

**GENERAL SESSION MINUTES
ISO BOARD OF GOVERNORS MEETING
December 15-16, 2011
ISO Headquarters
Folsom, California**

December 15, 2011

The ISO Board of Governors convened the general session meeting at approximately 12:00 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
Ashutosh Bhagwat
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

David Miller, on behalf of the Center for Energy Efficiency and Renewable Technologies, provided comments in support of removing the participating intermittent resources element from the December meeting. Mr. Miller also provided comments in support of the change to the cost allocation mechanism in Management's flexible ramping product proposal.

Jeffrey Nelson, on behalf of Southern California Edison, provided comments on Management's renewable integration market and product review proposal and noted concern that the participating intermittent resource product element had been taken out of the proposal before the Board.

DECISION ON GENERAL SESSION MINUTES

Governor Bhagwat moved for approval of the Board of Governors general session minutes for the October 27-28, 2011 meeting. The motion was seconded by Governor Maullin and approved 4-0-0.

CEO REPORT

Steve Berberich, President and Chief Executive Officer, provided the Board with an overview of the following sections in his CEO Report: strategic planning process, operational resource needs, Pacific Southwest outage update, Citizen's Energy as a new participating transmission owner, clean results in SSAE 16 audit, and overview of the successful implementation of credit reform.

DECISION ON 2012-2016 STRATEGIC PLAN

The Board provided congratulatory comments on the strategic plan in follow-up to Mr. Berberich's briefing on this topic in his CEO Report and provided further remarks commending the strategic planning process.

Public comment

There was no public comment on this item.

Motion

Governor Galiteva:

Moved, that the ISO Board of Governors approves the ISO's Five-Year Strategic Plan for 2012 – 2016, titled "Reliable Power For A Renewable Future" and directs Management to proceed with implementation of the plan.

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

DECISION ON RENEWABLE INTEGRATION MARKET AND PRODUCT REVIEW

Greg Cook, Director – Market and Infrastructure Policy, provided the Board with an overview of Management's renewable integration – market and product review phase 1 proposal. Mr. Cook stated the proposal originally encompassed the following three elements: energy bid floor, bid cost recovery and the participating intermittent resource program. Mr. Cook then discussed why the participating intermittent resource program element was being deferred to 2012. Mr. Cook provided an overview of the energy bid floor and bid cost recovery elements and noted that Management supported the separation of bid

cost recovery netting. Mr. Cook discussed the stakeholder process and noted that additional bid cost recovery measures would be further vetted with stakeholders and would go back to the Board in March 2012. Brief discussion followed.

Public comment

Mark Smith, on behalf of Calpine, provided generally supportive comments on Management's proposal and noted concern with some of the open issues.

Dariush Shirmohammadi, on behalf of California Wind Energy Association, provided supportive comments on Management's proposal. Mr. Shirmohammadi provided further comments on the deferral of the participating intermittent resources program element.

Jeffrey Nelson, on behalf of Southern California Edison, provided comments in support of Management's proposal and commended the efforts of ISO staff.

Jim Bushnell, on behalf of the Market Surveillance Committee, provided comments in support of Management's proposal and provided further comments in support of deferring the participating intermittent resources program element. Mr. Bushnell noted that Management's proposal struck a good balance on the issues and recommended some steps going forward. Brief discussion followed regarding the role of the Market Surveillance Committee and their analysis of cost recovery in relation to the State's renewable policy.

Motion

Governor Bhagwat:

Moved, that the ISO Board of Governors approves the proposed tariff change regarding the Renewable Integration – Market and Product Review Phase 1 as described in the memorandum dated December 8, 2011; 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, following Board approval of the remaining bid cost recovery elements of the proposal.

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

DECISION ON DEFAULT OPERATIONS AND MAINTENANCE COSTS

Greg Cook, Director – Market and Infrastructure Policy, provided an overview of Management's default operations and maintenance costs proposal and noted that the ISO would review and update O&M values every three years. Mr. Cook stated that default O&M

values are used in calculating proxy minimum load costs and default energy bids. Mr. Cook provided an overview of what items qualify as O&M costs and reviewed a table of recommended new default O&M cost values. Mr. Cook discussed the stakeholder process and noted there were limited concerns about not including major maintenance costs. Discussion followed regarding the analysis of solar technologies and why zero was the recommended default O&M cost adder.

Public comment

Doug Davie, on behalf of Wellhead Electric Company, provided generally supportive comments on Management's proposal but noted concern that major maintenance costs would not be included in the proposal. Discussion followed and Management confirmed that major maintenance costs would be addressed in the January 2012 commitment costs initiative.

Motion

Governor Galiteva:

Moved, that the ISO Board of Governors approves the proposed changes regarding the default operations and maintenance cost values as described in the memorandum dated December 8, 2011; 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.

DECISION ON PENALTY ALLOCATION TARIFF AMENDMENT

Burton Gross, Senior Counsel, provided the Board with an overview of Management's proposal and stated that the proposed tariff amendment would establish a process for seeking Federal Energy Regulatory Commission approval to allocate penalty costs to market participants. Mr. Gross provided the Board with a regulatory background regarding penalty allocation tariff provisions and discussed how other ISOs and RTOs are responding to the guidance order from FERC. Mr. Gross discussed the direct and indirect allocation scenarios associated with the tariff amendment. Mr. Gross discussed the stakeholder process and informed the Board that all comments were addressed as part of the process. Brief discussion followed.

Public comment

There was no public comment on this item.

Motion

Governor Galiteva:

Moved, that the ISO Board of Governors approves the proposed tariff amendment to establish procedures for penalty allocation requests to the Federal Energy Regulatory Commission as described in the memorandum dated December 8, 2011; 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.

DECISION ON PARTICIPATING TRANSMISSION OWNER APPLICATION

Keith Johnson, Manager – Infrastructure Policy and Contracts, informed the Board that Citizens Sunrise, LLC, has applied to turn over operational control of its portion of the Sunrise Powerlink to the ISO. Mr. Johnson stated that the application must be submitted for public comment prior to the ISO accepting the application. Mr. Johnson stated the next step would be for the transmission owner to execute a transmission control agreement and then file its transmission revenue requirement and tariff with the Federal Energy Regulatory Commission. Mr. Johnson noted that the following two conditions must be met in order for the applicant to become a participating transmission owner: FERC approval of the transmission revenue requirement and tariff, and the ISO's acceptance of operational control of the applicant's transmission facility after it has achieved commercial operation. Mr. Johnson concluded his presentation by reviewing the stakeholder process and noted that there was no opposition to the application.

Public comment

Peter Smith, on behalf of Citizens Sunrise, LLC, provided provided a background overview of Citizens Energy and provided comments in support of the participating transmission owner application.

Dariush Shirmohammadi, on behalf of California Wind Energy Association, provided comments in support of Citizen's participating transmission owner application and requested that the ISO look at improving the process for others to become a participating transmission owner.

Motion

Governor Galiteva:

Moved, that the ISO Board of Governors approves the ISO's acceptance of the application of Citizens Sunrise Transmission, LLC for participating transmission owner status, conditioned on (1) Citizens Sunrise executing the Transmission Control Agreement and (2) the Federal Energy Regulatory Commission accepting a transmission owner tariff and transmission revenue requirement for Citizens Sunrise, as described in the memorandum dated December 8, 2011.

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

DECISION ON FY2012 BUDGET

Ryan Seghesio, Chief Financial Officer and Treasurer, provided the Board with an overview of the budget process timeline and noted that the process began in June 2011. Mr. Seghesio stated that the proposed budget exhibits fiscal discipline while providing for the ISO's long-term viability. Mr. Seghesio informed the Board that Management is proposing a revenue requirement increase to \$194.8 million and noted that the revenue requirement was up modestly to fund capital expenditures. Mr. Seghesio stated that the proposed O&M budget increased by \$0.5 million, to \$163.0 million. Mr. Seghesio provided an overview of two graphs related to debt service and concluded his presentation by providing an overview of a chart that reflected the proposed grid management charge rates. Brief discussion followed.

Motion

Governor Galiteva:

Moved, that the ISO Board of Governors approves the 2012 O&M and Capital/Project budgets as set forth in Attachment A to the memorandum dated December 8, 2011; and

Moved, the Board authorizes Management to take all necessary and appropriate actions to implement the 2012 grid management charge rates reflecting the 2012 budget.

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

BRIEFING ON ISSUANCE OF 2011 SSAE 16 AND SCOPE OF 2012 SSAE 16

Roger Mills, with PricewaterhouseCoopers, provided the Board with an overview of the audit results for the 2011 SSAE 16 as well as the proposed scope of the 2012 SSAE 16. Mr. Mills stated the purpose of the report was to report on the ISO's internal controls relating primarily to its market operations and settlement activities and noted that this was the first issuance under the new standard, Statement on Standards for Attestation Engagements No. 16 (SSAE 16). Mr. Hills informed the Board that two exceptions were identified, although the exceptions did not impact the achievement of the control objective, and therefore did not affect the opinion. Mr. Hills concluded his presentation by noting that PwC and ISO staff have already begun planning for next year's internal controls audit. Brief discussion followed.

QUARTERLY BRIEFING ON MARKET PERFORMANCE

Mark Rothleder, Executive Director – Department Analysis and Development, provided the Board with an update on market performance since the August update and noted that market performance had improved in several areas. Mr. Rothleder noted that as hour-ahead and real-time price convergence improved, the impact on costs lessened. Mr. Rothleder stated that bid cost recovery continues on a downward trend and that price correction events increased in October and declined in November. Mr. Rothleder stated that exceptional dispatch volumes remained relatively low but increased for some months relative to 2010. Mr. Rothleder concluded his presentation by providing an overview of planned future improvements. Brief discussion followed regarding the expansion of the Bonneville pilot project.

INFORMATIONAL REPORTS

There were no questions on the following informational reports: regulatory report, 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, and market initiatives release plan.

ACCEPTANCE OF 2011 OPERATIONS AUDIT

Tim Cherry, on behalf of PricewaterhouseCoopers, provided the Board with an overview of the audit opinion results for the 2011 operational compliance assessment. Mr. Cherry provided a background overview of the operations assessment process and noted that exceptional dispatch was selected as the subject of the assessment. Mr. Cherry provided an overview of the scope and reviewed the five functional aspects of exceptional dispatch operating procedures. Mr. Cherry reviewed the audit findings and stated that one exception was noted. Mr. Cherry concluded his presentation by reviewing related reportings.

Debi Le Vine, Director of System Operations, provided an overview of Management's response to the audit findings and provided further context surrounding the exception.

Ms. Le Vine stated that in response to the findings, Management would be reinforcing the need for end-of-shift log review and would be providing operators additional training on exceptional dispatch in 2012. Ms. Le Vine concluded her presentation by discussing next steps for the 2012 audit plan and noted the proposed scope would go to the Board in March.

Public comment

There was no public comment on this item.

Motion

Governor Galiteva:

Moved, that the Board accepts the compliance assessment issued on December 7, 2011 by PricewaterhouseCoopers LLC for the testing of specified control room operational processes for 2011, as attached to the memorandum dated December 8, 2011.

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

ADJOURNED

There being no additional general session matters to discuss, the general session was adjourned at approximately 3:00 p.m.