

**GENERAL SESSION MINUTES
ISO BOARD OF GOVERNORS MEETING
May 18-19, 2011
ISO Headquarters
Folsom, California**

May 18, 2011

The ISO Board of Governors convened the general session meeting at approximately 2:10 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

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

GENERAL SESSION

The following agenda items were discussed in general session:

PUBLIC COMMENT

There was no public comment at this time.

ELECTION OF BOARD CHAIR

The Board noted that it had conferred regarding who should serve as the next Board chair and reached the decision to nominate Governor Foster to serve as Chair.

Motion

Governor Bhagwat:

Moved, that the Board of Governors of the California Independent System Operator Corporation elects Robert Foster to serve as Chair of the Governing Board, pursuant to Article III, section 4.3 of the ISO's bylaws.

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

DECISION ON THE MINUTES

Governor Foster moved to lodge the ISO Board of Governors general session minutes for February 3, 2011. The motion was seconded by Governor Galiteva and approved 4-0-0.

CEO REPORT

Yakout Mansour, President and CEO, provided welcoming remarks to the new Board members. Mr. Mansour provided an overview of four matters in his report: February 2-3 events, interconnection study status, and an overview of two FERC rulings in favor of the ISO on a complaint against the ISO regarding transmission planning standards and a complaint regarding proposed reliability projects. Mr. Mansour concluded his report with comments surrounding his impending retirement. Mr. Mansour extended his thanks and appreciation to the stakeholders, the ISO team and the Board.

RECOGNITION OF CEO

Governor Foster provided remarks in recognition of Mr. Mansour and read the below resolution into the record.

WHEREAS, Yakout Mansour took the helm of the California Independent System Operator Corporation in March 2005 and immediately began shaping the organization into a progressive, forward-thinking corporation; and

WHEREAS, Mr. Mansour has a 40-year career in the power industry and actively contributed to its success in California, the United States and Canada; and

WHEREAS, Mr. Mansour set the bar for excellence in grid and market operations, deploying a nodal market that provides a flexible platform for diverse resources and digital technologies;

WHEREAS, Mr. Mansour restored the reputation and credibility of the ISO following a historic energy crisis and inspired a corporate culture committed to reliability and customer service, establishing the ISO as an industry leader; and

WHEREAS, Mr. Mansour reformed infrastructure development leading to a more robust grid that readies California for the largest penetration of renewable resources in the world and furthers demand response; and

WHEREAS, Mr. Mansour used innovation coupled with strategic business model processes to support state energy and environmental policies, helping chart California's Clean Energy Future; and

WHEREAS, Mr. Mansour brought a wonderful sense of humor and his musical talents to the ISO, forming the first corporate band Smooth Operators; and

WHEREAS, Mr. Mansour fathered a vision of a permanent headquarters for ISO employees that exemplifies California's commitment to the environment while establishing a secure and advanced control center for the power grid;

BE IT RESOLVED, that the California ISO Board of Governors hereby expresses its utmost appreciation and sincerest gratitude to Mr. Mansour for his years of service and dedication to the ISO, its stakeholders and the consumers of California.

The resolution was moved by Governor Bhagwat, seconded by Governor Maullin and approved 4-0-0. The following members of the public provided remarks in recognition of Mr. Mansour: Stuart Hemphill (SCE), Tony Braun (CMUA), Eric Eisenmen (PG&E), Mark Smith (Calpine), and Jan Smutny-Jones (IEP).

DECISION ON 2012 GRID MANAGEMENT CHARGE RATE DESIGN

Ryan Seghesio, Chief Financial Officer and Treasurer, informed the Board that the ISO was proposing a substantial revision to the grid management charge design, to be effective in 2012. Mr. Seghesio stated that Management, with stakeholder support, was simplifying the existing structure to make a more transparent design similar to other ISO/RTOs with nodal markets. Mr. Seghesio discussed the following proposed new grid management charge cost categories: market services, system operations, and congestion revenue rights services. Mr. Seghesio described the revenue requirement cap proposal and provided an overview of the current impact of the new grid management charge design on customer classes. Mr. Seghesio discussed the stakeholder process and noted that stakeholders were generally supportive of the design. Mr. Seghesio noted that certain suppliers would have significant increases in their grid management charge and

further described those circumstances. Mr. Seghesio concluded his presentation by reviewing the congestion revenue rights per transaction charge.

PUBLIC COMMENT

Nancy Saracino, Vice President, General Counsel and Chief Administrative Officer, acknowledged receipt of the following public comment letters: EMTRI and DC Energy

Jason Yan, on behalf of Pacific Gas and Electric Company, provided comments in support of Management's proposal.

Brian Theaker, on behalf of NRG Energy, provided comments in support of Management's proposal and also provided congratulatory comments to Yakout Mansour on his retirement.

Steve Williams, on behalf of San Diego Gas and Electric, provided comments in support of Management's proposal.

Mark Smith, on behalf of Calpine, provided comments on Management's proposal and expressed appreciation to ISO staff in helping to resolve the existing contract issue.

Motion

Governor Bhagwat:

Moved, that the ISO Board of Governors approves the proposal regarding the 2012 grid management charge rate design, as described in the memorandum dated May 11, 2011; 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 4-0-0.

DECISION ON FERC ORDER 741 – CREDIT REFORMS IN ORGANIZED WHOLESALE ELECTRIC MARKETS

Ryan Seghesio, Chief Financial Officer and Treasurer, noted that FERC Order 741 mandated that all ISOs and RTOs adopt certain common credit practices and requested stakeholder input on two credit reform items: (1) minimum participation requirements for entry into the ISO markets, and (2) circumstances leading to reduction or revocation of a market participant's unsecured credit due to a material adverse change in their financial condition. Mr. Seghesio provided an overview of Management's proposal in response to the FERC order and noted that stakeholders were largely supportive of the proposed minimum participation requirements. Mr.

Seghesio requested that the Board approved the proposal as it balanced competing stakeholder needs and benefited the entire market.

PUBLIC COMMENT

Nancy Saracino, Vice President, General Counsel and Chief Administrative Officer, acknowledged receipt of the following public comment letter: Olivine

Steve Williams, on behalf of San Diego Gas and Electric, provided comments in support of Management's proposal.

Robert Anderson, on behalf of Olivine, noted concern with Management's proposal and stated the initial posting amount was unreasonable.

Mr. Seghesio provided comments in response to Mr. Anderson's comments and noted that the proposal needed to apply to all market participants as a whole to meet the FERC criteria. Discussion followed regarding the importance of smaller market participants being able to participate in the market and the Board requested that ISO staff review other ISO and RTO filings to see what others were doing for smaller participants. Discussion followed regarding the FERC process and the Board requested an update regarding the participation issue at the August 25-26 meeting.

Motion

Governor Bhagwat:

Moved, that the ISO Board of Governors approves the proposed credit policy enhancement establishing minimum criteria for participation in the ISO, as described in the memorandum dated May 11, 2011; and

Moved, that the ISO Board of Governors approves the proposed credit policy enhancement allowing the ISO to reduce or terminate a market participant's unsecured credit limit due to a material adverse change in the market participant's financial condition, as described in the memorandum dated May 11, 2011; 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 4-0-0.

DECISION ON TRANSMISSION MAINTENANCE COORDINATION COMMITTEE APPOINTMENTS

Steve Rutty, Director – Grid Assets, provided the Board with a background overview of the primary duties of the Transmission Maintenance Coordination Committee, an advisory committee to the Board. Mr. Rutty noted that the TMCC charter called for 13 voting members and further described the required qualifications for applicants. Mr. Rutty provided an overview of the member selection process and recommended five candidates for Board approval. Brief discussion followed.

Motion

Governor Galiteva:

Moved, that the ISO Board of Governors approves the five candidates recommended by Management to serve on the Transmission Maintenance Coordination Committee effective upon appointment, as described in the memorandum dated May 11, 2011.

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

BRIEFING ON THE 2011 SUMMER LOADS AND RESOURCES ASSESSMENT

Robert Emmert, Lead Interconnection Service Engineer, provided the Board with an overview of the 2011 Summer Loads and Resources Assessment. Mr. Emmert noted the assessment addressed peak demands, on-peak resources, reserve margins, and load shedding probabilities. Mr. Emmert reviewed graphs of data supporting the assessment and noted that supply was adequate to meet demand for summer 2011, due in part to: modest recovery of peak demand loads, increase in on-peak resource capacity, and the ability to serve load under 1-in-10 conditions. Mr. Emmert concluded his presentation by informing the Board that the ISO had completed its 2011 annual operation preparedness process. Brief discussion followed regarding forecast planning and the role of the California Energy Commission.

DECISION ON 2010/11 ISO TRANSMISSION PLAN

Neil Millar, Executive Director – Infrastructure Development, provided the Board with an overview of Management’s proposed 2010/11 ISO Transmission Plan. Mr. Millar noted that approving the plan would also mean approving the determinations and recommendations contained in the plan. Mr. Millar described the following key findings in the plan: (1) four new transmission reliability projects over \$50 million each, (2) one new policy-driven transmission upgrade element, and (3) the conclusion that there was no need for major new policy or

economic-driven transmission at this time. Mr. Millar noted that this was the first transmission plan developed under the revised transmission planning process and then provided a more detailed overview of the planning process. Mr. Millar provided an overview of the four reliability projects and noted that the policy driven analysis was based on renewable energy zones and resources. Mr. Millar noted that the transmission currently underway would meet the 33% renewable portfolio standards in 2020. Mr. Millar described the stakeholder process and the feedback received from stakeholders on the plan. Mr. Millar concluded his presentation by reviewing the benefits of the plan and noted that as conditions changed, the transmission needs would be evaluated in subsequent planning cycles.

RECESSED

The Board took a short recess at 4:10 p.m. and resumed the meeting at 4:25 p.m.

PUBLIC COMMENT

Nancy Saracino, Vice President, General Counsel and Chief Administrative Officer, acknowledged receipt of the following public comment letters: California Energy Commission, STFC and UCAN, California Public Utilities Commission, NRDC, and the Office of the Governor.

Robert Weisenmiller, on behalf of the California Energy Commission, provided comments in support on Management's proposed plan and reviewed a slide deck entitled "CAISO 2010/2011 Transmission Plan: Implication of ARRA Projects." Brief discussion followed regarding resource adequacy.

Nancy Ryan, on behalf of the California Public Utilities Commission, provided comments regarding the letter submitted by the CPUC and noted that Commission does support approval of the proposed plan. Ms. Ryan provided further comments and noted the importance for independent transmission developers to have an opportunity to build transmission in California on a going forward basis. Brief discussion followed and Dr. Casey stated that the ISO planning process provides the opportunity as long as the necessary needs are met.

Gary Ackerman, on behalf of the Western Independent Transmission Group, provided comments of concern regarding Management's proposed plan and requested that the Board defer action at this time.

Steve Keane, on behalf of Imperial Irrigation District, provided comments in support of Management's proposed plan.

Brian Weber, on behalf of MidAmerican Energy Holdings Company, provided congratulatory remarks to Yakout Mansour regarding his upcoming retirement. Mr. Weber then provided comments in support of Management's proposed plan.

Martin Hermann, on behalf of 8minuteenergy, provided comments in support of Management's proposed plan.

V. John White, on behalf of the Center for Energy Efficiency and Renewable Technologies, provided remarks in recognition of Yakout Mansour regarding his upcoming retirement. Mr. White then provided comments in support of Management's proposed plan but noted that future transmission planning processes should be modified as needed and should be more closely tied to the generation planning process.

Carl Zichella, on behalf of the Natural Resources Defense Council, provided remarks in recognition of Yakout Mansour regarding his upcoming retirement. Mr. Zichella then provided comments in support of Management's proposed plan.

Brief discussion followed regarding the importance of the Midway-Gregg line and staff clarified why the line was not included in the current plan and indicated that it would be reevaluated as part of the next planning process.

Robert Jenkins, on behalf of the Large Solar Association and First Solar, provided comments in support of Management's proposed plan.

Mark Johnson, on behalf of Pacific Gas and Electric Company, provided comments in support of Management's proposed plan.

Bob Woods, on behalf of Southern California Edison, provided comments in support of Management's proposed plan.

Daniel Kim, on behalf of Westlands Solar Park, provided comments in support of Management's proposed plan.

Discussion followed and the Board expressed appreciation to the staff and stakeholders for the work on the plan. The Board also acknowledged the importance of ARRA projects, independent transmission developers and the inclusion of necessary projects in future plans.

Motion

Governor Galiteva:

Moved, that the ISO Board of Governors approves the ISO 2010/2011 transmission plan pursuant to tariff section 24.4.10, attached to the memorandum dated May 11, 2011.

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

RECESSED

There being additional general session items to discuss, the general session of the ISO Board of Governors was recessed at approximately 5:15 p.m.

May 19, 2011

RECONVENED

The ISO Board of Governors reconvened the general session meeting at approximately 8:30 a.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

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

GENERAL SESSION

The following agenda items were discussed in general session:

PUBLIC COMMENT

There was no public comment at this time.

DECISION ON DATA RELEASE – PHASE 3

Greg Cook, Director of Market and Infrastructure Policy, provided the Board an overview of Management's phase 3 data release proposal. Mr. Cook noted that the phase 3 proposal released additional data to improve market efficiency and transparency. Mr. Cook stated that the ISO would be establishing a new process to address future data release requests and would use a market performance and planning forum to report progress. Mr. Cook noted that stakeholders supported the proposal as it allowed them to better simulate ISO markets and provided a process that efficiently addressed future data release requests. Mr. Cook concluded his presentation by describing the benefits of the proposal.

PUBLIC COMMENT

Nancy Saracino, Vice President, General Counsel and Chief Administrative Officer, acknowledged receipt of the following public comment letter: DC Energy

There was no additional public comment on this item.

Motion

Governor Bhagwat:

Moved, that the ISO Board of Governors approves the proposal regarding Data Release Phase 3, as described in the memorandum dated May 11, 2011; 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 4-0-0.

DECISION ON DYNAMIC TRANSFERS

Mark Rothleder, Director – Market Analysis & Development, provided the Board with an overview of Management’s proposal. Mr. Rothleder stated that dynamic transfers allowed external resources greater opportunity to deliver than an hourly static schedule. Mr. Rothleder noted that the proposal clarified the existing tariff and extended dynamic transfers to renewable resources. Mr. Rothleder noted that stakeholders requested greater opportunities for dynamic transfers in order to address commercial needs. Mr. Rothleder provided an overview of the issues that the proposal addressed and noted that after an extensive stakeholder process, there was broad stakeholder support for the proposal. Mr. Rothleder concluded his presentation by reviewing the benefits of the proposal. Discussion followed.

PUBLIC COMMENT

Nancy Saracino, Vice President, General Counsel and Chief Administrative Officer, acknowledged receipt of the following public comment letters: 8minuteenergy and LS Power

Sandeep Arora, on behalf of LS Power, provided comments in support of Management’s proposal and requested that ISO staff work to ensure dynamic transfer agreements were executed in a timely manner.

Brief discussion followed regarding the plan for developing and executing the dynamic transfer agreements.

Jason Yan, on behalf of Pacific Gas and Electric Company, provided comments in support of Management's proposal but noted some concern with future congestion on the interties.

Brief discussion followed regarding the financing impact to the renewable energy stakeholders and the Board acknowledged that there was no opposition to the proposal from this group.

Motion

Governor Galiteva:

Moved, that the ISO Board of Governors approves the proposal to implement the dynamic transfers proposal, as described in the memorandum dated May 11, 2011; 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.

ACCEPTANCE OF AUDIT OF FINANCIALS AND FERC FORM 1

Ryan Seghesio, Chief Financial Officer and Treasurer, informed the Board that Management had completed the annual financial statement process that included the annual financial statements and the annual FERC Form 1. Mr. Seghesio provided the Board an overview of the highlights of the 2010 financial statements noting key components of the balance sheet and income statement.

Roger Mills, with PricewaterhouseCoopers, provided the Board with an overview of the results of the 2010 financial statement audit and noted that the ISO's audit opinions were unqualified. Mr. Mills provided an overview of the general purposes and statutory requirements surrounding the two audits. Mr. Mills provided an overview of FERC vs. GASB reporting. Mr. Mills provided the Board with an overview of the following key audit areas: generator noncompliance fines, contingencies, old headquarter facilities and the new headquarter building. Mr. Mills provided an overview of the financial reporting characteristics, including revenues and assets, of the seven operating ISO/RTO U.S. organizations. Mr. Mills informed the Board that independence was a key element of the audit relationship and described the PwC processes in place to maintain independence. Mr. Mills concluded his presentation by reviewing the external auditor required communications and encouraging communication and feedback from the Audit Committee.

Discussion followed and the Board acknowledged the importance of cooperation from Management during the audit. Ms. Saracino provided additional remarks in recognition of the efforts of the external auditors. Brief discussion followed regarding the line item adjustment pertaining to generator fines.

Motion

Governor Bhagwat:

Moved, that the ISO Board of Governors accepts the financial statements of the ISO for the years ended December 31, 2010 and 2009, as audited by PricewaterhouseCoopers, and as attached to the memorandum dated May 13, 2011; and

Moved, that the ISO Board of Governors accepts the FERC Form 1 for the years ended December 31, 2010 and 2009, as audited by PricewaterhouseCoopers, and as attached to the memorandum dated May 13, 2011.

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

ELECTION ON AUDIT COMMITTEE MEMBERS AND APPOINTMENT OF AUDIT COMMITTEE CHAIR

The Board discussed the matter and elected to continue serving simultaneously as the Audit Committee addressing all audit matters before the full Board, pursuant to the Board's November 1, 2010 motion.

BRIEFING ON MARKET INITIATIVES RELEASE PLAN

Petar Ristanovic, Vice President – Technology, provided the Board with the routine report on the market initiatives release plan. Mr. Ristanovic stated that staff was monitoring recent deployments and providing further enhancements. Mr. Ristanovic stated the spring release was complete. Mr. Ristanovic noted that additional market enhancements were in progress prior to the summer in order to meet operational needs. Mr. Ristanovic provided an overview of the six market initiatives that would be part of the fall 2011 release and the December 2011 initiatives. Mr. Ristanovic concluded his presentation by providing an overview of the initiatives in the spring 2012 release and noted that release would mark three years after the deployment of the new market design. Brief discussion followed.

DEPARTMENT OF MARKET MONITORING UPDATE

Eric Hildebrandt, Director of Market Monitoring, provided the Board with an overview of Department of Market Monitoring's *Annual Report on 2010 Market Issues and Performance*. Dr. Hildebrandt noted that total annual wholesale costs load had decreased 7% after accounting for higher gas prices and that load scheduled in the day-ahead market continued to be about equal to actual real-time load. Dr. Hildebrandt noted that day-ahead market prices were about equal to competitive baseline prices, while average real-time prices were driven high by occasional price spikes. Dr. Hildebrandt further discussed the decrease in ancillary service costs and noted they totaled less than 1 percent of total energy costs. Dr. Hildebrandt stated that

hour-ahead market prices were significantly lower than real-time prices and that this created revenue imbalances that must be allocated to load serving entities. Dr. Hildebrandt noted that this trend has continued in 2011 but that prices are getting closer in recent weeks. Dr. Hildebrandt noted that generation additions continued to outweigh retirements. Dr. Hildebrandt concluded his presentation by providing the Board with an overview of recommendations by Department of Market Monitoring based on the findings in the annual report. Brief discussion followed.

PUBLIC COMMENT

Mark Smith, on behalf of Calpine, provided comments of concern regarding slide 8 of Dr. Hildebrandt's presentation regarding the gap that continued to exist between net operating revenues earned by combined cycle units in the ISO energy market and the fixed costs of new capacity.

Brief discussion followed and the Board acknowledged the importance of the issue. Dr. Casey provided comments in response to Mr. Smith and noted the issue was front and center in the ISO's long-term renewable integration plan and that the ISO looked forward to working further with Calpine on this issue.

BRIEFING ON MARKET PERFORMANCE

Mark Rothleder, Director – Market Analysis and Development, provided the Board with an overview of the role of Market Analysis and Development and stated the department collaborated in monitoring the quality of market solutions. Mr. Rothleder noted that in 2010, the reduction of manual dispatch was an example of an issue identification and improvement performed by the department. Mr. Rothleder stated that hour-ahead and real-time price convergence was an identified area of opportunity to improve. Mr. Rothleder provided an overview of the actions taken to improve hour-ahead and real-time price convergence. Mr. Rothleder concluded his report by providing an overview of the following three future planned improvements: implement enhanced load forecasting in real-time, enhance management of resource fleet, and refine constraint management. Brief discussion followed.

INFORMATIONAL REPORTS

Nancy Saracino, Vice President, General Counsel and Chief Administrative Officer, provided the Board with an overview of the routine information-only Board reports. Karen Edson, Vice President – Policy and Client Services, provided a highlights overview of the legislative report. Ms. Saracino provided a highlights overview of the regulatory report. There were no additional questions regarding 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, market surveillance committee update, transmission maintenance coordination committee update, compliance committee update and annual investment report.

ADJOURNED

There being no additional general session items to discuss, the general session of the ISO Board of Governors was adjourned at approximately 11:00 a.m.