

**GENERAL SESSION MINUTES
ISO BOARD OF GOVERNORS MEETING
July 11 - 12, 2013
ISO Headquarters
Folsom, California**

July 11, 2013

The ISO Board of Governors convened the general session meeting at approximately 3:00 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
Ash Bhagwat
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, Nancy Saracino, and Greg Fisher, Corporate Secretary

GENERAL SESSION

The following agenda items were discussed in general session:

PUBLIC COMMENT

No public comment was offered at this time.

DECISION ON GENERAL SESSION MINUTES

Governor Bhagwat moved for approval of the Board of Governors general session minutes for the May 15, 2013 meeting. The motion was seconded by Governor Olsen and approved 5-0-0.

CEO REPORT

Steve Berberich, President and CEO, provided an overview of the following sections of his CEO report: Overall system conditions, summer assessment, long

term outlook for SONGS retirement, demand response roadmap, renewable generation and ISO financial ratings. Brief discussion followed.

DECISION ON MINIMUM CRITERIA FOR DIRECT PARTICIPATION

Dan Shonkwiler, Senior Legal Counsel, provided the Board with an overview of Management's proposal to amend the tariff to require that market participants meet the requirements to be "appropriate persons", as defined by the Commodity Futures Trading Commission. Mr. Shonkwiler explained that the tariff change was needed to fulfill a condition of the exemption that the Commodity Futures Trading Commission has granted for transactions in the ISO market. He noted that there was no opposition by stakeholders. Brief discussion followed.

Public comment

Spence Gerber, on behalf of Olivine, provided comments in support of Management's proposal.

Motion

Governor Galiteva:

Moved, that the ISO Board of Governors approves the proposed tariff change to require market participants that transact with the ISO to be "appropriate persons", as described in the memorandum dated July 3, 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 Olsen and approved 5-0-0.

DECISION ON REFINANCING OF 2009 SERIES A BONDS

Ryan Seghesio, Chief Financial Officer and Treasurer, provided the Board with an overview of Management's proposal regarding the issuance of advance refunding bonds for the purpose of refinancing the 2009 Series A Bonds. He provided an overview of the 2009 Series A Bonds and noted that Management has explored a number of options available prior to the bonds' call date in February 2015. Mr. Seghesio stated that despite a recent sell-off, the Municipal Market Data Index remained at attractive levels. He provided an overview of the executive summary of the modeled refunding results based on current interest rates as well as the sensitivity analysis of estimated refunding results. Mr. Seghesio described how the ISO could take advantage of historically low interest rates by refinancing the 2009 Series A Bonds. He informed the Board that Management could be ready to issue

the bonds, which would no longer require a debt service reserve fund, in early August pending Management's assessment of the current market and anticipated savings levels. Discussion followed regarding current rates.

Motion

Governor Bhagwat:

Moved, that the ISO Board of Governors approves, authorizes and directs Management in the name and on the behalf of the ISO, to perform the following actions:

Issue a fixed-rate bond in the amount not to exceed \$210 million, through the California Infrastructure and Economic Development Bank ("Bond Offering") with a term not to exceed 26 years secured by a mortgage on the Iron Point Facility to refinance the design, construction, commissioning, furnishing, equipping and occupancy of the Iron Point Facility, other related building infrastructure costs, capitalized interest, debt service reserve funds, and bond issuance costs, through the refunding of bonds issued in 2009 (the "2009A Bonds") to achieve debt service savings;

Incur other obligations and guarantee the obligations of the ISO in connection with the Bond Offering and in furtherance thereof to execute and deliver from time to time any note or other instrument evidencing indebtedness or other obligations of the ISO, including related agreements and documents and guarantees of obligations and endorsements of notes, when deemed to be in the best interest of the ISO;

Transfer amounts remaining in the debt service reserve fund relating to the 2009A Bonds to the construction fund and/or the escrow fund relating to the Bond Offering;

Provide for defeasance of a portion of the ISO's obligations with respect to the 2009A Bonds through the use of ISO internal funds;

Authorize the distribution of a preliminary official statement and an official statement relating to the marketing and sale with respect to the Bond Offering;

Procure bond insurance to secure such bonds to the extent determined advantageous by the ISO Management, and to enter into agreements related thereto; and

To take any and all other actions necessary to effectuate the Bond Offering.

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

AUDIT COMMITTEE UPDATE

Governor Bhagwat, Chair of the Audit Committee, provided highlights of the Committee's general session earlier in the day and requested that the Board accept the audit of the ISO's retirement plan as recommended by the Audit Committee.

Governor Foster:

Moved, that the ISO Board of Governors, as recommended by the Audit Committee, accepts the financial statements and supplementary information of the California ISO Retirement Savings Benefits Plan for the year ended December 31, 2012, as audited by Moss Adams LLP Certified Public Accountants and as attached to the memorandum dated July 3, 2013.

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

BRIEFING ON PROTECTIVE MEASURES FOR EXISTING RESOURCES IN THE PARTICIPATING INTERMITTENT RESOURCES PROGRAM

Keith Casey, Vice President – Market and Infrastructure Development, provided introductory remarks and noted that this briefing was in response to the Board's request at its last meeting for an update on the progress made to evaluate potential protective measures for generators in the participating intermittent resources program. Mr. Casey emphasized the importance of the proposed design change to comply with FERC Order 764 and informed the Board that Management has been in robust discussions with the renewables community about concerns raised with regards to potential exposure risks in the 5-minute market. Mr. Casey stated that the ISO was continuing stakeholder discussions concerning the proposed criteria and protective measures that were discussed at the May board meeting. Mr. Casey noted this was an informational briefing and that Management would bring the final proposal to the Board for decision at the September 12-13, 2013 meeting.

Greg Cook, Director – Market and Infrastructure Policy, provided the Board with an update regarding protective measures for existing resources in the participating intermittent resources program. Mr. Cook reviewed a graph that depicted how the proposed design would provide variable energy resources with more granular and accurate 15-minute scheduling opportunities that would reduce exposure to the 5-minute market. Mr. Cook informed the Board that the ISO was considering all requests for protective measures by resources that believed they could be unfairly harmed by the new real-time market structure. He provided an overview of the 30-day window to request protective measures and noted that the ISO received 19 requests that fell into the following three categories: load serving entity is the

scheduling coordinator; resource is the scheduling coordinator; and qualifying facilities. Mr. Cook concluded his presentation by providing an overview of next steps, including identifying which resources were able to resolve issues through agreements with the load serving entity counterparties and further considering protective measures through the stakeholder process for the remaining resources.

Discussion followed and the Board emphasized the importance of the load serving entities and resources working together to renegotiate the contracts and was encouraged that load serving entities had indicated they were willing to do so. More discussion followed.

Public comment

Nancy Saracino, Vice President, General Counsel and Chief Administrative Officer, acknowledged receipt of the following public comment letters: California Wind Energy Association and Terra-Gen Power.

Nancy Rader, on behalf of California Wind Energy Association, provided comments on Management's proposal and noted the importance of having protective measures in place for units that lacked automated controls and were incapable of responding to market signals, regardless of whether the contracts were renegotiated. Ms. Rader provided supportive comments on a proposed preliminary mitigation measure that had been discussed with staff and requested that the proposed "spreadsheet solution" be put in place as a backstop mechanism. Ms. Rader noted the importance of the stakeholder process and requested that the proposed protective measure be considered prior to the September board meeting.

Discussion followed regarding the duration of the proposed protective measures and Ms. Rader requested they be in place as long as the conditions are present, but noted that limits could be explored. The Board emphasized the importance of balancing public vs. private interests and noted that the protective measures should not prevent units from performing necessary upgrades or repowering that would benefit the state. Discussion followed regarding the age and functionality of the units as well as why the necessary contract negotiations were not anticipated. Ms. Rader requested that the participating intermittent resources program provisions continue to be grandfathered for 15 years with a transition period. Mr. Berberich emphasized the importance of continued discussions on the matter but noted that the proposed spreadsheet proposal was likely not a good solution given the number of resources it would affect. He also noted that it would take a year or so to implement the proposed design allowing for additional transition time.

Dinesh Salem-Natarajan, on behalf of Terra-Gen Power, provided comments on Management's proposal and acknowledged the ISO's responsiveness in discussing their concerns regarding the qualifying facility units. Mr. Salem-Natarajan described how the units lacked the necessary technologies to respond to

market signals. He stated the units were not yet fully depreciated and that repowering or renegotiating the contracts might not be an option. Mr. Salem-Natarajan noted appreciation to the ISO for continuing to explore protective measure solutions. Discussion followed and the Board inquired as to why future contract negotiations were not anticipated at the time the units were purchased. Mr. Salem-Natarajan responded that the contracts were likely entered into assuming that the existing PIRP provisions would be grandfathered. Discussion followed regarding the option of pursuing extension contracts for the qualifying facilities, and Mr. Salem-Natarajan noted he would follow up on that option.

Roy Kuga, on behalf of Pacific Gas and Electric Company, provided comments in support of Management's proposal and noted the proposal would allow for more accurate forecasting and scheduling of renewable resources. Mr. Kuga stated PG&E has 60 currently operative renewable contracts and that five were seeking protective measures. He noted that four of the contracts had anticipated that PIRP would no longer be grandfathered. Mr. Kuga further discussed contracting matters and emphasized the importance of the ISO not becoming involved in the contract negotiations. He noted the contract provision at issue was a narrow one and limited to PIRP and emphasized that the units should no longer continue to be subsidized since they would remain competitive. Mr. Kuga requested that the ISO take no action at this time concerning the qualifying facility contracts. Discussion followed and Mr. Kuga confirmed that PG&E was working with the five non-qualifying facility resources that submitted requests to the ISO but that negotiations could be hindered because PG&E's counterparties were waiting to see what the ISO would do rather than try to resolve issues through bilateral discussions. Discussion followed regarding the importance of moving forward with the contract negotiations.

Randy Nicholson, on behalf of San Diego Gas and Electric Company, provided comments in support of Management's proposal. He stated that they received five requests for protective measures and that SDG&E was the scheduling coordinator for three of the resources. Mr. Nicholson stated he was confident they could address the requests from those three resources without having to revise the contracts. He noted that SDG&E was committed to working with the counterparties on the remaining two requests. In the unlikely event protective measures were necessary, SDG&E supported the proposed recommendations.

Eric Little, on behalf of Southern California Edison, provided comments on Management's proposal. Mr. Little first addressed SCE's fourteen existing contracts within PIRP and noted that SCE was the scheduling coordinator for one resource and that he was confident issues related to that contract could be resolved without protective measures. Mr. Little then addressed SCE's existing contracts that were not presently in PIRP and the impact of the 33% renewables portfolio standard as well as the state policy on loading order. Mr. Little noted that

discussions surrounding the elimination of PIRP began approximately three years ago so the concept should be no surprise to affected resources.

Mr. Casey provided closing comments and stated that the ISO would continue to reach out to the contracting parties to facilitate negotiations. He also noted that with regard to the qualifying facilities, it was important to recognize that many of the units were under 20 MW and would have the option to pursue a PURPA contract. Mr. Casey committed to further evaluate the protective measures proposed by CalWEA but emphasized the importance of what resources the protective measures would be applicable to. Mr. Cook noted for clarification that the spreadsheet solution mentioned by CalWEA was something that was suggested as a tool for the parties to use themselves as part of the settlement process. Discussion followed regarding next steps in the stakeholder process.

BRIEFING ON RENEWABLES IN THE GENERATOR INTERCONNECTION QUEUE AND DOWNSIZING PROCESS STATUS

Bob Emmert, Manager – Interconnection Resources, provided the Board with an update on renewables in the ISO generator interconnection queue and downsizing process status since his March 2013 report. Mr. Emmert provided an overview of a graph that depicted the change in renewable capacity in the ISO queue since July 2011 by technology type. He also discussed a graph that depicted the current and projected renewable generation capacity in operation within the ISO queue. He concluded his presentation by providing an update on the one-time downsizing process status. He noted that the final downsizing proposal was on track to go to the Board for decision at its December 18-19, 2013 meeting. Discussion followed regarding causes for reduction in the queue and Mr. Emmert noted the primary reason was the posting requirements. Discussion followed regarding mitigation of barriers for projects due to high transmission costs.

INFORMATIONAL REPORTS

Ms. Saracino provided highlights of the following items from the regulatory report: (1) FERC accepted the implementation agreement between the ISO and PacifiCorp for the energy imbalance market, and (2) FERC granted the ISO's petition seeking permission to rerun market settlements to correct for a bid cost recovery calculation error, confirming the right of the ISO to return to load approximately \$52 million in overpayments.

Karen Edson, Vice President of Policy and Client Services, provided highlights of the following items from the legislative and state regulatory update: (1) The CPUC recently approved flexibility procurement one-year forward as part of its resource adequacy proceeding, and (2) the joint ISO/CPUC paper has been posted regarding the forward procurement mechanism.

There were no questions or comments on the following informational reports: business practice manual change management report, market surveillance committee update, quarterly financial report, Transmission Maintenance Coordination 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.