

**GENERAL SESSION MINUTES
ISO BOARD OF GOVERNORS MEETING
December 16-17, 2009
ISO Headquarters
Folsom, California**

December 16, 2009

Mason Willrich, Chair of the ISO Board of Governors, called the general session meeting to order at approximately 2:10 p.m. Roll call was taken and the presence of a quorum was established.

ATTENDANCE

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

Mason Willrich, Chair
Tom Page
Linda Capuano
Laura Doll
Kristine Hafner

The following members of the officer team were present: Yakout Mansour, Steve Berberich, Jim Detmers, Karen Edson, Keith Casey, Brenda Thomas and Nancy Saracino.

Chairman Willrich provided congratulatory remarks to Brenda Thomas on her appointment to the position of Vice President of Human Resources.

GENERAL SESSION

The following agenda items were discussed in general session:

PUBLIC COMMENT

No public comment was offered at this time.

DECISION ON MINUTES

Governor Capuano moved for the approval of the ISO Board of Governors general session minutes for October 29, 2009. The motion was seconded by Governor Doll, and approved 5-0-0.

DECISION ON ALBERHILL SUBSTATION PROJECT

Proposal

Ali Chowdhury, Director of Regional Transmission South, provided an overview of Management's recommendation and noted the Alberhill substation was needed to address future overloading of an existing Southern California Edison substation. Mr. Chowdhury reviewed the map diagram of the proposed location for the substation and described the project elements. Mr. Chowdhury noted the Alberhill project had a total cost of \$315 million with \$171 million allocated to transmission access charges and \$144 million allocated to Southern California Edison retail costs. Mr. Chowdhury provided an overview of the Alberhill project benefits and reviewed the five alternative projects that had been considered.

Public Comment

David Mead, on behalf of Southern California Edison, provided comments in support of Management's recommendation and noted the importance of a new substation in the region.

Decision

The Board discussed the importance of these types of transmission projects as well as the importance of early identification of upgrade needs. Discussion followed regarding the alternative proposed projects and next steps for the Alberhill project.

Motion

Governor Doll:

Moved, that the ISO Board of Governors finds that the Alberhill 500/115 kV Substation Project, as described in the memorandum dated December 9, 2009, is a necessary and cost-effective long-term transmission addition to the CAISO Controlled Grid.

Moved, that the ISO Board of Governors directs Southern California Edison to continue with the design, licensing, and construction of this project.

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

BRIEFING ON 2009-2011 MARKET INITIATIVES RELEASE PLAN

Steve Berberich, Vice President of Technology and Corporate Services and Chief Financial Officer, provided the Board with an overview of the following market initiatives that were deployed in 2009: pre-summer enhancements, post-summer enhancements, solar forecasting, payment acceleration, and simplified ramping. Mr. Berberich noted that standard capacity product and must offer obligation for ancillary services were on track to be deployed by the end of year. Mr. Berberich provided an overview of the market enhancements that were on track for deployment in 2010 and 2011. Mr. Berberich provided additional detail on open convergence bidding issues as identified by market participants and noted that progress was continuing in

preparation for a February 2010 tariff filing. Keith Casey, Vice President of Market and Infrastructure Development, noted that there was an ongoing convergence bidding stakeholder process and addressed the possibility of a March 2010 tariff filing. Mr. Berberich concluded his presentation by reviewing the release plan diagram and acknowledging the public comment letter from Calpine regarding the implementation timing of multi-stage generation modeling. Brief discussion followed regarding how deferrals within the process were analyzed in order to determine potential impacts to market participants. Mr. Berberich commented on the importance of transparency and minimal schedule changes. Discussion followed and the Board acknowledged the importance of periodic reporting on these matters.

Public Comment

Candice Chan, on behalf of Pacific Gas & Electric Company, provided comments regarding implementation timing for convergence bidding and multi-stage generation modeling. Ms. Chan commented on the importance of proper implementation and noted support of the proposed schedule changes for these two items.

DECISION ON RESERVE SHORTAGE SCARCITY PRICING DESIGN

Greg Cook, Director of Market and Infrastructure Policy, provided an overview of Management's proposal and noted the importance of scarcity pricing as an enhancement to the current market design, stating it would improve reliability and market efficiency. Mr. Cook noted that the Federal Energy Regulatory Commission directed the ISO to implement a reserve shortage scarcity pricing mechanism within 12 months of the new market startup. Mr. Cook reviewed a diagram that demonstrated an upward reserve demand curve and noted that scarcity prices would increase in step with severity of supply shortage. Mr. Cook concluded his presentation by providing an overview of the stakeholder process and noted that the outcome was a balanced proposal.

Public Comment

Elizabeth Dorman, on behalf of the California Public Utilities Commission, provided comments in support of Management's proposal and noted the importance of scarcity pricing in relation to demand response and other alternative energy resources.

Brian Theaker, on behalf of Dynegy, provided generally supportive comments to Management's proposal and noted concern with sub-regional scarcity pricing.

Peter Griffes, on behalf of Pacific Gas & Electric Company, provided supporting comments on Management's proposal and stated that a compromised proposal had been reached.

Frank Wolak, Chair of the Market Surveillance Committee, provided comments on the MSC opinion on the reserve scarcity pricing design. Dr. Wolak commented on the ISO's current market design related to scarcity pricing and noted that scarcity pricing could be thought of as a refinement to the existing penalty pricing process. Dr. Wolak noted that a major goal of the new markets was to get accurate price signals and that scarcity pricing would be a part of that. Dr. Wolak recommended that the ISO undertake additional studies pertaining to sub-regional scarcity

pricing. Dr. Wolak concluded his remarks by stating that the Market Surveillance Committee was supportive of Management's proposal.

Mr. Cook provided responding comments to the remarks made by the public and further addressed concerns regarding sub-regional scarcity pricing.

Jim Detmers, Vice President of Operations, provided further comments on regional vs. system-wide shortages.

The Board discussed the balanced approach of Management's proposal. Discussion followed regarding price signals and what types of supply and demand response resources would be monitoring the scarcity pricing signals. Ms. Dorman provided additional comments regarding scarcity pricing and its relation to the triggering of alternative energy resources. Discussion ensued. Discussion followed regarding experiences gained from other ISOs.

Ellen Wolfe, on behalf of Western Power Trading Forum, provided comments and noted concern regarding the sub-regional scarcity pricing and stated that scarcity pricing was more of a long-term investment.

Brief discussion followed.

Board Decision

Governor Capuano:

Moved, that the ISO Board of Governors approves the proposal to implement reserve shortage scarcity pricing, with the design elements detailed in the memorandum dated December 9, 2009; and

Moved, that the ISO Board of Governors authorizes Management to make all of the necessary and appropriate filings with the Federal Energy Regulatory Commission to implement the proposed tariff change.

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

DECISION ON FY2010 BUDGET

Steve Berberich, Vice President of Technology and Corporate Services and Chief Financial Officer, provided the Board with an overview of the proposed FY2010 budget and noted that the budget reflected continued focus on cost management. Mr. Berberich noted that no material changes had been made since presentation of the draft budget to the Board at the October meeting. Mr. Berberich stated that the revenue requirement of \$195 million reflected a one-time grid management charge inflow and other credits. Mr. Berberich noted that, overall, O&M was up six million or 3.8% and that divisional changes were largely driven by personnel costs. Mr. Berberich stated that the 2010 bundled rate of \$0.79 reflected a one cent increase from 2009. Mr. Berberich noted that the ISO would experience a small debt service increase for 2008 bonds but not for 2009 bonds, and that 2009 capital would be financed through grid management charge and bond funds. Mr. Berberich described how Management was leveraging activity based costing to

analyze the budget. Mr. Berberich concluded his presentation by noting that Management had extended the grid management charge rate settlement for one year. Discussion followed regarding the relationship between the proposed budget and potential items coming out of the strategic planning process. Mr. Berberich responded that the budget could accommodate adjustments in priorities. Discussion followed regarding capital market enhancement projects.

Motion

Governor Doll:

Moved, that the ISO Board of Governors approves the 2010 O&M and Capital/Project Budgets as set forth in Attachment A to the memorandum dated December 9, 2009, and authorizes Management to take all necessary and appropriate actions to implement the 2010 grid management charge rates reflecting the 2010 budgets.

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

INFORMATIONAL REPORTS

There were no comments on the following informational reports: Regulatory Report, Operations Report, Financial Report, Status of State and Federal Legislative Matters, Business Practice Manuals Change Management Report, Market Performance Report, Market Surveillance Committee Update, Transmission Maintenance Coordination Committee Report, and Department of Market Monitoring Report.

ADJOURNED

There being no additional general session items to discuss, the general session of the ISO Board of Governors meeting was adjourned at approximately 4:10 p.m.