

GENERAL SESSION MINUTES
ISO BOARD OF GOVERNORS MEETING
February 3, 2011
ISO Headquarters
Folsom, California

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Mason Willrich, Chair of the ISO Board of Governors, convened the general session meeting at approximately 9:15 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
Bob Foster
Tom Habashi, via teleconference

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

GENERAL SESSION

The following agenda items were discussed in general session:

DECISION ON MINUTES

Governor Foster moved for the approval of the Board of Governors general session minutes for December 15-16, 2010. The motion was seconded by Governor Habashi and approved 3-0-0.

DECISION ON REGULATION ENERGY MANAGEMENT

Proposal

Greg Cook, Director of Market & Infrastructure Policy, provided the Board with an overview of Management's proposal and noted that regulation energy management would enable new storage technologies to provide regulation service. Mr. Cook stated that the proposal addressed stakeholder concerns raised during the stakeholder process. Mr. Cook noted that most stakeholders supported or conditionally supported the proposal with only one requesting to defer the proposal to allow for more analysis. Mr. Cook concluded his presentation by reviewing the highlights of the proposal, including that it provided a reasonable starting point to allow the ISO to gain experience with limited energy resources.

Public comment

Judith Judson, on behalf of Beacon Power Corporation, provided comments in support of Management's proposal and commended the stakeholder process.

Eric Hsieh, on behalf of A123 Systems, provided comments in support of Management's proposal and noted A123 Systems was an active participant in the stakeholder process.

Eric Eisenman, on behalf of Pacific Gas and Electric Company, provided cautionary remarks regarding Management's proposal and commented on items raised in the Market Surveillance Committee's Opinion on regulation energy management. Mr. Eisenman requested that further analysis be conducted.

Joe Heinzmann, on behalf of Altair Nano and CESA, provided comments in support of Management's proposal and commended the robust stakeholder process.

Market Surveillance Committee

Ben Hobbs, with the Market Surveillance Committee, provided an overview of four key recommendations of the Market Surveillance Committee regarding Management's proposal on regulation energy management and noted the Committee was cautiously optimistic. Dr. Hobbs provided comments in support of the commitment made by the ISO to continue to monitor and analyze the product after implementation. Dr. Hobbs concluded by recommending that the Board approve the proposal.

Department of Market Monitoring

Eric Hildebrandt, Director of Market Monitoring, provided comments in response to Dr. Hobbs and clarified that ISO's technology staff would lead the role in monitoring and evaluating the product with DMM playing a supportive secondary role. Dr. Hildebrandt commented on the importance of transparency and stated that DMM conditionally supported Management's proposal.

Decision

Mr. Mansour discussed the importance of energy storage as related to the strategic plan and commented on some of the unknown factors related to technology and financial viability. Discussion ensued and the Board made inquiries regarding the characteristics of the resources, the anticipated percentage levels of regulation and factors involving resource locations. Discussion followed and it was noted that Management's proposal was the first step in looking at longer-term solutions.

Motion

Governor Habashi:

Moved, that the ISO Board of Governors approves the proposed regulation energy management software enhancement, as described in the memorandum dated January 27, 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 Foster, and approved 3-0-0.

ACCEPTANCE OF CODE OF CONDUCT AUDIT

Nancy Saracino, Vice President, General Counsel and Chief Administrative Officer, provided introductory remarks regarding the code of conduct audit and noted that while the PricewaterhouseCoopers review of the audit was straightforward, the annual process that the ISO undergoes with employees, contractors and the Board to educate and review important policy provisions within a number of corporate policies was extremely important.

Margaret Lundberg, with PricewaterhouseCoopers, informed the Board that PwC issued its report on January 25, 2011 and that all planned procedures were performed without exception. Ms. Lundberg noted that the high level of commitment and cooperation of ISO staff was greatly appreciated.

Motion

Governor Foster:

Moved, that the ISO Board of Governors accepts the report issued on January 25, 2011 by PricewaterhouseCoopers LLP for the testing of the ISO's 2010 code of conduct certification process.

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

BRIEFING ON GRID MANAGEMENT CHARGE RATE DESIGN FOR 2012

Ryan Seghesio, Chief Financial Officer and Treasurer, provided the Board with a briefing on the status of the 2012 grid management charge rate design. Mr. Seghesio stated that Management, with stakeholder support, intended to simplify the existing rate structure to a more transparent design similar to other ISO and RTOs with nodal markets. Mr. Seghesio noted that the ISO had

used the following guiding principles to develop the framework for the new grid management charge structure: cost causation, focus on use of services – not behavior, transparency, predictability, forecastability, flexibility and simplicity. Mr. Seghesio reviewed the new proposed cost categories: market services, system operations, and congestion revenue right services.

Mr. Seghesio provided an overview of a graph that depicted the current impact on customer classes of the new grid management charge design and concluded his presentation by reviewing options to mitigate impacts on base load generation. Mr. Seghesio stated that the final proposal would go to the Board for decision at the March meeting.

Mark Smith, on behalf of Calpine, provided cautionary remarks on the proposed rate design change and discussed the potential cost impacts it could have to Calpine. Mr. Smith noted the proposal was still early in the process and that he looked forward to working with Management to address his concerns.

Discussion followed regarding the proposed policy revisions, cost causation principles and current practices of other ISOs.

BRIEFING ON MARKET INITIATIVES RELEASE PLAN

Petar Ristanovic, Vice President of Technology, provided an update on market initiatives since the last Board meeting and noted that staff was monitoring the December deployments and was responding to and resolving variances. Mr. Ristanovic stated that convergence bidding became effective as of February 1, 2011. Mr. Ristanovic informed the Board that the spring 2011 release would put the ISO on track to launch two market software releases a year, a modified approach designed to limit the number of changes throughout the year. Mr. Ristanovic concluded his presentation by noting that the ISO had updated the release plan to reflect future policy efforts that would require implementation planning. Brief discussion followed.

INFORMATIONAL REPORTS

There were no questions 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, Market Surveillance Committee Update and Department of Market Monitoring Report.

ADJOURNED

There being no additional general session items to discuss, the general session of the ISO Board of Governors was adjourned at approximately 10:45 a.m.