

**GENERAL SESSION MINUTES
ISO BOARD OF GOVERNORS MEETING
September 13 – 14, 2012
ISO Headquarters
Folsom, California**

September 13, 2012

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
Ashutosh Bhagwat
Angelina Galiteva
Richard Maullin
David Olsen

The following members of the officer team were present: Steve Berberich, Keith Casey, Petar Ristanovic, Brenda Thomas, Eric Schmitt and Nancy Saracino

GENERAL SESSION

The following agenda items were discussed in general session:

PUBLIC COMMENT

John Geesman, on behalf of the Alliance for Nuclear Responsibility, provided comment regarding the brief the ISO will be filing in the California Public Utilities Commission's long-term procurement proceeding, and encouraged the ISO craft a brief that advocates for the upper range of new procurement in Southern California.

Valerie Seymour, on behalf of Clean Coalition, provided comment regarding the briefing on distributed energy resources. Ms. Seymour noted that the memo did not address that these resources may reduce the need for new transmission resources and should be considered as part of the planning process.

DECISION ON GENERAL SESSION MINUTES

Governor Maullin moved for approval of the Board of Governors general session minutes for the July 12, 2012 meeting. The motion was seconded by Governor Bhagwat and approved 5-0-0.

CEO REPORT

Steve Berberich, President and CEO, provided an update on the summer grid outlook and an overview of the following sections of his CEO Report: summer 2013 outlook, conversion of Huntington Beach units 3 & 4 to synchronous condensers, FERC Order 1000 compliance filing, intertie pricing and settlements stakeholder process, generator project downsizing, stakeholder symposium, and flexible capacity backstop procurement mechanism. In addition, Mr. Berberich discussed the participating transmission owner applications for the City of Colton and Valley Electric Association, and the market manipulation issues found and addressed recently by the ISO's Department of Market Monitoring. Finally, he addressed the FERC notice issued regarding the April 1, 2010 outage.

RECOGNITION OF MARGARET LUNDBERG, PricewaterhouseCoopers

Nancy Saracino, Vice President and General Counsel, acknowledged Margaret Lundberg of PricewaterhouseCoopers and expressed appreciation for her service to the ISO.

BRIEFING ON 2013 SUMMER OUTLOOK

Neil Millar, Executive Director – Infrastructure Development, briefed the Board on the outlook for summer 2013 without the San Onofre Nuclear Generating Station units and the solutions being pursued to balance reliability needs.

DECISION ON CONDITIONAL APPROVAL TO EXTEND CERTAIN RELIABILITY MUST-RUN CONTRACTS FOR 2013 AND NEW RELIABILITY MUST-RUN DESIGNATION FOR HUNTINGTON BEACH UNITS 3 AND 4 FOR VOTAGE SUPPORT

Neil Millar, Executive Director – Infrastructure Development, provided background information to the Board regarding the conditions when reliability must-run contracts are extended. Mr. Millar requested the Board's conditional approval to extend the reliability must-run contract for 2013 for the Oakland combustion turbines, should the generation not be picked up through a utility's resource adequacy program. Additionally, as described in the preceding presentation on the 2013 summer outlook, Mr. Millar requested the Board's approval to negotiate and enter into a new reliability must-run contract for the Huntington Beach Units 3 and 4 to provide voltage support in the Los Angeles basin and San Diego.

Public comment

Nancy Saracino, Vice President and General Counsel, acknowledged the public comment letter received from the California Energy Commission.

Robert Oglesby, on behalf of the California Energy Commission, provided comment in favor of the proposal.

Molly Sterkel, on behalf of the California Public Utilities Commission, acknowledged the complexity of the task to convert Huntington Beach Units 3 & 4 to synchronous condensers and offered the Commission's commitment to work closely with the ISO to overcome the challenges associated with this reliability must-run contract, given the tight timeline and the unusual nature of the agreement.

Eric Pendergraft, on behalf of AES Southlands, offered the organization's full support of the conversion of Huntington Beach Units 3 & 4 to synchronous condensers and their commitment to working with the ISO, the responsible utilities and regulatory agencies to move forward quickly to meet a June 2013 commercial operation date. Mr. Pendergraft noted that in negotiating the reliability must-run contract, AES would expect fair compensation for the value for the existing asset and infrastructure that would be contributed to this project.

Discussion continued amongst the Board and staff regarding the commercial negotiations of the reliability must-run contract. Management committed to provide the Board with an executive session briefing on the commercial negotiations.

Motion

Governor Maullin:

Moved, that the ISO Board of Governors authorizes Management to extend reliability must-run contracts for any of the reliability must-run units listed on Attachment 1, consistent with the criteria described in the memorandum dated September 7, 2012; and

Moved, that the ISO Board of Governors authorizes Management to designate Huntington Beach units 3 and 4 for reliability must-run service contingent upon execution of a reliability must-run contract with rates, terms and conditions acceptable to Management, as described in the memorandum dated September 7, 2012. The Board reserves the right to withdraw approval if Management is not satisfied with the commercial terms of the agreement.

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

RECESSED

There being additional general session matters to discuss, the general session was recessed for lunch at approximately 12:35 p.m.

RECONVENED

The ISO Board of Governors reconvened the general session meeting at approximately 1:05 p.m. and the presence of a quorum was established.

BRIEFING ON DISTRIBUTED ENERGY RESOURCES

Heather Sanders, Director of Smart Grid and Technologies, provided an overview of the current and projected development of distributed energy resources. Ms. Sanders discussed the key challenges facing the ISO to incorporate distributed energy resources into the ISO grid and how the ISO is addressing these challenges with pilot programs, development of new market products and active involvement in state and federal regulatory proceedings.

Discussion continued with the Board and staff regarding the use of pilots to educate the ISO in order to be prepared to manage distributed energy resources.

DECISION ON CENTRAL COUNTERPARTY EXEMPTION FOR SELF-SUPPLY FROM TAX-EXEMPT GENERATION

Governor Maullin was not present for this item.

Dan Shonkwiler, Senior Counsel, provided an overview of the concerns raised by stakeholders regarding how the tax-exempt status of bonds issued to finance generation projects would be affected by the implementation of the central counterparty structure made effective on September 1, 2012. Mr. Shonkwiler described that the proposed amendment clarifies the status of transactions where a publicly owned utility supplies its own load it is transacting with itself and not with the ISO. Mr. Shonkwiler noted that there was broad support from stakeholders for this proposed change.

Public Comment

George Morrow, on behalf of Azusa Light and Power, thanked the Board, Management and staff for their outreach to the publicly owned utilities and commended the process.

Bill Carnahan, on behalf of Southern California Public Power Authority, described the importance of the tax-exemption to its members and urged the Board to approve the proposal.

David Wright, on behalf of City of Riverside complimented the Board, Management and staff on their efforts to address this issue.

Tony Braun, on behalf of California Municipal Utility Association, expressed appreciation to the ISO for addressing this issue expeditiously.

Motion

Governor Galiteva:

Moved, that the ISO Board of Governors approves the proposed tariff change to exempt from the central counterparty structure self-supply transactions from generation financed by tax-exempt bonds, as described in the memorandum dated September 7, 2012; 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 Bhagwat and approved 4-0-0.

DECISION ON FERC ORDER 1000 COMPLIANCE FILING

Neil Millar, Executive Director – Infrastructure Development, provided background on FERC Order 1000 and described the tariff revisions developed by the ISO through its stakeholder process in order to comply with the order. Mr. Millar noted that the ISO modified its transmission planning process for compliance with FERC Order 890, and as a result was largely compliant with Order 1000 requirements. Mr. Millar discussed concerns raised by stakeholders throughout the process and the steps taken to address these concerns.

Discussion followed and the Board inquired regarding stakeholder concerns about how the proposal meets the public policy requirements of the Order and the process in place for evaluating transmission and non-transmission alternatives on a comparable basis.

Public Comment

Julia Prochnik, on behalf of Natural Resources Defense Council, complimented the ISO for addressing their concerns and noted that they felt the document going forward was a good document. Ms. Prochnik also encouraged the ISO to consider several factors as it moves forward with the filing, including environmental issues, consideration of non-transmission alternatives, WECC data use in the base case, and improvements to the stakeholder process.

Ted Ko, on behalf of the Clean Coalition, urged the ISO to take a more proactive approach to FERC Order 1000 compliance regarding the consideration of non-transmission alternatives. Mr. Ko requested that the Board direct ISO staff to provide a presentation at the next Board of Governor's meeting to explain and discuss the methodology currently used to consider non-transmission alternatives, the limitations of that methodology and suggestions for how the process may be improved.

Jan Smutney-Jones, on behalf of Independent Energy Producers, addressed the Board regarding intervener funding and encouraged the ISO to maintain its current position and not implement a mechanism for intervener funding.

Eric Eisenman, on behalf of Pacific Gas & Electric, provided comments in support of the proposal and noted their commitment to working with the ISO going forward.

Discussion continued among the Board and Management regarding the criteria for ensuring that non-transmission and transmission projects are given comparable consideration. Management committed to dedicate time in the transmission planning process for discussion regarding how transmission alternatives are considered in the current process and to solicit feedback for enhancing the process. Management further committed to report back on those discussions to the Board at the first Board of Governors meeting in 2013. The Board suggested that the ISO could learn from the Bonneville regional collaborative which has identified non-wires alternatives to transmission projects.

Ms. Saracino acknowledged receipt of the public comment letter on this item from the California Consumers Alliance.

Motion

Governor Galiteva:

Moved, that the ISO Board of Governors approves the proposal for the Federal Energy Regulatory Commission Order No. 1000 Compliance Filing as described by Management in the memorandum dated September 7, 2012; and

Moved, that the ISO Board of Governors authorizes Management to file the necessary tariff amendments with the Federal Energy Regulatory Commission to implement this proposal.

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

Mr. Berberich provided closing comments.

DECISION ON GENERATOR PROJECT DOWNSIZING

Mr. Casey provided an overview of the proposal to provide a one-time window for interconnecting customers to request a downsize of their generation projects and noted that this effort was undertaken in response to numerous requests received from generation developers indicating a need for more opportunity and flexibility to seek requests to downsize their projects.

Keith Johnson, Manager of Infrastructure Policy and Contracts, provided an overview of the key design elements of the proposal. Mr. Johnson noted that there was broad support for this proposal by stakeholders, but did acknowledge some concerns raised in the stakeholder process, in particular the request for a second downsizing window and concerns related to projects that exercise this downsizing opportunity losing the option to temporarily suspend development of projects in the future. Mr. Johnson described Management's position on each of these two stakeholder concerns.

The Board commended the ISO for being proactive and listening to stakeholder concerns around this issue. Governor Olsen urged the ISO to commit to a second downsizing window in consideration of those projects that are not ready to make the decision to downsize at this time. Mr. Casey provided responsive comments and committed to the reconsideration of a second downsizing window following completion of the cluster five studies.

Public Comment

Ms. Saracino acknowledged public comment letters received and distributed to the Board from California Wind Energy Association and Large Scale Solar Association.

Dariush Shirmohammadi, on behalf of California Wind Energy Association, expressed concerns related to generator project downsizing criteria and suggested that the ISO incorporate a provision allowing project developers to downsize at any time if they are willing to mitigate any material impacts.

Management provided responsive comments related to the importance of restricting downsizing opportunities to certain windows within the interconnection

process in order for the ISO to maintain an efficient process by studying the impacts at one time.

Doug Davie, on behalf of Wellhead Electric, acknowledged that generator downsizing was an important issue to address, but provided comments opposed to Management's proposed solutions and suggested further refinements be made before the proposal goes to FERC.

Mr. Casey provided responsive comments.

Motion

Governor Maullin:

Moved, that the ISO Board of Governors approves the proposal for generator project downsizing as described by Management in the memorandum dated September 7, 2012; and

Moved, that the ISO Board of Governors directs management to consider a second downsizing window following completion of the cluster 5 studies; and

Moved, that the ISO Board of Governors authorizes Management to file the necessary tariff amendments with the Federal Energy Regulatory Commission to implement this proposal.

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

DECISION ON PARTICIPATING TRANSMISSION OWNER APPLICATIONS

Daune Kirrene, Senior Contract Negotiator, presented Management's proposal to accept the participating transmission owner applications of the City of Colton and Valley Electric Association. Ms. Kirrene provided an overview of each entity's transmission rights and the process to become participating transmission owners within the ISO. Ms. Kirrene also noted that in order to appropriately apply local capacity procurement costs to Valley Electric Association, the ISO must create a new "North Central" transmission access charge area. Ms. Kirrene stated that the tariff requires Board approval to take this action.

Public Comment

David Kolk, on behalf of City of Colton, provided comments in favor of Management's proposal and thanked the ISO staff for their efforts.

Tom Husted, on behalf of Valley Electric Association, provided comments in favor of Management's proposal.

Ms. Saracino acknowledged the public comment letter received from the Office of Energy for the Office of the Governor of the State of Nevada.

First Motion

Governor Galiteva:

Moved, that the ISO Board of Governors approve the ISO's acceptance of the City of Colton's application for participating transmission owner status, conditioned on (1) the City of Colton executing the Transmission Control Agreement and (2) the Federal Energy Regulatory Commission accepting a transmission owner tariff and transmission revenue requirement for the City of Colton, as described in the memorandum dated September 7, 2012.

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

Second Motion

Governor Foster:

Moved, that the ISO Board of Governors approves the ISO's acceptance of the application of Valley Electric Association, Inc. for participating transmission owner status, conditioned on (1) Valley Electric Association, Inc. executing the Transmission Control Agreement and (2) the Federal Energy Regulatory Commission accepting a transmission owner tariff and transmission revenue requirement for Valley Electric Association, Inc., as described in the memorandum dated September 7, 2012; and,

Moved, that the ISO Board of Governors approves the ISO's creation of a new Transmission Access Charge Area called North Central and assignment of Valley Electric Association, Inc. to the North Central Transmission Access Charge Area, as described in the memorandum dated September 7, 2012.

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

DECISION ON FLEXIBLE CAPACITY PROCUREMENT: RISK OF RETIREMENT

Mr. Casey provided an overview of Management's proposal and noted that the need for this mechanism most recently came up with the situation earlier this year with the Sutter plant. Mr. Casey also emphasized that this was an interim measure.

Greg Cook, Director of Infrastructure Policy, described the outlook for the needs of the grid for flexible capacity in the future and summarized Management's proposal for procuring flexible capacity from a resource that does not receive a resource adequacy contract but is required to maintain reliability in the future. Mr. Cook presented the ISO's proposal for terms of the procurement payment, the allocation of the costs to make the payments, and the sunset provision. Mr. Cook also summarized stakeholder concerns and Managements revisions to the proposal in response to many of those concerns.

The Board posed clarifying questions to Management regarding the sunset provision. Management confirmed that there is no defined sunset date rather the sunset will be triggered by changes in other regulatory processes. The Board also requested clarification about the ISO's flexibility assessment. Management provided responsive comments.

Jim Bushnell, on behalf of the Market Surveillance Committee, described the committee's opinion in support of the proposal and noted that while the committee was in support of the proposal, there are parts of the proposal where there was uncertainty about the impacts many aspects of the proposal may have.

The Board questioned whether the Market Surveillance Committee had a recommendation for a sunset date. Mr. Bushnell responded that, although the committee had not undertaken a thorough vetting for a particular timeframe, they felt that five-years was a natural number.

Public Comment

Roy Kuga, on behalf of Pacific Gas and Electric, provided recommendations to the proposal to include increased clarity of the scope, duration, costs, and performance requirements. Mr. Kuga also stressed the importance that this mechanism does not interfere with existing competitive markets.

Brian Theaker, on behalf of NRG Energy, provided comments opposed to Management's proposal and requested that the Board direct Management to focus its efforts on a primary mechanism to deal with this problem and defer action on this proposal.

Discussion continued between the Board, Management and Mr. Theaker regarding the development of a long-term solution, such as a multi-year forward capacity market.

Matt Barmack, on behalf of Calpine, provided comments opposed to Management's proposal and urged the ISO and the PUC to move forward with the development of a long-term solution, such as a forward capacity market.

Jeffrey Nelson, on behalf of Southern California Edison, expressed concerns about the ISO's proposal. Mr. Nelson noted his agreement that a durable solution to this very complicated problem would take years to develop and implement, but stressed the need to commit to finding that solution.

Molly Sterkel, on behalf of the California Public Utilities Commission, provided comments opposed to Management's proposal. Ms. Sterkel noted that the fundamental concerns of the PUC on this proposal were its impacts on the market, the behaviors it incentivizes to generators, and the disconnect between the resource planning assumptions used at the ISO and what would be used at the CPUC.

Management provided responsive comments to the CPUC's concerns and committed to working with the CPUC to develop a long-term solution. The Board also noted the value of looking at a market for capability versus capacity.

Ellen Wolfe, on behalf of the Western Power Trading Forum, provided comments opposed to Management's proposal and stressed that a solution should be developed to enable the markets to solve these problems.

Jason Cox, on behalf of Dynegy, encouraged the Board to defer approval of Management's proposal and focus efforts on the long-term solution.

Tony Braun, on behalf of the California Municipal Utility Association, noted that his association shares the concerns presented by Pacific Gas and Electric and the MSC Committee. Mr. Braun also provided comments opposed to the concept of a centralized capacity market.

Eric Hildebrandt, Director of Market Monitoring, provided comment in support of Management's proposal. Mr. Hildebrandt noted that because the payment is relatively low, DMM does not feel that the proposal undermines the current process.

Mr. Casey provided responsive comments to many of the concerns raised, including transparency on pricing methodology, which he committed to providing explicit detail about the cost components within the tariff and business practice manual. Mr. Casey also addressed comments regarding the sunset date, noting

that the sunset provision was added to address stakeholder concerns. The Board requested that Management add a provision to the sunset date to include an “or” provision of five years from the effect date of the order, whichever comes first. Management modified the motion language to reflect this request.

The Board also requested that Management bring the decisions to procure risk of retirement backstop capacity to the Board for review before any commitment is made. Management modified the motion language to reflect this request.

Motion

Governor Bhagwat:

Moved, that the ISO Board of Governors approves the proposal for the ISO to adopt a flexible capacity procurement: risk of retirement backstop mechanism to maintain system flexibility and local reliability for two to five years in the future, as described in the memorandum dated September 7, 2012; and

Moved, that the ISO Board of Governors directs Management to bring all decisions to procure risk of retirement backstop capacity to the Board for approval, and directs that the sunset provision be modified as discussed at the meeting on September 13, 2012; 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 proposal.

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

BRIEFING ON INTERTIE PRICING AND SETTLEMENTS

Keith Casey, Vice President of Markets and Infrastructure, provided background on the ISO convergence bidding on the interties and the impact on the real-time energy offset before it was suspended in 2011. Following suspension of convergence bidding on the interties, the ISO embarked on an extensive stakeholder effort to find a modification to how interties are settled in real-time to reduce the real-time imbalance energy offset and potentially reintroduce convergence bidding on the interties.

Greg Cook, Director of Market Design and Infrastructure Policy, provided additional overview of the issues, the stakeholder engagement efforts and the risks and benefits of the design that was considered during the process. Mr. Cook also

noted that the recent FERC variable energy resources order provided the ISO with the opportunity to implement more comprehensive changes to the real-time market structure than the proposed solution. Mr. Cook stated that Management has determined that focusing resources on complying with the FERC variable energy resources order, which will ultimately provide a more comprehensive solution to the underlying issues, is a more effective approach. Mr. Cook committed to starting the stakeholder process in the next month, with the intent of bringing a proposal to the Board in Summer 2013.

Public Comment

Ms. Saracino acknowledged the public comment letters from the Western Power Trading Forum and Powerex.

Brian Theaker, on behalf of NRG Energy, expressed frustration over the stakeholder process and requested that Management direct staff to involve stakeholders in how the ISO prioritizes its work so that stakeholder efforts are not wasted.

Mr. Berberich and Mr. Cook provided responsive comments regarding the prioritization process for discretionary initiatives.

Robert Gosselin, on behalf of Powerex, provided complimentary comments regarding the stakeholder process and offered its support of suspending the stakeholder process in order to pursue a more comprehensive solution to improve market efficiency.

Ellen Wolfe, on behalf of the Western Power Trading Forum, acknowledged that the stakeholder process has been improving over the last several years but that in this case, the Western Power Trading Forum was surprised by how this particular stakeholder process ended. Ms. Wolf also requested that the formal stakeholder process be documented and requested a collaborative approach to deciding the outcome of stakeholder initiatives.

Mr. Casey provided responsive comments and stressed the ISO's commitment to reinvigorating the stakeholder prioritization initiative.

Jeffrey Nelson, on behalf of Southern California Edison, acknowledged the difficulty of this issue and noted that although it was disappointing not to find a workable solution, he complimented the process. Mr. Nelson also commented on his optimism of addressing the problem through the hour-ahead scheduling process redesign process.

Mr. Berberich provided closing comments.

DECISION ON UPDATING CORPORATE POLICIES

Greg Fisher, Assistant General Counsel – Corporate, provided the Board with an overview of the process underway to update all of the ISO’s policies to ensure that they reflect best practices and current business needs. Mr. Fisher described the substantive changes made to the six ISO corporate policies for the Board’s approval.

The Board raised a question related to the Corporate Governance Principles and best practices regarding the evaluation of individual Board members versus evaluation of the effectiveness of the Board itself. The Board also discussed the criteria within the Board Selection Policy for the Board Nominee Review Committee. The Board requested that Management revise the title of “Alternative Energy Providers” to something that reflects that this class of energy sources is becoming mainstream. Management committed to work with the necessary stakeholders to find a term that is consistent with the original intent of what the “Alternative Energy Providers” group should cover as part of the Board selection process.

Ryan Seghesio provided an overview of the changes to the Investment Policy and described that all of the changes are consistent with the ultra-conservative investment strategy we have always maintained and the edits do not materially change how the ISO invests its assets.

The Board inquired about the change to the policy related to the investment in commercial paper. Mr. Seghesio provided responsive comments describing the rationale for separating commercial paper from the corporate debt obligation allocation and noted that the changes are consistent with best practices across the industry.

Motion

Governor Bhagwat:

Moved, that the ISO Board of Governors approves the amendments to the documents listed below, and as attached to the memorandum dated September 7, 2012:

- ***Records Availability Policy***
- ***Open Meeting Policy***
- ***Board Selection Policy***
- ***Corporate Governance Principles***
- ***Compliance and Ethics Program Policy***
- ***Investment Policy***

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

INFORMATIONAL REPORTS

There were no questions or comments on the following informational reports: operations report, regulatory report, legislative and state regulatory update, quarterly financial report, business practice manual change management report, compliance committee update, transmission maintenance coordination committee update, market surveillance committee update, department of market monitoring report, market initiatives release plan and stakeholder engagement charts.

ADJOURNED

There being no additional general session matters to discuss, the general session was adjourned at approximately 6:15 p.m.