

**GENERAL SESSION MINUTES
ISO BOARD OF GOVERNORS MEETING
March 19-20, 2014
ISO Headquarters
Folsom, California**

March 20, 2014

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
Ash Bhagwat
Angelina Galiteva
Richard Maullin
David Olsen

The following members of the executive team were present: Steve Berberich, Eric Schmitt, Keith Casey, Mark Rothleder, Karen Edson, Becky Regan and Roger Collanton

GENERAL SESSION

The following agenda items were discussed in general session:

PUBLIC COMMENT

No public comment was offered at this time.

DECISION ON GENERAL SESSION MINUTES

Governor Foster moved for approval of the Board of Governors general session minutes for the February 6, 2014 meeting. The motion was seconded by Governor Bhagwat and approved 5-0-0.

CEO REPORT AND DECISION ON MARKET SURVEILLANCE COMMITTEE REAPPOINTMENT

Steve Berberich, President and CEO, provided an overview of the following sections of his CEO report: Overall conditions, flexible resource adequacy criteria and must-offer obligation and the transmission plan. Mr. Berberich further discussed the two policy driven projects and one economic project proposed in the transmission plan.

Mr. Berberich next informed the Board that Management was requesting the reappointment of Dr. Scott Harvey as a member of the Market Surveillance Committee, an advisory committee to the ISO Board of Governors. Mr. Berberich provided an overview of Dr. Harvey's qualifications and further discussed his value to the organization since his appointment in March 2011. He recommended approval of the following motion:

Motion

Governor Galiteva:

Moved, that the ISO Board of Governors reappoints Dr. Scott Harvey to the ISO Market Surveillance Committee for a three-year term to end March 31, 2017; and

Moved, that the ISO Board of Governors authorizes and directs the Chief Executive Officer to enter into an appropriate consulting agreement with Dr. Scott Harvey to compensate him for his participation on the ISO Market Surveillance Committee.

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

Mr. Berberich continued his CEO report and noted that a solar peak of 4,161 MW was set on March 19, 2014. He concluded his report by welcoming Roger Collanton to the executive team as Vice President, General Counsel and Chief Compliance Officer.

DECISION ON FLEXIBLE RESOURCE ADEQUACY CRITERIA AND MUST OFFER OBLIGATION

Greg Cook, Director – Market and Infrastructure Policy, provided the Board with an overview of Management's proposal on flexible resource adequacy criteria and must-offer obligation. Mr. Cook stated that the proposal would establish tariff provisions to implement the ISO's flexible capacity backstop procurement process for 2015. He described how certain elements of the original proposal had been deferred to the reliability services initiative for implementation in 2016. Mr. Cook further described how flexible capacity needs were allocated to local regulatory

authorities based on their load serving entities' contribution to the net load ramp. He stated that the flexible capacity needs assessment was based on the largest 3-hour net-load ramp in a month. Mr. Cook described how flexible capacity categories enabled a portion of flexible capacity needs to be provided by preferred resources that have limited availability. He then provided an overview of a table that depicted proposed offer obligations associated with each category.

Mr. Cook described the stakeholder process and noted that some concerns were raised about resource category definitions, counting provisions and allocation of requirements. He provided a further overview of key concerns and described how the proposal had been modified in response to input from the stakeholders. Mr. Cook next discussed recent conversations with combined heat and power cogeneration representatives regarding their concerns with the proposal's uniform method to count flexible resources. Mr. Cook stated in response to this concern, that the proposal would be slightly modified to allow the flexible capacity to count from combined heat and power resources to be the minimum of either their net qualifying capacity or the difference between their maximum output and minimum operating level. Mr. Cook stated the ISO would continue to work with stakeholders regarding these matters.

Discussion followed regarding the timing of the reliability services initiative and Mr. Cook stated that Management was on track to bring the proposal to the Board in early 2015. Mr. Cook concluded his presentation by providing an overview of the significant benefits of the proposal.

Public comment

Roger Collanton, Vice President, General Counsel and Chief Compliance Officer, acknowledged the following public comment letters submitted to the Board: Sierra Club and MegaWatt Storage Farms, Inc. on behalf of NGK

Ed Cazalet, on behalf of NGK and MegaWatt Storage Farms, provided comments on Management's proposal regarding concerns with the 45-minute storage duration provisions.

Roy Kuga, on behalf of Pacific Gas and Electric Company, provided comments in support of Management's proposal but further discussed several proposed modifications as related to technologies, allocation of flexibility requirement for variable energy resources, and the importance of having one set of counting rules. Discussion followed regarding counting rules as related to pumped storage.

Marc Cortez, on behalf of California Energy Storage Alliance, noted appreciation to the ISO for a successful stakeholder process and provided comments in support of Management's proposal.

Michele Kito, on behalf of the California Public Utilities Commission, acknowledged the efforts of ISO staff and provided comments in general support of Management's proposal but raised one concern related to how effective flexible capacity assesses the need for backstop procurement of flexible capacity. Brief discussion followed regarding coordination efforts between the CPUC and the ISO.

Girish Balachandran, on behalf of the City of Riverside, provided generally supportive comments on Management's proposal but noted work remained. Mr. Balachandran further discussed concerns related to the proposed limitations on use limited resources and provision related to must bid obligations. Discussion followed regarding Management's response to Mr. Balachandran's concerns and mitigation efforts underway, including the modified allocation methodology.

Beth Reid, on behalf of Olivine, Inc., provided comments in support of Management's proposal and further discussed the benefits of the proposal. Ms. Reid emphasized the importance of continuing coordination between the ISO and the CPUC.

James Caldwell, on behalf of the Center for Energy Efficiency and Renewable Technologies, provided comments in support of Management's proposal and noted the importance of having real world experience. Mr. Caldwell provided additional remarks supporting the Market Surveillance Committee opinion.

Mark Smith, on behalf of Calpine, provided comments in support of Management's proposal and commended ISO staff on the stakeholder process. Mr. Smith noted a concern with the definition of what qualifies for capacity and emphasized the importance of coordination between the ISO and CPUC.

Don Brookhyser, on behalf of Cogeneration Association of California and Energy Producers and Users Coalition, acknowledged the efforts of ISO staff on the proposal and provided supportive comments and further discussed the provisions related to self-scheduling and counting rules.

Doug Parker, on behalf of Southern California Edison, acknowledged the efforts of ISO staff on the proposal and provided supportive comments on Management's proposal. Mr. Parker noted SCE would be filing comments at FERC requesting certain refinements but overall was supportive of the proposal and noted ongoing work was still needed, including coordination between the ISO and CPUC.

Mona Tierney-Lloyd, on behalf of EnerNOC, Inc., acknowledged the efforts of ISO staff and noted support of comments provided earlier in the meeting as well as general support for Management's proposal. Ms. Tierney-Lloyd noted concerns in several areas including the elements of the three category design, ability for demand response to participate in the wholesale market, and using unbundled as opposed to bundled demand response resources.

Market Surveillance Committee comment

Shmuel Oren, member of the Market Surveillance Committee, provided comments in general support of Management's proposal. Mr. Oren provided an overview of the MSC opinion titled "Opinion on Flexible Resource Adequacy Criteria and Must-Offer Obligation".

Discussion followed and Mr. Casey provided further comments in response to comments made during public comment and further described the importance of having a forward procurement mechanism in addition to an effective spot market. Mr. Casey provided a historical overview of the collaboration efforts between the ISO and the CPUC in developing the procurement mechanism. He further described the challenges associated with not making the proposal overly complex as the proposal was being fine-tuned to address stakeholder concerns. Discussion ensued regarding concerns raised, including the proposed definition of flexible ramping products, and Mr. Casey stated that Management would revisit these types of more complex design elements at a later date. Discussion followed regarding the proposal's impact on variable energy resources.

Mr. Casey emphasized the importance of continued collaboration efforts between the ISO and the CPUC, especially concerning the development of a standard set of counting conventions for flexible resources. Discussion followed regarding the 5% limit on demand response resources and Mr. Cook noted that this was a load serving entity issue. Discussion followed regarding upcoming initiatives to further address some of the issues. Discussion ensued regarding the potential of counting for both the pumping and generation of pumped storage resources and Management committed to address concerns related to pumped storage resources. Discussion followed regarding self-scheduling, and Management committed to report back to the Board as to whether the proposal successfully reduced the amount of self-schedules. Discussion followed regarding the importance of continuing to enhance existing market mechanisms as a longer term solution.

Motion

Governor Olsen:

Moved, that the ISO Board of Governors approves the proposed flexible resources adequacy criteria and must-offer obligation proposal, as described in the memorandum dated March 12, 2014; 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 Galiteva and approved 5-0-0.

DECISION ON TRANSMISSION PLAN

Neil Millar, Executive Director – Infrastructure Development, provided the Board with an overview of the 2013-14 transmission planning process and noted that approval of the plan meant approving the determinations and recommendations contained in the plan.

Mr. Millar provided a summary of the 28 needed reliability driven transmission projects, provided an overview of the six reliability projects over \$50 million as well as the five reliability projects totaling less than \$50 million, included in the plan for Board approval. It was noted that the remaining reliability projects had previously been approved by the ISO management. He stated that the needs in Southern California were a major focus of the proposed plan and described several transmission options evaluated in the plan that were grouped by similar characteristics in developing management's recommendations. He also noted that PG&E had identified a reliability risk for supply to the San Francisco Peninsula area.

Mr. Millar then described the two policy driven substation-related solutions and noted that a deficiency in renewable generation deliverability from Imperial Valley due to the early retirement of SONGS had been identified and would require further assessment in the 2014-15 planning process.

Mr. Millar provided an overview of the proposed Delaney-Colorado River 500 kV transmission line. He informed the Board that the Harry Allen-Eldorado transmission line would require further evaluation and that Management might bring it to the Board for approval later in the year.

He further discussed a graph that depicted the projected high voltage transmission access charge based on the proposed plan. Mr. Millar provided an overview of the stakeholder process and further discussed various concerns about specific projects and method of analysis. He concluded his presentation by discussing next steps, including initiating the competitive solicitation process and continued analysis of the following two potential amendments to the plan: Harry Allen-Eldorado and San Francisco Peninsula. Mr. Millar reviewed the overall benefits and recommended approval of the 2013-14 transmission plan.

Public comment

Roger Collanton, Vice President, General Counsel and Chief Compliance Officer, acknowledged the following public comment letters submitted to the Board: California Energy Commission, Center for Energy Efficiency and Renewable Technologies, Bay Area Municipal Transmission Group, Nevada Hydro Company, and Terra-Gen Power, LLC.

Drew Bohan, on behalf of the California Energy Commission, provided comments in strong support of the proposed transmission plan.

Kevin Kelley, on behalf of Imperial Irrigation District, provided a few brief comments and then introduced Carl Stills, on behalf of Imperial Irrigation District, who provided further comments and noted concerns regarding the maximum import capability (MIC) values reflected in the plan. Mr. Stills further discussed IID's planning process.

Barry Flynn, on behalf of BAMx, commended the efforts of the ISO in developing the proposed plan but noted that work remained. Mr. Flynn further described concerns and requested that the Board ask Management to come back with an amended plan after further studies were completed as related to accounting for preferred resources in the long-term procurement plan.

Mona Tierney-Lloyd, on behalf of EnerNOC, provided comments on the proposed plan and stated she looked forward to continuing work with the ISO in hopes for a better assessment of preferred resources in the next planning cycle.

David Kates, on behalf of Nevada Hydro Company, provided an update on the Lake Elsinore Advanced Pumped Storage project and requested guidance as to whether the project should be before the CPUC under the long-term procurement process or as part of the ISO's planning process. Mr. Berberich responded that similar to other pumped storage resources, it would need to go through the CPUC process, however Mr. Berberich emphasized the importance of these resources to the ISO.

Les Guliasi, on behalf of Trans Bay Cable and Steel River, commended the efforts of ISO staff and provided an overview of the Trans Bay Cable project. Mr. Guliasi provided further comments noting concerns with San Francisco Peninsula analysis as well as concerns with the competitive solicitation process. Mr. Casey provided comments in response and noted the ISO would continue to conduct an open stakeholder process on the San Francisco Peninsula issues.

Eric Eisenman, on behalf of Pacific Gas and Electric Company, commended ISO staff on the proposed plan and further discussed the San Francisco Peninsula reliability issue and noted the importance of quick action on the matter. Mr. Eisenman commented in support of a transmission line to support the peninsula and commended the transparency of the transmission planning process.

Gustavo Luna, on behalf of Terra-Gen Power, provided comments on the proposed plan and noted concern with the preferred resource assessment as related to interference with the long-term transmission planning track 1 procurement process. Mr. Luna requested deferral of approval until after the ISO and the CPUC have worked out these issues. Mr. Millar provided clarifying comments and noted that

the ISO addressed this matter in its comments, as related to both conventional and preferred resources.

David Schiada, on behalf of Southern California Edison, commended ISO staff on the work on the proposed plan. Mr. Schiada provided further comments in support of the following two areas: Southern California reliability and the Delaney-Colorado River project.

Daniel Froetscher, on behalf of the Arizona Public Service Company, provided comments in support of approval of the plan and commended ISO staff and the stakeholder process. Mr. Froetscher provided further comments and described the benefits of the Delaney-Colorado River project.

John Cupparo, on behalf of MidAmerican Transmission, commended ISO staff on its work on the economic transmission planning process. Mr. Cupparo provided further comments describing the benefits of the Delaney-Colorado River project and recommended Board approval.

James Caldwell, on behalf of Center for Energy Efficiency and Renewable Technologies, provided comments on the proposal and noted more was needed, primarily with Imperial Irrigation District deliverability issues. Mr. Caldwell expressed further concern that these matters were not adequately covered during the stakeholder process and requested that decision on these matters be deferred.

Governor Olsen left the meeting during the latter portion of the public comment period.

Discussion ensued regarding the request to carve out a piece of the plan prior to approval. Mr. Berberich emphasized the importance of approval of the plan as a whole and further described the open and comprehensive stakeholder process that had been conducted. He noted the importance of the proposed flow controllers for reliability. Mr. Berberich further discussed policy issues related to the development of the Imperial Irrigation District's transmission portfolios outside of the ISO, including the CPUC and CEC. Mr. Casey provided additional responsive comments and further clarified Delaney-Colorado's relation to the Imperial Irrigation District.

Governor Foster emphasized the importance of fully understanding the concerns and requested to see a broader analysis that looked at the Imperial Valley related projects from a holistic perspective. Mr. Berberich noted the importance of moving forward with the plan and recommended that decision on the Delaney-Colorado project be deferred and that Management bring forward an analysis of Harry Allen-Eldorado and Delaney Colorado at a later date, but prior to the next transmission cycle. Management provided an overview of the stakeholder process that would

be commenced and committed to providing the Board with the requested analysis at its September 18-19, 2014 meeting.

Motion

Governor Bhagwat:

Moved, that the ISO Board of Governors approves the ISO 2013-2014 transmission plan attached to the memorandum dated March 12, 2014, with the exception of the Delaney-Colorado River transmission project as discussed at the March 20, 2014 meeting.

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

AUDIT COMMITTEE UPDATE

Governor Bhagwat provided a brief overview of the Acceptance of the Code of Conduct Certification Process Report and recommended that the Board approve the following motion:

Governor Foster:

Moved, that the ISO Board of Governors, as recommended by the Audit Committee, accepts the Code of Conduct Certification Process Report issued on February 5, 2014 by PricewaterhouseCoopers LLP for the testing of the ISO's code of conduct certification procedures for 2013.

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

Governor Bhagwat provided a brief overview of the modification to Retiree Medical Plan Investment Policy and recommended that the Board approve the following motion:

Governor Maullin:

Moved, that the ISO Board of Governors, as recommended by the Audit Committee, approves the modifications to the ISO Retiree Medical Plan Investment Policy, as described in the memorandum dated March 12, 2014.

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

BRIEFING ON POLICY ROADMAP

This briefing was deferred to the May 28-29, 2014 Board of Governors meeting.

INFORMATIONAL REPORTS

There were no questions or comments on the following informational reports: regulatory update, legislative and state regulatory update, business practice manual change management report, Market Surveillance Committee update, Department of Market Monitoring report, master stakeholder engagement and release plans, market performance report, Transmission Maintenance Coordination Committee update, Annual Investment Report and renewable integration update.

ADJOURNED

There being no additional general session matters to discuss, the general session was adjourned at approximately 5:45 p.m.