and stakeholders have been working since July 2010 to orient the market design around variable energy resources. He stated that the proposed design provided variable energy resources with more granular and accurate 15-minute scheduling opportunities.

Mr. Cook described how Management was proposing protective measures for existing participating intermittent resources program resources that were unable to benefit from the proposed design, but noted that the ISO needed more specific information from affected resources before Management would be in a position to recommend any protective measures to the Board.

Mr. Cook stated that the proposed inertia options should incentivize transition to 15-minute schedules and preserve liquidity. He then provided an overview of a diagram that depicted how the proposed market design would clear all convergence bids at the 15-minute price.

Mr. Cook then described Management’s proposal for a transition plan to phase in convergence bidding functionality on the inerties. He further described the stakeholder process and noted that stakeholders broadly supported the overall

proposal but noted that concerns remained over certain elements. Mr. Cook further described the remaining areas of concern and concluded his presentation by providing an overview of the proposal's benefits.

Public comment

Steven Kelly, on behalf of Independent Energy Producers, provided comments on Management's proposal and noted concern with the proposal's components related to the participating intermittent resource program resources and cost recovery.

Eric Little, on behalf of Southern California Edison, provided supportive comments on Management's proposal and described how it would simplify the integration of renewables. Mr. Little further discussed some concerns related to convergence bidding.

Mark Smith, on behalf of Calpine, provided supportive comments on Management's proposal and discussed the benefits of a 15-minute market. Mr. Smith further discussed some concerns related to balancing authorities that may not be in compliance until 2014.

Noelle Formosa, on behalf of California Wind Energy Association, provided comments on Management's proposal and further discussed the concerns raised in CalWEA's May 13, 2013 letter provided to the Board.

Discussion followed regarding terms of the power purchase agreements, the proposed transition time, and the potential protective measures discussed in Management's proposal. Keith Casey, Vice President - Market and Infrastructure Development, provided responsive comments and further discussed the importance of the criteria being vague in the current proposal as discussions with stakeholders were still ongoing.

Albert Davies, on behalf of Wind Stream, provided comments on Management's proposal and noted concern with the proposal's component related to the participating intermittent resource program resources and grandfathering provisions.

Laura Beane, on behalf of Iberdrola Renewables, provided generally supportive comments on Management's proposal and noted the importance of maintaining the participating intermittent resource program until variable energy resources were able to mitigate risks.

Omar Martino, on behalf of EDF Renewable Energy and as a member of CalWEA, provided comments on Management's proposal and noted support with the Order

764 provisions. Mr. Martino also described concerns with the criteria related to the participating intermittent resource program provisions and requested additional transition time and grandfathering provisions.

Brief discussion followed regarding EDF Renewable Energy's resources and contract terms. Mr. Casey provided responding remarks and noted that Management would like to let the process work as the ISO had designed it so that the ISO could get more specific information from affected resources, review it and assess what might be advisable for potential protective measures, and bring the issue of protective measures back to the Board in September.

Tony Braun, on behalf of California Municipal Utilities Association, provided supportive comments on Management's proposal. Mr. Braun further discussed some concerns related to convergence bidding.

Ellen Wolfe, on behalf of Western Power Trading Forum, provided comments on Management's proposal and further echoed concerns in the following areas: the importance of the ISO being aligned with the other balancing authorities and convergence bidding functionality.

Robert Gosselin, on behalf of Powerex, provided comments on Management's proposal and further discussed the concerns raised in Powerex's May 15, 2013 letter provided to the Board. Brief discussion followed and Management committed to further discuss the concerns raised as part of the stakeholder process.

Roy Kuga, on behalf of Pacific Gas and Electric Company, provided supportive comments on Management's proposal and further described how the proposal would reduce costs to customers and make the market more efficient.

Market Surveillance Committee

Market Surveillance Committee member Shmuel Oren provided supportive comments on Management's proposal and provided highlights of the Market Surveillance Committee opinion on FERC Order 764 compliance and related market design changes.

Department of Market Monitoring

Eric Hildebrandt, Director of Market Monitoring, provided supportive comments on Management's proposal and provided highlights of his memorandum to the Board dated May 8, 2013.

Nancy Saracino, Vice President and Chief Administrative Officer, acknowledged the following public comment letters: California Wind Energy Association and Powerex.

Motion

Governor Maullin:

Moved, that the ISO Board of Governors approves the proposed market design changes in compliance with FERC Order No. 764 , as described in the memorandum dated May 8, 2013; 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 Bhagwat and approved 4-0-0.

AUDIT COMMITTEE UPDATE

Governor Bhagwat, Chair of the Audit Committee, provided highlights of the general session of the Committee earlier in the day and requested that the Board accept the audit of the financial statements and FERC Form 1.

Governor Galiteva:

Moved, that the ISO Board of Governors, as recommended by the Audit Committee, accepts the financial statements of the ISO for the years ended December 31, 2012 and 2011, as audited by PricewaterhouseCoopers, and as attached to the memorandum dated May 8, 2013; and

Moved, that the ISO Board of Governors, as recommended by the Audit Committee, accepts the FERC Form No. 1 for the years ended December 31, 2012 and 2011, as audited by PricewaterhouseCoopers, and as attached to the memorandum dated May 8, 2013.

The motion was seconded by Governor Maullin and approved 4-0-0.

BRIEFING ON SUMMER ASSESSMENT

Robert Emmert, Manager – Interconnection Resources, provided the Board with an overview of the 2013 Summer Loads & Resources Assessment. Mr. Emmert stated that the report included forecasts of ISO system and Northern & Southern California zones, local reliability concerns, system and Northern and Southern

California zone resource reserve margins, and system and zonal load shedding probabilities. He further discussed key findings of the assessment and noted that there were adequate reserve margins for system and zonal areas. He noted that local reliability concerns remained with the unavailability of SONGS in southern Orange County and San Diego. He provided an overview of key actions underway to mitigate these concerns. Mr. Emmert discussed various scenarios for operating reserve margins and noted the ISO's 1-in-2 peak demand forecast was 47,413 MW in 2013. Mr. Emmert concluded his presentation by discussing the ISO's annual operation preparedness process. Brief discussion followed.

BRIEFING BY DEPARTMENT OF MARKET MONITORING

Eric Hildebrandt, Director of Market Monitoring, provided the Board with an overview of the Department of Market Monitoring's 2012 Annual Report on Market Issues and Performance. Mr. Hildebrandt stated that the total annual wholesale costs decreased 2% and remained consistent with a highly competitive market. He further discussed other factors effecting overall wholesale costs. Mr. Hildebrandt described how net operating revenues earned by typical new gas units from the ISO energy market continued to fall well short of the fixed cost of new capacity. He noted that significant new generation had been built as a result of the longer-term state procurement process. Mr. Hildebrandt concluded his presentation by discussing key recommendations. Brief discussion followed.

QUARTERLY MARKET PERFORMANCE REPORT

Nan Liu, Manager – Market Development and Analysis, provided the Board with an update on market performance and stated that overall market performance was good and stable in the first quarter of 2013. He noted that there was good convergence of the day-ahead and real-time average prices with improved day-ahead load forecasts. Mr. Liu stated that real-time congestion offset costs continued to trend lower while the energy imbalance offset was in normal range. He noted that bid cost recovery increased in February and March of 2013 and that the volume of exceptional dispatches stayed at relatively low levels in the first quarter of 2013. Mr. Liu provided an update on the efforts underway to improve exceptional dispatch. He also informed the Board that Management was continuing to address root causes and make the necessary process improvements to reduce price corrections.

INFORMATIONAL REPORTS

There were no questions or comments on the following informational reports: regulatory update, quarterly financial report, legislative and state regulatory update, business practice manual change management report, market surveillance committee update, and the master stakeholder engagement plan

ADJOURNED

There being no additional general session matters to discuss, the general session was adjourned at approximately 5:00 p.m.