

**GENERAL SESSION MINUTES
ISO BOARD OF GOVERNORS MEETING
March 20-21, 2013
ISO Headquarters
Folsom, California**

March 20, 2013

The ISO Board of Governors convened the general session meeting at approximately 11:30 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
Ash Bhagwat
Angelina Galiteva
Dave Olsen
Richard Maullin

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

GENERAL SESSION

The following agenda items were discussed in general session:

PUBLIC COMMENT

Carl Zichella, on behalf of the Natural Resources Defense Council, provided comments in support of Management's proposal to enter into an implementation agreement with PacifiCorp to form an energy imbalance market.

DECISION ON GENERAL SESSION MINUTES

Governor Galiteva moved for approval of the Board of Governors general session minutes for the February 7 and February 25, 2013 meetings. The motion was seconded by Governor Foster 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, Southern California contingencies, energy imbalance market, PUC/ISO/CEC Summit, Merced Irrigation District, appointment of Market Surveillance Committee member, and renewable generation. Mr. Berberich provided an update on the new peak of 1692 MW for solar generation. Discussion followed regarding the ongoing evaluations of energy efficiency and demand response programs and the importance of collaboration with the State on these matters.

APPOINTMENT OF MARKET SURVEILLANCE COMMITTEE MEMBER

Mr. Berberich described the qualifications of Dr. Benjamin Hobbs, Chair of the Market Surveillance Committee, and noted that he has been a member of the Market Surveillance Committee since 2002. Mr. Berberich stated that Dr. Hobbs has become a highly respected expert on the various market design and policy challenges that confront the ISO and California. Mr. Berberich requested the Board reappoint Dr. Hobbs for another three-year term.

There was no public comment on this item.

Motion

Governor Foster:

Moved, that the ISO Board of Governors reappoints Dr. Benjamin Hobbs to the ISO Market Surveillance Committee for a three-year term to end March 31, 2016; and

Moved, that the ISO Board of Governors authorizes and directs the Chief Executive Officer to enter into an appropriate consulting agreement with Dr. Benjamin Hobbs to compensate him for his participation on the ISO Market Surveillance Committee.

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

UPDATE ON SUMMER 2013

Neil Millar, Executive Director of Infrastructure Development, provided the Board with a briefing on the summer 2013 outlook as well as an update on San Onofre Nuclear Generating Station mitigation planning. Mr. Millar informed the Board that the briefing on the summer assessment had been deferred to the May Board meeting so that it could better incorporate the evolving hydroelectric generation estimates, which would be firmed up following the spring snowpack assessment. He noted that the State was

experiencing below-average precipitation but that overall reserve margins in northern and southern California remained healthy. Mr. Millar stated that the available supply into southern Orange County and San Diego with SONGS off-line remained the primary concern. He stated that the focus was on non-generation alternatives to mitigate load-shed risk for multiple-contingency events. Mr. Millar described how the proposed solutions addressed 2013 reliability needs without excessive reliance on load-dropping schemes. Mr. Millar concluded his presentation by discussing next steps and how the ISO would continue its analysis of longer-term needs.

DECISION ON ISO 2012/13 TRANSMISSION PLAN

Neil Millar, Executive Director of Infrastructure Development, provided an overview of Management's proposal and noted that approving the transmission plan would mean approving the determinations and recommendations contained in the plan, including 8 transmission reliability projects and 2 policy driven projects, each of which was over \$50 million. He then provided an overview of the transmission planning process: developing planning assumptions (phase 1) and analysis conducted in preparing the plan (phase 2). He also acknowledged the efforts of the ISO staff as well as the participating transmission owners.

Mr. Millar discussed the nuclear generation studies that had been performed and provided an overview of key findings. Mr. Millar then provided an overview of the reliability-driven projects identified in the plan. He discussed the reliability risk identified by PG&E regarding supply to the San Francisco Peninsula. Mr. Millar described the policy analysis that led to the identification of five policy-driven elements. He then provided an overview of the five economic studies that were performed as part of the process.

Mr. Millar described the competitive solicitation eligibility review (phase 3) and noted that all reliability project elements had been screened and reviewed for potentially eligible competitive elements. He then described the detailed economic benefits assessment and the 2013 competitive solicitation schedule. Mr. Millar also described the special study that was performed to compare the AV Clearview project as an alternative to the LGIA-driven Coolwater-Lugo project and noted that at this point, the ISO did not see significant benefits to the AV Clearview project over the Coolwater-Lugo project.

Mr. Millar informed the Board that the high voltage transmission access charge-estimating model had been updated, and that it indicated a steady increase over the study period. He then provided an overview of stakeholder feedback and noted that there were varying levels of support for individual projects. Mr. Millar concluded his presentation discussing the benefits of the plan and next steps, including initiation of the competitive solicitation process and continued analysis of items that required further study.

Public comment

Nancy Saracino, Vice President, General Counsel and Chief Administrative Officer, acknowledged receipt of the following public comment letters: California State Senate (Senator Fuller and Senator Knight), City of Lancaster, the State Building and Construction Trades Council of California, Kern County (Scrivner), California Legislature (Fox), and the International Union of Operating Engineers.

Geisha Williams, on behalf of Pacific, Gas and Electric Company, provided comments in support of the transmission plan and emphasized the importance of meeting reliability needs.

Les Guliasi, on behalf of Trans Bay Cable, provided comments in support of various projects contained in the transmission plan. Mr. Guliasi noted the importance of the competitive solicitation stakeholder process.

Brian Theaker, on behalf of NRG Energy, commended ISO staff on its work on the transmission plan as well as the ISO's forward looking analysis regarding SONGS mitigation. Mr. Theaker noted concern with the analysis of the Carlsbad Energy Center project and looked forward to further discussion on the matter.

Discussion followed regarding the ISO's analysis process and the upcoming competitive solicitation stakeholder process.

Bill Pascoe, on behalf of TransWest Express, commended ISO staff on its work on the transmission plan. Mr. Pascoe expressed concerns regarding the results of the analysis of the high out-of-state imports scenario. Mr. Pascoe requested that the matter be addressed in the next planning cycle.

Discussion followed regarding the importance of the CPUC portfolio process in exploring out-of-state scenarios and Management's commitment to continue to look at this as part of its future planning processes.

Sandeep Arora, on behalf of LS Power, commended ISO staff on its work on the transmission plan and provided generally supportive comments. Mr. Arora expressed concern regarding the lack of inclusion of the Harry Allen-Eldorado project in the transmission plan.

Discussion followed regarding the timing associated with the ongoing joint study effort with NV Energy and its consideration of possible transmission and non-transmission alternatives.

Brian Weber, on behalf of MidAmerican Transmission, commended ISO staff on its work on the transmission plan and provided comments regarding the importance of a robust

analysis process and requested expedient approval of the Delaney-Colorado River project.

Jason Smith, on behalf of Arizona Public Service Company, commended ISO staff on its work on the transmission plan and provided comments in support of the transmission plan as a neighboring balancing authority. Mr. Smith noted the importance of further study and requested that the Delaney-Colorado River project be approved later in the year.

Kevin Davis, on behalf of the AV Clearview project, commended ISO staff on the transmission planning process. Mr. Davis provided handouts to the Board and discussed the project map. Mr. Davis discussed the independent study results and noted he looked forward to meeting with ISO staff to discuss them further. Mr. Davis further discussed Southern California Edison's activities regarding the CPCN process for the Coolwater-Lugo LGIA project.

Discussion followed and Chairman Foster addressed the importance of the analytics as a foundation for decision-making.

David Schiada, on behalf of Southern California Edison, commended ISO staff on its work on the transmission plan and provided comments on SCE's four projects contained in the transmission plan. Mr. Schiada provided further comments on the CPCN process for the Coolwater-Lugo project and stated that SCE anticipated filing at the CPUC in the July-August 2013 timeframe.

Discussion followed regarding the timing associated with the CPCN activity and the Board requested an update by SCE on the CPCN filing at the next Board meeting.

Motion

Governor Bhagwat:

Moved, that the ISO Board of Governors approves the ISO 2012/2013 transmission plan attached to the memorandum dated March 13, 2013.

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

RECESSED

There being additional general session matters to discuss, the general session was recessed at approximately 1:45 p.m.

RECONVENED

The ISO Board of Governors reconvened the general session meeting at approximately 2:20 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
Dave Olsen
Richard Maullin

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

GENERAL SESSION

The following agenda items were discussed in general session:

DECISION ON PACIFICORP ENERGY IMBALANCE MARKET IMPLEMENTATION AGREEMENT

Steve Berberich, President and CEO, provided introductory comments on the proposal and commended PacifiCorp for its work on the proposal.

Public comment (see below for additional public comment)

Karen Edson, Vice President of Policy and Client Services, acknowledged receipt of the following public comment letters: Governor of California, joint letter from California Energy Commission and California Public Utilities Commission, Grant County Public Utilities District, Iberdrola Renewables, Large-Scale Solar Association, Nevada Public Utilities Commission, Oregon Public Utilities Commission, Renewable Northwest Project, Valley Electric Association, Western Power Trading Forum, and a joint letter from the California Wind Energy Association, American Wind Energy Association, Environmental Defense Fund, and the Center for Energy Efficiency and Renewable Technologies.

Don Fuller, Director - Strategic Alliances, provided the Board with an overview of Management's proposal on the PacifiCorp Energy Imbalance Market Implementation Agreement. Mr. Fuller provided a background overview and noted that PacifiCorp serves 1.7 million customers in six states. He provided an overview of the timeline the

ISO and PacifiCorp were working with to move the energy imbalance market toward implementation. Mr. Fuller provided an overview of the Western Governors PUC-EIM group and addressed the WECC study that was performed in the 2010-11 timeframe. He then discussed the stakeholder call that was held to address questions pertaining to the proposal. Mr. Fuller described the following categories of benefits of the proposal: interregional dispatch, intraregional dispatch, flexibility reserves, and renewable curtailment.

John Anders, Senior Counsel, provided the Board with an overview of the key foundational principles of the memorandum of understanding and stated that it anticipated the needs of energy imbalance market stakeholders. Mr. Anders provided an overview of the parallel timeline for the implementation and EIM processes and noted that the energy imbalance market required both PacifiCorp implementation activities and a successful stakeholder process. He stated that further Board authorization was on track for the November 2013 meeting with an implementation date of October 2014. Mr. Anders concluded by noting that the energy imbalance market provided substantial benefit to the ISO and PacifiCorp customers.

Public comment

Andrea Kelly, on behalf of PacifiCorp, provided an overview of PacifiCorp's business and provided comments in support of Management's proposal and commended ISO staff's work throughout the process. Discussion followed regarding the importance of regional collaboration.

Kevin Barker, on behalf of the California Energy Commission, provided comments in support of Management's proposal and further described the benefits of an energy imbalance market.

Eric Little, on behalf of Southern California Edison, provided comments on the proposal and noted the importance of making sure the appropriate costs were borne by the appropriate parties and noted the importance of having the appropriate off-ramps in place. Discussion followed regarding greenhouse gas and the ISO's discussions with the California Air Resources Board.

Roy Kuga, on behalf of Pacific, Gas and Electric Company, provided comments in support of Management's proposal and noted continued support was dependent on the benefits outweighing the costs and that he was looking forward to the upcoming stakeholder process.

Brian Theaker, on behalf of NRG Energy, provided comments in support of Management's proposal. Mr. Theaker also provided comments on behalf of WECC and noted that WECC would continue to take part in the stakeholder process and monitor the proposal.

Bob Lane, on behalf of San Diego Gas and Electric Company, provided comments in support of Management's proposal and noted he looked forward to the upcoming stakeholder process.

Discussion followed and Mr. Berberich provided closing remarks, addressed staffing requirements and further discussed the benefits of having an existing market platform from which to launch the energy imbalance market.

Motion

Governor Galiteva:

Whereas, the ISO Board of Governors recognizes the potential benefits of an energy imbalance market, and consistent with the Memorandum of Understanding dated February 12, 2013, supports Management's proposal to carry out a stakeholder process to determine the tariff modifications necessary to implement the energy imbalance market.

Moved, that the ISO Board of Governors authorizes Management to enter into an implementation agreement with PacifiCorp consistent with the parties' Memorandum of Understanding dated February 12, 2013, and to make all necessary and appropriate filings with the Federal Energy Regulatory Commission; and

Moved, that the ISO Board of Governors authorizes Management to increase the 2013 capital budget by \$2.1 million to account for anticipated costs associated with the implementation agreement, for a total 2013 capital project budget of \$21.6 million.

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

DECISION ON FERC ORDER 1000 COMPLIANCE – INTERREGIONAL REQUIREMENTS

Neil Millar, Executive Director of Infrastructure Development, provided the Board with an overview of the requirements associated with FERC Order 1000 that addressed the promotion of enhanced regional and interregional transmission planning. Mr. Millar described the ISO's two-phase stakeholder initiative for the ISO's compliance with Order 1000. He noted that the ISO's proposal to meet the regional requirements of the order had been approved by the Board in September 2012, and that Management now sought approval of its proposal to address the interregional requirements. Mr. Millar provided an overview of the following major elements of the proposal: interregional coordination, joint evaluation of interregional transmission projects, and interregional cost allocation. Mr. Millar noted that certain requirements unique to the ISO were

needed to meet compliance requirements. He then provided an overview of the stakeholder process and noted there was broad support for the proposal but that some concerns remained. Mr. Millar provided highlights of the outstanding stakeholder concerns and concluded his presentation by providing an overview of the benefits of the proposal.

Public comment

Sandeep Arora, on behalf of LS Power, acknowledged the interregional efforts throughout the process and commended the ISO. Mr. Arora provided comments regarding the importance of implementation details and how benefits would be assessed.

Steve Metague, on behalf of Pacific, Gas and Electric Company, provided generally supportive comments on Management's proposal but noted some concern regarding the planning process timeframe. Discussion followed and Management committed to address these concerns in the filing with FERC.

David Schiada, on behalf of Southern California Edison, commended ISO staff's work throughout the process. Mr. Schiada provided generally supportive comments but noted some concern in two areas: the proposed overall framework and the avoided cost proposal. Discussion followed and Management discussed the importance of addressing these types of concerns on a case-by-case basis to allow the necessary flexibility.

Bob Lane, on behalf of San Diego Gas and Electric Company, noted appreciation of ISO staff throughout the process and that SDG&E had a similar position to PG&E and SCE on the proposal. Mr. Lane provided comments and noted the importance of implementation details and having a common methodology.

Discussion followed regarding implementation matters and potential next steps in the FERC process.

Motion

Governor Maullin:

Moved, that the ISO Board of Governors approves the proposal for the Federal Energy Regulatory Commission Order 1000 compliance filing as described in the memorandum dated March 13, 2013; and

Moved, that the ISO Board of Governors authorizes Management to make all the 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 MERCED IRRIGATION DISTRICT TRANSITION AGREEMENT

Don Fuller, Director - Strategic Alliances, provided the Board with an overview of Management's proposal to enter into a transition agreement with Merced Irrigation District. Mr. Fuller provided an overview of Merced Irrigation District including that it was a customer-owned cooperative that served 8,000 customers. Mr. Fuller noted that the Merced partnership would provide benefits with minimal costs as well as adding load to the ISO grid. Mr. Fuller concluded his presentation by reviewing the implementation timeline and noted that Merced would become a participating generator effective July 2014 and a participating transmission owner, utility distribution company and load-serving entity in the ISO, effective as early as July 2015. Brief 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 Valley Electric Association.

Don Ouchley, on behalf of Merced Irrigation District, commended the work of ISO staff throughout the process. Mr. Ouchley provided an overview of Merced Irrigation District and provided supportive comments on the proposal.

Motion

Governor Bhagwat:

Moved, that the ISO Board of Governors authorizes Management to enter into a transition agreement with Merced Irrigation District consistent with the parties' Memorandum of Understanding dated February 14, 2013 and attached to the memorandum dated March 13, 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 transition agreement, as described in the memorandum dated March 13, 2013.

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

AUDIT COMMITTEE UPDATE

Governor Bhagwat, Chair of the Audit Committee, provided the Board with highlights of the Committee's morning session that addressed the ISO Code of Conduct Certification

Procedures and the proposed investment strategy of the Retirees Medical Plan. Discussion followed regarding the proposed investment strategy. Governor Bhagwat recommended that the Board accept the two motions as recommended by the Committee:

Motion – Acceptance of ISO Code of Conduct Certification Procedures Review

Governor Galiteva:

Moved, that the ISO Board of Governors, as recommended by the Audit Committee, accepts the report issued on January 31, 2013 by PricewaterhouseCoopers LLP for the testing of the ISO's 2012 code of conduct certification procedures, as attached to the memorandum dated March 13, 2013.

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

Motion – Decision on Investment Strategy of the Retirees Medical Plan Assets

Governor Galiteva:

Moved, that the ISO Board of Governors, as recommended by the Audit Committee, approves the new investment strategy, as outlined in the memorandum dated March 13, 2013, pertaining to the assets associated with the present value of the liabilities, defined as the Accumulated Postretirement Benefit Obligation of the ISO Retirees Medical Plan; and

Moved, that the ISO Board of Governors, as recommended by the Audit Committee, authorizes the ISO Employee Pension Benefits Committee to approve the specific language of the investment policy and to monitor the investment strategy of the assets.

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

BRIEFING ON RENEWABLE GENERATION IN THE ISO GENERATOR INTERCONNECTION QUEUE

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 October 2012 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. Mr. Emmert provided an overview of a chart that depicted the results of the downsizing request window and

concluded his presentation by discussing the status of interconnection studies and the Generator Interconnection Agreement process. Discussion followed regarding the RPS goals and current efforts underway to identify further details related to technology types.

INFORMATIONAL REPORTS

There were no questions or comments on the following informational reports: regulatory report, legislative and state regulatory update, business practice manual change management report, market surveillance committee update, market monitoring report, master stakeholder engagement and release plans, operations highlights report, Transmission Maintenance Coordination Committee update, and annual investment report.

ADJOURNED

There being no additional general session matters to discuss, the general session was adjourned at approximately 4:15 p.m.