

**GENERAL SESSION MINUTES
ISO BOARD OF GOVERNORS MEETING
February 10-11, 2010
ISO Headquarters
Folsom, California**

February 11, 2010

Mason Willrich, Chair of the ISO Board of Governors, called the general session meeting to order at approximately 9:00 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
Tom Page
Linda Capuano
Laura Doll
Kristine Hafner

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

GENERAL SESSION

The following agenda items were discussed in general session:

PUBLIC COMMENT

No public comment was offered at this time.

DECISION ON MINUTES

Governor Capuano moved for the approval of the ISO Board of Governors general session minutes for December 16, 2009. The motion was seconded by Governor Doll, and approved 5-0-0.

INFORMATIONAL REPORTS

There were no comments on the following informational reports: Regulatory Report, Operations Report, Financial Report, Status of State and Federal Legislative Matters, Business Practice Manuals Change Management Report, Market Performance Report, Market Surveillance Committee Update, and Department of Market Monitoring Report.

ADR/AUDIT COMMITTEE UPATE – Acceptance of 2009 Code of Conduct Audit

Governor Page recommended that the Board accept the 2009 Code of Conduct Audit results as already accepted by the ADR/Audit Committee.

Motion

Governor Page:

Moved, that the ADR/Audit Committee recommends that the ISO Board of Governors accept the report issued on January 22, 2010 by PricewaterhouseCoopers LLP for the testing of the ISO 2009 code of conduct certification process, as recommended by the ADR/Audit Committee.

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

CEO REPORT

Yakout Mansour, President and Chief Executive Officer, provided the Board with an overview of the results of 2009 corporate performance in the areas of: excellence in grid and market operations, effective and timely infrastructure development and organizational effectiveness. Under the systems operations section of the report, Mr. Mansour discussed some of the challenging seasonal system conditions that occurred in December 2009. Mr. Mansour provided an update on Potrero units 4, 5 and 6 and noted they could be now be removed from reliability must run status at the end of 2010, provided that PG&E's re-cabling project was tested and functional and provided the reliability benefits anticipated.

Mr. Mansour concluded his report by discussing wind forecasting and noted that the ISO reported a 20 percent improvement in forecasting wind generation, but noted that more work was needed in the area. Discussion followed and Jim Detmers, Vice President of Operations, responded to Board inquires regarding the importance of interconnections and imports and exports from the Northwest. Discussion ensued regarding wind forecasting, regional planning efforts, the interconnection queue and the infrastructure planning process.

BRIEFING ON 2010-2011 MARKET INITIATIVES RELEASE PLAN

Steve Berberich, Vice President of Technology and Corporate Services and Chief Financial Officer, provided an update on the 2010-2011 market initiatives release plan and noted that progress was continuing on the following market enhancements: scarcity pricing, procurement of ancillary services in hour-ahead scheduling process, forbidden operating regions, proxy demand resource, multi-stage generator modeling, convergence bidding and participating load refinements. Mr. Berberich provided an overview of the following items that were being integrated into the market initiatives release plan: make-whole payment for convergence bidding, e-tagging timing requirement, information release phase 1 and 2, and local market power for proxy demand resource. Mr. Berberich concluded his

presentation by reviewing the release plan and noted that timelines were largely unchanged from the last update. Discussion followed regarding proxy demand resource and the utility registration process.

Public Comment

Candice Chan, on behalf of PG&E, provided comments on the market initiatives release plan and noted appreciation for the transparency and detail of the plan. Ms. Chan also commended the effectiveness of the stakeholder process and noted a few remaining issues remained with regard to convergence bidding.

DECISION ON PRICE CORRECTION MAKE-WHOLE PAYMENT TO ACCEPTED DEMAND BIDS

Proposal

Greg Cook, Director of Market and Infrastructure Policy, provided an overview of Management's proposal. Mr. Cook reviewed diagrams that reflected make-whole payment based on the difference between bid curve and corrected price and noted that when prices were adjusted upward, demand bids that cleared the market might no longer be economic. Mr. Cook stated that the downward trend of price corrections and the low make-whole payment costs justified a simple, low cost solution. Mr. Cook noted that stakeholders generally agreed with the proposal and provided an overview of a few stakeholder concerns. Mr. Cook concluded his presentation by stating the proposal fairly compensated market participants and that implementation was targeted for the summer 2010. Discussion followed the regarding the impact of the proposal on the implementation of convergence bidding. Mr. Cook noted that Management would continue to monitor the results.

Public Comment

No public comment was offered at this time.

Board Decision

Governor Capuano:

Moved, that the ISO Board of Governors approves the proposed make-whole payment for price correction to cleared demand bids and virtual bids in the day-ahead market and exports in the hour-ahead scheduling process, as detailed in the memorandum dated February 3, 2010, 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 Hafner, and approved 5-0-0.

DECISION ON E-TAG TIMING REQUIREMENTS INITIATIVE

Proposal

Greg Cook, Director of Market and Infrastructure Policy, provided an overview of Management's proposal and stated that the ISO needed the ability to clearly delineate between physical and financial bids. Mr. Cook described e-tags as electronic forms indicating a physical transaction between control areas. Mr. Cook stated that enhancements were needed to discourage implicit virtual bidding and to ensure that financial bids are explicitly identified as convergence bids. Mr. Cook noted that the proposal included new settlement rules to discourage implicit virtual bidding. Mr. Cook stated that stakeholders generally supported the proposal and then reviewed a few of the concerns, including the timing of implementation. Mr. Cook concluded his presentation by stating that the proposal minimized incentives to implicit virtual bids while balancing stakeholder concerns.

Public Comment

Jeffrey Nelson, on behalf of Southern California Edison, provided supporting comments on Management's proposal and noted that the proposal was one of four key elements that needed to be addressed. Mr. Nelson also commended the stakeholder process.

Board Decision

Discussion followed regarding the importance of the Department of Market Monitoring's informational report on the e-tag timing requirement proposal.

Motion

Governor Capuano:

Moved, that the ISO Board of Governors approves the proposal to deter implicit virtual bidding, as detailed in the memorandum dated February 3, 2010; 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 Page, and approved 5-0-0.

DECISION ON INFORMATION RELEASE POLICY FOR TRANSMISSION CONSTRAINTS

Proposal

Mark Rothleder, Director of Market Analysis and Development, provided an overview of Management's proposal. Mr. Rothleder reviewed the three phases of the information release policy and noted that a Board decision was presently being requested for phase 1- the information release policy on transmission constraints. Mr. Rothleder provided an overview of transmission constraints

and noted they could be in the form of branches, corridors or nomograms. Mr. Rothleder reviewed the key elements of the proposal and noted it was responsive to stakeholder requests for the ISO to release more information on transmission constraints. Mr. Rothleder then reviewed the various types of transmission constraint information that the ISO was proposing to release and how the balance of transparency and security would be met. Mr. Rothleder discussed the stakeholder process and noted that the ISO would address remaining concerns in the phase 3 stakeholder process. Mr. Rothleder concluded his presentation by reviewing next steps, including a tariff filing in first quarter 2010, upon Board approval of the proposal. Discussion followed regarding the timing associated with advance notifications.

Public comment

Ellen Wolfe, on behalf of Western Power Trading Forum, provided generally supportive comments on Management's proposal and requested that the size of the constraints also be included in the proposal. Discussion followed and Management confirmed that her concern would be addressed in the phase 1 transmittal letter, with further review of the matter in phase 3.

Mark Smith, on behalf of Calpine, provided generally supportive comments on Management's proposal and requested that transmission outage information also be released.

Board Decision

Discussion ensued regarding the importance of information security and security of the systems.

Motion

Governor Page:

Moved, that the ISO Board of Governors approves the proposal concerning release of the information about transmission constraints, as detailed in the memorandum dated February 3, 2010; 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 Capuano, and approved 5-0-0.

BRIEFING ON INFORMATION RELEASE POLICY FOR CONVERGENCE BIDDING

Greg Cook, Director of Market and Infrastructure Policy, provided an overview of Management's information release policy for convergence bidding and noted that information release on virtual bids was debated during the convergence bidding stakeholder process. Mr. Cook described the effect that the release of nodal information on market bids would have on the market. Mr. Cook further described the following types of information that Management was proposing to release: hourly net cleared virtual quantities at each node and a day-ahead market summary report. Mr. Cook stated that release of the information was permissible under the tariff so this approach would not require a

subsequent FERC filing. Mr. Cook discussed the stakeholder process and noted that stakeholders continued to be divided on nodal information release. Mr. Cook concluded his presentation by stating that the proposal struck the right balance among competing interest and that Management would include its intent to release the information in the transmittal letter of the convergence bidding tariff filing so that stakeholders would have an opportunity to provide further comments.

Public Comment

Ellen Wolfe, on behalf of Western Power Trading Forum, complimented the ISO on its open meeting practice. Ms. Wolfe provided comments on Management's proposal and noted opposition to release of the information for proprietary reasons.

Discussion ensued regarding various scenarios concerning the potential for release of proprietary information and the opportunity for stakeholders to provide further comments to FERC in response to the ISO's compliance filing on convergence bidding.

Brian Theaker, on behalf of Dynegy, made positive comments about the stakeholder process. Mr. Theaker provided comments on Management's proposal and noted opposition to release of the information as commercially sensitive. Mr. Theaker noted the importance of having a symmetric data release policy.

Candice Chan, on behalf of Pacific Gas and Electric Company, provided supporting comments on Management's proposal and the stakeholder process.

Jeffrey Nelson, on behalf of Southern California Edison, provided supporting comments on Management's proposal and the stakeholder process. Mr. Nelson commented on the Market Surveillance Committee October 2009 paper that supported the release of the information.

Eric Hildebrandt, Director of Market Monitoring, provided remarks in response to public comment concerns and noted support by the Department of Market Monitoring of Management's proposal. Discussion ensued regarding the importance of transparency, the importance of aggregating proprietary information, data analysis and trending, and the opportunity for additional stakeholder input in as part of the FERC process.

DECISION ON TREATMENT OF PROXY DEMAND IN LOCAL MARKET POWER MITIGATION PROCEDURES

Proposal

Eric Hildebrandt, Director of Market Monitoring, provided an overview of the Department of Market Monitoring's proposal and noted that it was a minor modification to the proxy demand proposal approved by the Board in September 2009. Dr. Hildebrandt stated the modification was needed so that proxy demand resource bids were not able to undermine the current local market power mitigation process. Dr. Hildebrandt reviewed a table that illustrated how proxy demand resources bids could currently displace bids from lower cost generation. Dr. Hildebrandt then reviewed a table

that illustrated how excluding proxy demand resource bids from the pre-market mitigation process would avoid that scenario. Dr. Hildebrandt provided an overview of the stakeholder process and noted that stakeholders were generally supportive of the proposal with one stakeholder opposing the proposal. Dr. Hildebrandt discussed the Department of Market Monitoring's response to stakeholder concerns and noted the proposal maintained the proper marginal signals, while still mitigating local market power. Dr. Hildebrandt stated that upon Board approval, implementation of the proposal would be achievable by May 2010.

Public Comment

Candice Chan, on behalf of Pacific Gas and Electric Company, provided comments in support of the stakeholder process and Management's proposal as a short-term option. Ms. Chan requested that the stakeholder process on the longer-term solution commence as soon as possible.

Discussion ensued regarding the importance of demand response and lower carbon options. Dr. Hildebrandt provided comments in agreement and then discussed why the supply side was the first area of focus. Discussion followed regarding the table illustrations.

Board Decision

Governor Doll:

Moved, that the ISO Board of Governors approves the proposal to exclude bids from proxy demand resources from the pre-market process for local market power mitigation, as detailed in the memorandum dated February 3, 2010; and

Moved, that the ISO Board of Governors authorizes Management to reflect this modification in its filing with the Federal Energy Regulatory Commission to implement the tariff change related to proxy demand resources, as approved at the September 10-11, 2009 Board meeting.

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

DECISION ON BAYFRONT SUBSTATION TRANSMISSION PROJECT

Proposal

Ali Chowdhury, Director of Regional Transmission South, provided an overview of Management's proposal to approve the Bayfront substation transmission project. Mr. Chowdhury reviewed a diagram that illustrated the location of transmission facility loading concerns in relation to the location of the proposed project. Mr. Chowdhury stated the Bayfront substation was needed to address overloading of SDG&E transmission associated with the retirement of the South Bay generating unit. Mr. Chowdhury provided an overview of four generation alternative projects. Mr. Chowdhury stated that Bayfront was the recommended project and provided an overview of the project elements. Mr. Chowdhury stated that the Bayfront project would cost \$129.2 million. Mr. Chowdhury discussed one transmission alternative that the ISO considered but ultimately rejected due to a higher cost and

load curtailment issues. Mr. Chowdhury concluded his presentation by providing a summary of the benefits of the proposed Bayfront project.

Public Comment

Jim Avery, on behalf of San Diego Gas and Electric Company, provided comments in support of Management's proposal on the importance of the Bayfront substation transmission project.

Discussion ensued regarding the South Bay power plant and the effectiveness of the ISO's transmission planning process.

Board Decision

Governor Capuano:

Moved, that the ISO Board of Governors finds that the Bayfront Substation Transmission Project, as detailed in the memorandum dated February 3, 2010, is a necessary and cost-effective long-term transmission addition to the ISO controlled grid; and

Moved, that the ISO Board of Governors directs San Diego Gas and Electric Company to continue with the design, licensing and construction of this project.

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

ADJOURNED

There being no additional general session items to discuss, the general session of the ISO Board of Governors meeting was adjourned at approximately 12:00 p.m.