

**GENERAL SESSION MINUTES
ISO BOARD OF GOVERNORS MEETING
February 16, 2012
ISO Headquarters
Folsom, California**

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The ISO Board of Governors convened the general session meeting at approximately 2:00 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
Angelina Galiteva
Richard Maullin

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

GENERAL SESSION

The following agenda items were discussed in general session:

PUBLIC COMMENT

Nancy Saracino, Vice President and General Counsel, acknowledged a letter from the Northern California Power Agency and the Bay Area Municipal Transmission Group to the Board regarding cost containment of transmission infrastructure. Ms. Saracino noted the letter was related to a March Board topic and that it would be addressed during the March public comment segment at the meeting consistent with current practices.

DECISION ON GENERAL SESSION MINUTES

Governor Maullin moved for approval of the Board of Governors general session minutes for the December 15-16, 2011 meeting. The motion was seconded by Governor Galiteva and approved 3-0-0.

CEO REPORT

Governor Bhagwat joined the meeting.

Steve Berberich, President and Chief Executive Officer, provided the Board with an overview of the following sections in his CEO Report: maintaining a reliable system, system conditions, Pacific Southwest outage, and interconnection changes.

DECISION ON POST-EMERGENCY BID COST RECOVERY ELEMENTS

Proposal

Greg Cook, Director – Market Design and Infrastructure Policy, provided the Board with an overview of Management’s proposal on post-emergency bid cost recovery elements. Mr. Cook described how following the emergency bid cost recovery tariff filings in March and June of 2011, Management engaged with stakeholders to identify residual issues.

Mr. Cook stated that Management identified two issues that required Board decision at this meeting. The first issue concerns eligibility for minimum load cost recovery and the second issue relates to persistent uninstructed deviations as a means to inflate bid cost recovery revenues. Mr. Cook stated that Management is recommending two changes: (1) Qualification for minimum load cost recovery includes the requirement that the generating resource be online; and (2) use of multi-stage generating unit modeling functionality required for resources with multiple operating configurations. Mr. Cook noted that resources not best modeled using the multi-state generating unit modeling functionality would be exempted from this requirement.

Mr. Cook concluded by stating that the proposed implementation schedule would allow for mitigation of stakeholder concerns.

Public comment

Brian Theaker, on behalf of Dynegy Energy, provided comments on Management’s proposal and requested that the ISO not move forward with the mandatory requirement at this time.

Discussion ensued and the Board inquired as why the mandate should happen now. Mr. Cook responded and noted that the mandate would help incentivize participation in the market simulations. Discussion followed and Management committed to monitor the impact to stakeholders and bring it back to the Board if deemed necessary.

Governor Maullin left the room.

J.J. Fair, on behalf of CalPeak Power, provided generally supportive comments on Management's proposal but expressed concerns with the registered price option.

Discussion continued and Mr. Casey clarified that the commitment cost issue raised by Mr. Fair is currently being addressed in a stakeholder process and that Management will bring the proposal to the Board in May.

Motion

Governor Galiteva:

Moved, that the ISO Board of Governors approves the policy to implement modifications to the minimum load cost tolerance band and to implement required multi-stage generating unit modeling registration, as described in the memorandum dated February 9, 2012; 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 Foster and approved 3-0-0.

DECISION ON SEVEN-DAY ADVANCED TRANSMISSION OUTAGE PROPOSAL

Governor Maullin joined the meeting.

Proposal

Gary DeShazo, Director – Operation Engineering Services, provided the Board with an overview of Management's seven-day advanced transmission outage proposal. Mr. DeShazo stated that 24% of transmission outage requests are submitted with less than 7 days' notice which can result in grid operation challenges. Mr. DeShazo stated that the current timeframe does not provide sufficient time to include outages in the advanced market analyses. Mr. DeShazo concluded by stating that the proposal balances the ISOs need for sufficient time to analyze outage requests and participating transmission owners flexibility to plan maintenance work. Brief discussion followed.

Public comment

Eric Eisenman, on behalf of Pacific Gas and Electric Company, provided comments in support of Management's proposal.

Motion

Governor Bhagwat:

Moved, that the ISO Board of Governors approves the proposed tariff changes regarding the time requirements for transmission outage requests, as described in the memorandum dated February 9, 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 Maullin and approved 4-0-0.

ACCEPTANCE OF 2011 CODE OF CONDUCT CERTIFICATION PROCEDURES REVIEW

Nancy Saracino, Vice President and General Counsel, introduced the topic and described how in its 2011 audit of the ISO's independence, FERC recommended that the ISO design better controls for monitoring potential conflicts of interest. Ms. Saracino stated that Management worked collaboratively with PwC to comply with FERC's recommendations relating to the code of conduct audit.

Sean Barry, with PricewaterhouseCoopers, informed the Board that all planned procedures were performed without exception and the report was issued on January 31, 2012. Mr. Barry stated the report covered code of conduct requirements for employees, substantially full-time contractors and the Board of Governors. Mr. Barry stated the scope of procedures had been expanded from the prior year to include additional procedures such as training requirements and conflict of interest disclosure forms. Mr. Barry concluded his presentation by noting that PwC appreciated the high level of commitment and cooperation of ISO staff.

Motion

Governor Galitva:

Moved, that the ISO Board of Governors accepts the report issued on January 31, 2012 by PricewaterhouseCoopers LLP for the testing of the ISO's 2011 code of conduct certification procedures.

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

BRIEFING ON LOCAL MARKET POWER MITIGATION ENHANCEMENTS

Greg Cook, Director – Market and Infrastructure Development, gave the Board an overview and recapped how the Board approved a set of enhancements to the ISO’s local market power mitigation rules in July 2011. Mr. Cook stated the approved enhancements included a new local market power mitigation methodology and a dynamic competitive path assessment. A phased implementation was included as part of the proposal to address implementation concerns from the stakeholders, and the Board had directed Management to conduct an analysis of the expected impacts of the phased implementation plan as part of its approval of the proposal. Mr. Cook informed the Board that the Department of Market Monitoring recently published its report, and Management had determined that no change in the implemented plan was needed given the report’s conclusions.

Jeff McDonald, Manager – Department of Market Monitoring, provided the Board with an assessment of the impact of the proposed local market power mitigation enhancements. Mr. McDonald stated the proposed enhancements reflected significant changes to competitive path identification and mitigation and that some functionality in real time would be implemented in the fall of 2012. Mr. McDonald stated that full implementation in the day-ahead market showed significant improvement of mitigation accuracy and that accuracy of real-time market mitigation improved during the initial phase of implementation. Mr. McDonald also stated that full implementation in the real-time market greatly improved accuracy of mitigation. Discussion followed regarding the assessment results.

Public comment

Brian Theaker, on behalf of Dynegy Energy, provided supportive comments and noted that the ISO was on the right path and that he would like to see dynamic competitive path assessment in the fall.

Discussion followed regarding Management’s commitment to implement in the fall.

BRIEFING ON MARKET DESIGN INITIATIVES

Greg Cook, Director – Market and Infrastructure Development, provided the Board with an update on the following two items that the Board approved in August 2011: flexible ramping constraint and the elimination of convergence bidding on the interties. Due to their controversial nature, at its August meeting the Board instructed Management to report back regarding the progress of both initiatives.

Mr. Cook stated that the ISO implemented the flexible ramping constraint on December 13, 2011 and it was working as designed. Mr. Cook stated that Management commenced a stakeholder initiative in November and has made significant progress towards completing the flexible ramping product design with a final proposal scheduled

for Board decision in May. Mr. Cook noted that the recently-undertaken cost allocation initiative will be key to addressing elements of the flexible ramping product design.

Mr. Cook informed the Board that on November 25, FERC issued an order that accepted the ISOs proposal to eliminate convergence bidding on the interties, subject to the outcome of a technical conference. Mr. Cook stated that Management was committed to identifying market design enhancements that would enable reinstatement of convergence bidding on the interties. Mr. Cook concluded his presentation by stating that Management would bring a proposal to address the real time imbalance energy offset and convergence bidding at the interties to the Board for decision in May.

Public comment

Roy Kuga, on behalf of Pacific Gas and Electric Company, provided supporting comments on the cost allocation principles piece in the current flexible ramping product proposal.

QUARTERLY TRANSMISSION MAINTENANCE COORDINATION COMMITTEE UPDATE

Steve Rutty, Director of Grid Assets, provided the Board with a quarterly update and stated that the Transmission Maintenance Coordination Committee was currently seeking candidates to fill seven open positions. Mr. Rutty noted that the TMCC members would be approving the recommended nominees at its March 2012 meeting. Mr. Rutty stated the TMCC has been monitoring the Phase 2 decision in CPUC rulemaking R.08-11-005 on fire safety hazards as well as the pending CPUC Staff proposed general order for substation inspections. Mr. Rutty concluded his presentation by noting that the TMCC regularly discusses maintenance related industry standards and recent grid events. Brief discussion followed.

INFORMATIONAL REPORTS

Regulatory Report

BethAnn Burns, Senior Counsel, provided an overview of the backstop capacity procurement mechanism FERC order and noted that the ISO was very pleased with the order.

Sidney Davies, Assistant General Counsel – Tariff, provided an overview of the demand response FERC order that rejected the ISOs filing.

Ms. Saracino informed the Board that the generator interconnections procedure – phase 2 FERC order was issued and that FERC accepted all but one of eighteen items.

There were no questions on the following informational reports: operations report, financial report, status of state and federal legislative matters, market performance report, business practice manuals change management report, market surveillance committee update, department of market monitoring update, market initiatives release plan, and the annual investment report.

ADJOURNED

There being no additional general session matters to discuss, the general session was adjourned at approximately 3:30 p.m.