

GENERAL SESSION MINUTES BOARD OF GOVERNORS MEETING December 12-13, 2007 ISO Headquarters Folsom, California

December 13, 2007

Mason Willrich, Chair of the Board of Governors, called the meeting to order at approximately 9:20 a.m. Roll call was taken and the presence of a quorum was determined.

ATTENDANCE

The following members of the Board of Governors were in attendance:

Mason Willrich, Chair
Tim Gage
Elizabeth Lowe
Linda Capuano
Tom Page

GENERAL SESSION

The following agenda items were discussed in general session:

PUBLIC COMMENT

There was no public comment.

DECISION ON MINUTES

Governor Gage moved for the approval of the Board of Governors general session minutes for October 17, 2007. Motion seconded by Governor Lowe, and approved 5-0-0.

CEO REPORT

Yakout Mansour, President and CEO, reported on highlights of events that have affected the California ISO since the last Board meeting and further described the impact of the October and November firestorms in Southern California. Mr. Mansour provided an overview of the initiatives supporting the State climate change policies. Mr. Mansour provided an update on the Market Redesign & Technology Upgrade (MRTU) Program, and noted that while challenging, the end of March target date was still achievable given the reports he was receiving at the time. Mr. Mansour emphasized the importance of getting the market right before it launched. Mr. Mansour concluded his presentation by reviewing the Financial Highlights portion of his report.

DECISION ON AUTHORIZATION FOR FERC ORDER 890 TRANSMISSION PLANNING PROCESS PROPOSAL

Gary DeShazo, Director of Regional Transmission –North, began his presentation by providing an overview of the FERC Order 890 compliance requirements and noted that amendments to the MRTU Tariff were needed. Mr. DeShazo reviewed the key issues related to the transmission planning process.

Grant Rosenblum, Counsel, reviewed the key issues relating to administrative and project approval matters.

Mr. DeShazo concluded his presentation by providing an overview of stakeholder activities that began in May 2007. Discussion followed.

PUBLIC COMMENT

Keith White, with the California Public Utilities Commission, provided supporting remarks regarding the stakeholder process and expressed appreciation for the numerous opportunities in which to comment on the proposal. Mr. White noted that the proposal was only the beginning and that the CPUC was looking forward to continued collaboration.

Susan Schneider, on behalf of the California Wind Energy Association, providing supporting comments regarding the stakeholder process. Ms. Schneider provided generally supporting comments on the proposal and made a few additional remarks regarding integration of Large Generator Interconnection Agreements with the overall planning process. A copy of written comments was provided.

BOARD DECISION

Armie Perez, Vice President – Planning & Infrastructure Development, provided comments in response to the public comment. Discussion followed. Mr. DeShazo responded to the Board inquiry regarding the 50M threshold that would trigger the need for Governing Board approval. Further discussion followed regarding the types of follow-up reports needed pertaining to approved transmission projects.

Motion

Governor Lowe:

Moved, that the ISO Board of Governors approve the FERC Order No. 890 proposal as outlined in the memorandum dated December 4, 2007, and related attachments; and Moved, that the ISO Board of Governors authorize Management to make all the necessary and appropriate filings with the Federal Energy Regulatory Commission to implement this proposal.

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

DECISION ON PROPOSAL REGARDING DECLINE OF REAL-TIME IMPORT EXPORT BIDS

PROPOSAL

Greg Ford, Manager – Market Operations, began his presentation by reviewing the background surrounding frequent declines of pre-dispatches. Mr. Ford provided an overview of a graph that showed the incremental energy decline rates. Mr. Ford reviewed the actions taken to create a mechanism to reduce the decline rate, including efforts made by the Department of Market Monitoring. Mr. Ford reviewed the elements of the proposal and concluded his presentation by providing an overview of the stakeholder process. Discussion followed.

PUBLIC COMMENT

Gifford Jung, with Powerex, provided generally supporting comments and noted one issue requesting clarity on whether pre-dispatch bids were binding.

Jeffrey Nelson, with Southern California Edison, providing generally supportive comments and requested clarity on a few matters.

Brian Hitson, with Pacific Gas & Electric Company, proved generally supportive comments and reiterated the same points addressed by Southern California Edison.

Mary Lynch, with Constellation Energy, provided generally supportive comments and noted that a lot more still needed to be done.

BOARD DECISION

Keith Casey, Director of Market Monitoring, addressed the comments made by public comment speakers. Discussion followed regarding the balanced approach taken to arrive at the ten percent exemption and penalty amount. Specifically, he discussed the need to make the penalty provisions stringent enough to deter high rates of inter-tie bid declines but not so high as to deter market participation at the inter-ties. Dr. Casey stated that the Department of Market Monitoring would be monitoring the effectiveness of the penalty provisions to assess whether future modifications would be necessary. Further discussion following regarding the binding nature of the bids. Dr. Casey noted that the ISO Tariff states that market participants should provide bids and schedules that are reasonably expected to be available and capable of performing. Governor Willrich requested a follow-up report on an as-needed basis.

Motion

Governor Lowe:

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 penalty charge for declines of Pre-dispatched Real-Time Import and Export bids, as outlined in the memorandum dated December 4, 2007.

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

DECISION ON AUTHORIZATION FOR MISCELLANEOUS MRTU TARIFF CHANGES

PROPOSAL

Mike Dozier, Counsel, provided the Board with an overview of the following eight proposed Tariff amendments: Authority for reversion to prior version of the ISO Tariff; Operations compliance review; Settlement priority for undercollections; Outage reporting for units less than 40 MW; Availability of operating procedures on website; Balancing authority area for control area; Pro Forma Scheduling Coordinator Agreement; and Boilerplate terms in Pro Forma Agreements. Discussion followed regarding the operational compliance review.

PUBLIC COMMENT

There was no public comment.

BOARD DECISION

Motion

Governor Gage:

*Moved, that the ISO Board of Governors approve the proposed revisions to the MRTU Tariff described in this memorandum dated December 4, 2007; and
That the ISO Board of Governors authorizes Management to make all the necessary and appropriate filings with the Federal Energy Regulatory Commission to implement this proposal.*

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

DECISION ON GRID MANAGEMENT CHARGE RATE STRUCTURE UNDER MRTU

PROPOSAL

Ben Arikawa, Senior Consultant, began his presentation by providing the Board with an overview of the GMC stakeholder process and noted that the goal was to achieve consensus on issues. Mr. Arikawa reviewed the significant changes from the current GMC rate structure. Mr. Arikawa stated that there was general stakeholder support on the proposal and then addressed two suggested modifications that had been proposed by stakeholders. Mr. Arikawa concluded his presentation by reviewing next steps that included filing the proposed GMC Rate Structure.

PUBLIC COMMENT

Susan Schneider, on behalf of California Wind Energy Association, provided supporting comments on the proposal.

Scott Peterson, with San Diego Gas & Electric, commended the ISO for its work on the recent Southern California fires. Mr. Peterson provided generally supporting comments on the proposal and noted concern regarding the billing process pertaining to the Transmission Ownership Rights charge type.

BOARD DECISION

Mr. Arikawa provided responding comments and described the background and progress made to date as it pertained to the new Transmission Ownership Right charge. Discussion followed pertaining to the GMC rate structure in a post-MRTU environment.

Motion

Governor Gage:

*Moved, that the ISO Board of Governors approves of the MRTU GMC rate design, as outlined in the memorandum dated December 4, 2007; and
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 MRTU GMC rate design.*

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

RECESS

There being additional general session items to discuss, the Board of Governors meeting was recessed at approximately 12:10 p.m. and was reconvened at approximately 12:50 p.m.

ATTENDANCE

The following members of the Board of Governors were in attendance:

Mason Willrich, Chair
Tim Gage
Elizabeth Lowe
Linda Capuano
Tom Page

DECISION ON FISCAL YEAR 2008 BUDGET

PROPOSAL

Phil Leiber, Treasurer and Director of Financial Planning, provided the Board with an overview of the proposed FY2008 Budget and described the changes made since the September posting of the budget. Mr. Leiber provided a brief overview of the budget timeline, O&M budget, staffing levels, debt service and other elements of the revenue requirement. Discussion followed pertaining to bond alternatives. Mr. Leiber noted that 2008 pro-forma bundled GMC of \$0.755 was reduced from \$0.76 in 2007. He noted that two rate structures would be in place during 2008, for the pre-and post MRTU periods. He reviewed the GMC service categories, cost allocations, billing determinant volumes and GMC rates for each period. Mr. Leiber concluded his presentation by discussing the trend of the revenue requirement, presenting a chart showing the ISO revenue requirement for each year from 1998-2008. In terms of the total revenue requirement, Governor Gage inquired as to whether or not inflation over time had been included. Mr. Leiber noted that adjusting for inflation, the 2008 revenue requirement would be lower than the 1998 revenue requirement. Discussion followed regarding the potential of a future simplified approach to the Grid Management Charge, and Mr. Leiber noted the reasons why the proposed structure was beneficial in its current form.

PUBLIC COMMENT

There was no public comment.

BOARD DECISION

Motion

Governor Page:

MOVED, that the ISO Board of Governors approve the 2008 O&M and Capital/Project Budgets as set forth in Attachment A and Attachment B to the memorandum dated December 4, 2007; and

That the ISO Board of Governors authorizes Management to take all necessary and appropriate action to implement the pre-MRTU 2008 GMC rates reflecting the 2008 Budgets consistent with the rate categories set forth in the extension of the 2004-2007 GMC Settlement Agreement filed with FERC in October 2007; and

That the ISO Board of Governors authorizes Management to implement the post-MRTU 2008 GMC rates consistent with the GMC under MRTU rate structure proposal presented to the Board on December 13, 2007.

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

BRIEFING ON CAPACITY PRICING MECHANISM

Lorenzo Kristov, Principal Market Architect, began his presentation by providing the Board with an overview of the Long Term Resource Adequacy proceeding currently before the California Public Utilities Commission and noted that the debate would continue up until a final CPUC decision was made, which was estimated to be around April 2008. Mr. Kristov reviewed a few of the key issues that were central to the debate and provided an overview of Management's recommendations to the CPUC. Mr. Kristov stated that Management would continue to update the Board as important developments unfolded.

Frank Wolak, Chair of the Market Surveillance Committee, commented on the MSC Final Opinion on "Long-Term Resource Adequacy under MRTU" and noted he was available for questions.

BRIEFING ON MRTU

Project Schedule and Budget Update

Chuck King, Vice President – Market Development and Program Management, began his presentation by reviewing the overview of the MRTU project schedule and budget and provided an update on the dated materials that had been prepared. Mr. King discussed the change in timing with regards to the market simulations and discussed the ISO's expanded outreach program. Discussion followed regarding the types of fixes that were surfacing. Mr. King provided an update on the readiness assessment. Mr. King discussed the increased level of participation in the market simulations. Debi LeVine, Program Manager, responded to the Board inquiries and clarified why many items were still noted "in progress". Governor Capuano commented that including a target end date on the graph would be helpful addition to the progress chart.

60-Day Certification Process

Mr. King began his presentation by noting that the presentation had been slightly revised to reflect the new dates for the update 2 market simulation. Mr. King provided an overview of the 60-day decision process, including what the January Board decision would be based upon. Discussion followed regarding the MRTU cutover and reversion plan that targeted to be presented to the Board in January, 2008. Discussion followed pertaining to readiness and it was confirmed that the readiness results would be presented at the January Board meeting. Mr. King reviewed the FERC requirements for MRTU Go-Live and discussed the 60-day FERC certification process elements. Mr. King and Ms. LeVine provided the Board with an overview of the upcoming informational filings that would be needed as well as providing an overview of various market participant comments.

Public Comment

Jeffrey Nelson, with Southern California Edison, noted that while the revised schedule was possible, it was very steep.

Brian Hitson, with Pacific Gas & Electric Company, provided supporting comments on the efforts of the ISO, but questioned whether the revised schedule was realistic.

Discussion followed regarding the MRTU revised schedule.

BRIEFING ON CONVERGENCE BIDDING

David Withrow, Lead Market and Product Economist, began his presentation by providing an overview and definition of the term convergence or “virtual” bidding. Mr. Withrow reviewed the reasons why implementation of convergence bidding was important and noted that stakeholders were divided as to how virtual bidding should be implemented. Mr. Withrow concluded his presentation by addressing how the ISO would proceed on resolving the outstanding issues and noted that the final proposal would be presented to the Board in 3rd quarter 2008.

MARKET PERFORMANCE REPORT – September and October 2007

Alan Isemonger, Manager – Market Information, provided a brief overview of September 2007 market highlights, noting it was a quiet month. Mr. Isemonger reviewed the monthly market performance metrics for 2007, natural gas prices, real time balancing energy prices, cost of balancing energy, ancillary services markets, RA unit commitment costs, FERC MOO commitment costs, and inter-zonal congestion costs.

Mr. Isemonger then provided a brief overview of October 2007 market highlights, including the impact of the Southern California fires. Mr. Isemonger reviewed the monthly market performance metrics for 2007, natural gas prices, real time balancing energy prices, cost of balancing energy, cost of out of sequence energy, ancillary services markets, RA unit commitment costs, FERC MOO commitment costs, and inter-zonal congestion costs. Further discussion followed regarding bilateral contracts.

UPDATE ON FINANCIAL MARKET ISSUES

Bill Regan, Vice-President and Chief Financial Officer, provided the Board with an update on the sub-prime financial market issues and described the potential affect it would have on ISO bond insurers, direct investments, indirect exposure through pooled investments, as well as increased attention to investments during the year-end audit.

INFORMATIONAL REPORTS

There were no questions regarding the informational reports.

NEW GENERAL SESSION BUSINESS ISSUES AND FUTURE AGENDA ITEMS

There were no new general session business issues.

ADJOURNED

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