

**GENERAL SESSION MINUTES
ISO BOARD OF GOVERNORS MEETING
November 1-2, 2010
ISO Headquarters
Folsom, California**

November 2, 2010

Mason Willrich, Chair of the ISO Board of Governors, convened the general session meeting 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
Laura Doll
Tom Habashi
Bob Foster

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:

PUBLIC COMMENT

No public comment was offered at this time.

DECISION ON AUDIT COMMITTEE STRUCTURE

Greg Fisher, Assistant General Counsel-Corporate, provided the Board with an overview of the requirements in the ISO bylaws pertaining to the Audit Committee structure. Mr. Fisher reviewed the status of the current Board membership. Mr. Fisher stated that it was Management's recommendation for the Board to appoint all current Governors to serve as the Audit Committee until a full Board has been appointed. Brief discussion followed.

Motion:

Governor Doll:

Moved, that the ISO Board of Governors appoints its entire current membership to serve as the Audit Committee as of November 2, 2010; and

Moved that the Board will serve simultaneously as the Audit Committee and will address all audit matters during the full Board session; and

Moved that this motion applies to the current Governors in office and any other Governors duly appointed at a future date, as detailed in the memorandum dated October 26, 2010.

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

DECISION ON MINUTES

Governor Habashi moved for the approval of the Audit Committee general session minutes for September 9, 2010. The motion was seconded by Governor Doll and approved 4-0-0.

Governor Doll moved for the approval of the Board of Governors general session minutes for September 9, 2010. The motion was seconded by Governor Foster, and approved 4-0-0.

BRIEFING ON MARKET INITIATIVES RELEASE PLAN

Petar Ristanovic, Vice President of Technology, provided the Board with a status update and noted that progress continued on several market initiatives with multiple deployments due this quarter. Mr. Ristanovic stated that multi-state generator modeling deployment was moving forward with contingencies in place. Mr. Ristanovic noted that convergence bidding market simulation had started and would continue through November.

Mr. Ristanovic concluded his presentation by providing a high-level overview of the release plan and noted it had been expanded to show future policy efforts that would require implementation planning.

DECISION ON MODIFICATIONS TO CAPACITY PROCUREMENT MECHANISM AND EXCEPTIONAL DISPATCH

Proposal

Greg Cook, Director of Market and Infrastructure Policy, provided the Board with an overview of Management's proposal to modify the capacity procurement mechanism and exceptional dispatch provisions. Mr. Cook stated that the proposal provided an extension of ISO backstop authority and noted that the current backstop provisions expire on March 31, 2011.

Mr. Cook stated the proposal addressed two requirements imposed by the Federal Regulatory Energy Commission related to backstop capacity procurement. Mr. Cook noted that since the inception of the interim capacity procurement mechanism, there have been only 23 instances of

backstop capacity procurement at a cost of \$2.7 million.

Mr. Cook stated that the proposal included important tools needed to reliably operate the grid.

Mr. Cook noted that the ISO would first give deference to the California Public Utilities Commission's resource adequacy process. Mr. Cook provided an overview of the stakeholder process and stated the final proposal balances diverse stakeholder interests. Mr. Cook commented on the Market Surveillance Committee opinion and noted the MSC generally supported the proposal but had some concerns regarding costs. Mr. Cook noted that there was a stakeholder initiative underway to identify operational needs and new market products.

Department of Market Monitoring comment

Eric Hildebrandt, Director of Market Monitoring, provided comments in support of Management's proposal and reinforced that it was a backstop mechanism that the ISO did not anticipate using much. Dr. Hildebrandt provided an overview of several key elements of the proposal. Dr. Hildebrandt also discussed the authority of market monitoring under the proposal and stated that it was consistent with the role market monitors have played in other markets.

Public comment

Robert Strauss, on behalf of the California Public Utilities Commission, provided comments and noted support for replacement of the interim capacity procurement mechanism with a more durable capacity procurement mechanism. Mr. Strauss noted concerns with Management's proposal regarding the expanding role of the ISO into an area that is already under CPUC oversight through the resource adequacy process.

Discussion followed and Yakout Mansour, President and CEO, provided comments in response to comments from Mr. Strauss regarding the CPUC's one-year forward commitment of resource adequacy. Dr. Casey, Vice President of Market and Infrastructure Development, noted the ISO would continue to defer to the mechanisms currently in place under the CPUC. Discussion followed regarding the proposed backstop provision.

Ellen Wolfe, on behalf of Western Power Trading Forum, provided comments on Management's proposal and noted that the Market Surveillance Committee meeting on the topic was very productive. Ms. Wolfe noted several concerns regarding matters not addressed in the proposal and stated that WPTF would further address them with FERC.

Mark Smith, on behalf of Calpine, provided comments on Management's proposal and noted they would be filing opposing remarks at FERC. Mr. Smith commented on the stakeholder process and noted that it was helpful in addressing needed future enhancements. Mr. Smith provided supportive comments on the November 15 go-live of multi-state generation. Discussion followed regarding price signals.

Peter Griffes, on behalf of Pacific Gas and Electric, provided generally supportive comments on Management's proposal and commended the stakeholder process. Mr. Griffes noted concern

with the proposal related to the risk of retirement provision and duplication with the CPUC long-term planning process.

Jeffrey Nelson, on behalf of Southern California Edison, provided generally supportive comments on Management's proposal and noted his appreciation of the stakeholder process. Mr. Nelson noted concern with the risk of retirement provision and requested that the provision be removed and addressed as part of a separate stakeholder process.

Steve Williams, on behalf of San Diego Gas and Electric, provided generally supportive comments on Management's proposal and noted his appreciation of the stakeholder process. Mr. Williams also noted concern with the risk of retirement provision and requested that the provision be removed and addressed as part of a separate stakeholder process.

Dr. Casey provided comments in response to concerns raised in the public remarks. Dr. Casey noted the risk of retirement provision was not duplicative of the CPUC resource adequacy and long-term planning processes as the capacity procurement mechanism would only be used in an emergency as a backstop. Discussion followed regarding the capacity procurement mechanism designation process.

Mr. Cook provided a status update on the renewable market design efforts and emphasized that the capacity procurement mechanism was purely a backstop mechanism. Mr. Cook provided an overview of the next two phases. Dr. Hildebrandt provided further comments on the independent role of the Department of Market Monitoring in the designation process. Discussion ensued regarding forward capacity, the retirement provisions, and the role of the Department of Market Monitoring. The Board made further inquiries regarding the CPUC resource adequacy and long-term procurement processes and engaged in further dialog with Mr. Strauss. Discussion followed regarding the historical usage of the mechanism and the importance of having a backstop provision in order to maintain reliability.

Board Decision

Governor Habashi:

Moved, that the ISO Board of Governors approves the proposed capacity procurement mechanism and exceptional dispatch provisions, as detailed in the memorandum dated October 26, 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 Foster, and approved 4-0-0.

DECISION ON RELIABILITY DEMAND RESPONSE PRODUCT

Proposal

Margaret Miller, Manager – Market Design and Regulatory Policy, provided the Board with an overview of Management’s proposal regarding the reliability demand response product. Ms. Miller stated that the proposal addressed long-standing concerns with emergency demand response programs and noted that the California Public Utilities Commission initiated a settlement proceeding as part of its efforts to address these concerns. Ms. Miller stated the settlement resolved these concerns and defined requirements for the reliability demand response product.

Ms. Miller stated the proposal integrated the reliability demand response product into the ISO market dispatch and that the proposal helped to complete the package of solutions for wholesale market demand response. Ms. Miller concluded her presentation by providing an overview of the proposal highlights.

Public comment

Brian Theaker, on behalf of Dynegy, provided generally supportive comments on Management’s proposal and commended the stakeholder process. Mr. Theaker noted a few concerns and stated that Dynegy would like to see demand response set prices.

Elizabeth Dorman, on behalf of the California Public Utilities Commission, provided supportive comments on Management’s proposal and requested that the Board approve the proposal. Ms. Dorman provided comments regarding the CPUC settlement agreement.

Jeffrey Nelson, on behalf of Southern California Edison, provided supportive comments on Management’s proposal and commended the stakeholder process.

Board Decision

Governor Doll:

Moved, that the ISO Board of Governors approves the proposed reliability demand response product, as detailed in the memorandum dated October 26, 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 Foster, and approved 4-0-0.

DECISION ON MARKET SURVEILLANCE COMMITTEE AND TRANSMISSION MAINTENANCE COORDINATION COMMITTEE CHARTERS

Greg Fisher, Assistant General Counsel – Corporate, informed the Board that, consistent with the 2010 corporate policy review initiative, Management was recommending modifications to the Market Surveillance Committee charter and the Transmission Maintenance Coordination Committee charter. Mr. Fisher stated that the proposed modifications reflected current practices, updated tariff references, and replaced the legalistic style with much clearer language.

Motion

Governor Habashi:

Moved, that the ISO Board of Governors approves the proposed revisions to the charter of the Market Surveillance Committee, as attached to the memorandum dated October 26, 2010; and

Moved, that the ISO Board of Governors approves the proposed revisions to the charter of the Transmission Maintenance Coordination Committee, as attached to the memorandum dated October 26, 2010.

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

BRIEFING ON MARKET PERFORMANCE

Mark Rothleder, Director of Market Analysis and Development, provided the Board with an overview of market performance and noted that the market was continuing to perform well. Mr. Rothleder noted that prices remained competitive and consistent with market conditions. Mr. Rothleder stated that price convergence improved as seasonal flexibility increased and that exceptional dispatches remained at low levels. Mr. Rothleder noted that congestion revenue rights revenue adequacy continued to improve and that price corrections decreased. Mr. Rothleder commented on the following areas of focus: improve market convergence, improve forecasting and provide for dispatch flexibility. Mr. Rothleder concluded his presentation by reviewing the areas of focus going forward.

BRIEFING ON RESULTS OF RELIABILITY MUST-RUN CONTRACT EXTENSIONS FOR 2011

Keith Casey, Vice President of Market and Infrastructure Development, provided the Board with an update on the results of the reliability must-run contract extension for 2011. Dr. Casey stated that the following units were extended for 2011: Oakland Units 1, 2 and 3, and Potrero Units 3, 4, 5, and 6. Mr. Casey stated the following resources were released from RMR status: South Bay Units 1, 2 and CT, Gilroy Units 1 and 2, Feather River and Yuba City.

Dr. Casey provided an overview of the status of Potrero and noted that the ISO would seek early termination once the two project upgrades were completed and proven operationally reliable.

Dr. Casey provided status updates on the Martin-Bayshore-Potrero recabbling project and the Trans Bay Cable project.

Dr. Casey provided an overview of the status of South Bay and noted the RMR contract extension was withdrawn based on updated information on San Diego load forecasts.

Brian Theaker, on behalf of Dynegy, provided comments regarding the lack of notice regarding notice of termination process and noted that these decisions should be based on information that was publically available. Dr. Casey apologized for the oversight regarding the notice to Dynegy and stated that more thought should have been given to how notice was handled.

BRIEFING ON TRANSMISSION QUEUE PROJECTS AND THE AMERICAN RECOVERY AND REINVESTMENT ACT PROJECTS

Bob Emmert, Lead Interconnection Services Engineer, provided the Board with a status update on the ISO's generation interconnection queue. Mr. Emmert reviewed diagrams of projects with completed studies assessed by type of generation. Mr. Emmert noted that the queue currently held more than double the estimated renewable generation capacity needed to achieve a 33% renewable portfolio standard. Mr. Emmert concluded his portion of the presentation by reviewing a timeline of the large generator interconnection procedure cluster studies.

Phil Pettingill, Director of Regulatory Affairs, provided the Board with an overview of the purpose of the American Recovery and Reinvestment Act of 2009. Mr. Pettingill noted that of the 344 renewable energy projects in the ISO interconnection process, 44 in-state projects totaling 10,422 MW were candidates for ARRA funding. Mr. Pettingill discussed federal and state coordination and collaboration and noted that the ISO was participating in monthly Renewable energy policy group meetings. Mr. Pettingill concluded his presentation by provided an overview of ISO actions to date that supported ARRA projects.

BRIEFING ON SCOPE OF FINANCIAL AUDIT

Sean Barry, with PricewaterhouseCoopers, provided the Board with an overview of the scope and objectives of the audit of the 2010 financial statements. Mr. Barry discussed the audit timeline and noted that the final report would be presented to the Audit Committee in May 2011. Mr. Barry provided an overview of the following key audit areas: new headquarters, old headquarters building, generator noncompliance fines, and contingencies. Mr. Barry concluded his presentation by providing an overview of the audit strategy and other audit related services.

ACCEPTANCE OF AUDIT OF RETIREE MEDICAL PLAN

Ryan Seghesio, Treasurer and Interim CFO, provided the Board with an overview of highlights of the California ISO Retirees Medical Plan. Mr. Seghesio noted that the total plan assets held in trust for benefits was \$4.2 million and that the plan was expected to be fully funded in the first quarter of 2011, based on a December 31, 2010 actuarial report. Mr. Seghesio stated that the financial statements were prepared in accordance with the Governmental Accounting Standards Board and the auditor's opinion was modified in accordance with the Department of Labor standards.

Sean Barry, with PricewaterhouseCoopers, stated that the audit scope included the balance sheets for December 31, 2009, 2008 and 2007 as well as the statement of changes for December 31, 2009 and 2008. Mr. Barry noted the audit procedures were designed to test contributions to and distributions from the plan, participant data, actuarial assumptions, and limited investment procedures. Mr. Barry concluded the presentation by reviewing the auditor communications required as part of the rules of professional responsibility.

Discussion following regarding the policy for investments.

Governor Habashi:

MOVED, that the ISO Board of Governors accepts the audited financial statements and supplemental schedules of the California ISO Retirees Medical Plan for the years ended December 31, 2009, 2008 and 2007 and the years ended December 31, 2009 and 2008, as audited by PricewaterhouseCoopers LLP, and as attached to the memorandum dated October 26, 2010.

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

INFORMATIONAL REPORTS

Governor Doll requested additional information to be provided in the Regulatory Report with regard to the status of proceedings once they reach the Federal Energy Regulatory Commission. There were no comments on the following reports: Operations Report, Financial Report, Status of State and Federal Legislative Matters, Market Performance Report, Business Practice Manuals Change Management Report, Department of Market Monitoring Report, Market Surveillance Committee Update, and Briefing on Principles, Policies and Standards.

ADJOURNED

There being no additional general session items to discuss, the general session of the ISO Board of Governors was adjourned at approximately 1:10 p.m.