



**GENERAL SESSION MINUTES
BOARD OF GOVERNORS MEETING
July 18, 2007
ISO Headquarters
Folsom, California**

July 18, 2007

Mason Willrich, Chair of the Board of Governors, called the meeting to order at approximately 10:15 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
Tom Page

GENERAL SESSION

The following agenda items were discussed in General Session:

PUBLIC COMMENT

No public comment was provided at this time.

DECISION ON MINUTES

Governor Gage moved for the approval of the Board of Governors General Session minutes for May 30, 2007. Motion seconded by Governor Lowe, and approved 4-0-0.

CEO REPORT

Yakout Mansour, President and Chief Executive Officer, reported on highlights of events that have affected the CAISO since the last Board meeting. Mr. Mansour provided an update on the Market Redesign & Technology Upgrade (MRTU) Program and stated that while ISO was still on track for a February 1, 2008 implementation date, there was escalating pressure on the schedule. Mr. Mansour provided an overview of the factors that affected the schedule. Mr. Mansour concluded his presentation by reviewing the operational update section of his report.

Governor Page inquired as to the current hydro situation. Mr. Mansour provided an overview of the hydro conditions. Jim Detmers, Vice President of Operations, reviewed the effect of hydro on the operations system and provided an overview of forecasting tools. Brief discussion followed.



CPUC UPDATE

Sean Gallagher, with the California Public Utilities Commission, provided the Board with a Resource Adequacy Update. Mr. Gallagher provided an overview of the Resource Adequacy Requirement, including an overview of the Summer 2007 System, the Local Resource Adequacy Requirement Implementation under D.07-06-029, and Resource Adequacy Implementation for 2008. Mr. Gallagher reviewed the Long-Term Resource Adequacy Program Issues under Track 2 and identified next steps. Mr. Gallagher provided an overview of Track 3 – Small and Multi Jurisdictional Load Serving Entities. Mr. Gallagher concluded his presentation by identifying continuing issues and noted that CPUC was working in coordination with the ISO stakeholder process. Chuck King, Vice President – Market Development & Program Management, stated that MRTU and the Resource Adequacy Program were on parallel tracks and complemented each other. Brief discussion followed. Governor Lowe requested a future update to the Board on the November 2, 2007 Joint ISO/CPUC Staff Report. Discussion followed.

DECISION ON CONGESTION REVENUE RIGHTS LOAD MIGRATION PROCESS

Proposal

Chuck King, Vice President – Market Development & Program Management, provided an introduction of the proposal. Mr. King discussed the FERC Requirements and provided an overview of the two options considered pertaining to the mechanism of transfer, the Congestion Revenue Rights (CRRs) subject to transfer, the renewal of transferred CRRs, and managing the associated credit risk. Mr. King reviewed the decision criteria used and then provided an overview of Management's recommendation. Mr. King provided an overview of the resulting allocation of new CRRs before and after migration and concluded his presentation by addressing stakeholder positions. Discussion followed.

Public Comment

Sue Mara, Alliance for Retail Markets, provided overall supporting comments and noted that there were still many details that needed to be worked out.

Brian Hitson, Pacific Gas & Electric Company, provided comments concerning the priority nomination process and noted the concerns that PG&E had with this piece of Management's recommendation.

Eric Little, Southern California Edison, provided comments concerning the priority nomination process and noted the concerns that SCE had with this piece of Management's recommendation.

Karen Shea, California Public Utilities Commission, provided comments concerning the priority nomination process and noted the concerns that CPUC had with this piece of Management's recommendation, and inquired whether it would be feasible to remove the priority nomination portion of the motion from the pending recommendation by Management.

Lorenzo Kristov, Principal Market Architect, provided comments in response to stakeholder concerns. It was decided to defer the decision on Management's recommendation pertaining to the Congestion Revenue Rights Load Migration Process to the afternoon session of the meeting.



RECESSED

There being additional general session items to discuss, the general session of the Board of Governors was recessed at approximately 12:30 p.m.

RECONVENED

Mason Willrich, Chair of the Board of Governors, reconvened the meeting at approximately 1:30 p.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
Tom Page

DECISION ON CONGESTION REVENUE RIGHTS LOAD MIGRATION PROCESS

Chuck King, Vice President – Market Development & Program Management, provided the Board with a summary of the results of discussions that occurred during the break regarding the idea of deferring the load migration issue from this recommendation. Mr. King stated that Management's proposal was consistent with the July 8, 2007, FERC Order on long-term congestion revenue rights. Mr. King also noted concern that if the load migration language were to be deferred from Management's proposal, the business uncertainty that would result could be detrimental to keeping MRTU on schedule. Mr. King recommended that the Board act on the motion as originally presented. Discussion followed.

Board Decision

Motion:

Governor Lowe:

Moved, that the ISO Board of Governors approve the proposal for transferring Congestion Revenue Rights between LSEs to reflect load migration as described in the memorandum dated July 9, 2007; and 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 4-0-0.

BRIEFING ON PROPOSAL FOR SCHEDULING REQUIREMENT UNTIL IMPLEMENTATION OF CONVERGENCE BIDDINGProposal

Chuck King, Vice President – Market Development & Program Management, provided the Board with a background of the recent MRTU Orders issued by FERC and outlined the requirements and guidelines that resulted. Mr. King provided an overview of the April 2007 through July 2007 stakeholder process and identified the options considered, as well as other stakeholder suggestions. Mr. King identified various elements associated with CAISO's position in the MRTU proceeding and reviewed the items in which CAISO must comply. Mr. King reviewed Management's current proposal, Interim Scheduling Charge, and then discussed Management's alternate proposal: Interim Scheduling Charge with Trigger. Mr. King concluded his presentation by identifying next steps that included an upcoming request for Board approval at the September 2007 Board meeting.

Public Comment

Jeffrey Nelson, with Southern California Edison, provided comments and noted concerns with Management's proposal as it pertained to the 500 megawatt exemption.

Sue Mara, Alliance for Retail Markets, provided comments and noted concerns with Management's proposal as it pertained to Energy Service Providers.

Market Surveillance Committee Report

Jim Bushnell, Market Surveillance Committee (MSC), provided comments on the MSC Opinion on "Interim Measures to Address Day-Ahead Underscheduling under MRTU" and commented on the recent FERC Orders that addressed the load underscheduling issue. Discussion followed.

DECISION ON ADOPTING THE USE OF THE LOCAL CAPACITY RELIABILITY STUDY CRITERIA AS THE LOCAL AREA RELIABILITY CRITERIA FOR RMRProposal

Gary DeShazo, Director of Regional Transmission North, began his presentation by providing an overview of the Local Capacity Requirement (LCR) study. Mr. DeShazo noted the key differences between LCR and Reliability Must Run (RMR) criteria. Mr. DeShazo stated that Management's proposal responded to a FERC directive regarding the criteria by: (1) Using LCR study criteria for both Resource Adequacy and backstop procurement purposes, and (2) Addressing cost allocation issues in the stakeholder process currently underway for a new backstop procurement mechanism. Brief Discussion followed.



Public Comment

Jeffrey Nelson, with Southern California Edison, provided generally supportive comments on Management's proposal and noted a few concerns.

Tony Braun, with California Municipal Utilities Association, provided generally supportive comments on Management's proposal but noted concern that there were still ongoing issues to be resolved.

Board Decision

Motion:

Governor Gage:

Moved, that the ISO Board of Governors approve use of the LCR Study criteria and methodology as the single set of local reliability study criteria for purposes of determining both local Resource Adequacy capacity requirements and local Reliability Must-Run contract requirements.

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

DECISION ON PRICE VALIDATION AND CORRECTION AND STANDARD OF LIABILITY UNDER MRTU

Proposal

Brian Jacobsen, Senior Market Design Specialist, began his presentation by providing the Board with a background on the price validation policy and processes. Mr. Jacobsen reviewed the market validation and price correction processes. Mr. Jacobsen concluded his presentation by providing an overview of the scope and methodology of price corrections and noted that the price corrections were published on OASIS and that market participants had been notified that the price correction process had been completed. Brief discussion followed.

Sidney Davies, Assistant General Counsel – Tariff, provided the Board with an overview of Management's proposal as it pertained to changing the Standard of Liability to "gross negligence". Ms. Davies noted that the "gross negligence" standard was consistent with the standard of liability accepted by FERC for other ISOs and RTOs.

Public Comment

No public comment was offered at this time.



Board Decision

Motion:

Governor Gage:

Moved, that the ISO Board of Governors approve the policy principles related to Price Validation and Correction as described in the memorandum dated July 9, 2007;

That the ISO Board of Governors approve the change in the standard of liability from “negligence” to “gross negligence” as described in the memorandum dated July 9, 2007; and

That the ISO Board of Governors authorize Management to make all appropriate and necessary filings with the FERC in support of this policy proposal.

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

BRIEFING ON MRTU AND READINESS UPDATE

Debi LeVine, Director of Market Services and MRTU Program Manager, provided the Board with a status update on the MRTU program, including a readiness update. Ms. LeVine discussed the upcoming conclusion of Release 2 of Integrated Market Simulation noted that Management was re-evaluating the schedule for Releases 3 and 4. Ms. LeVine provided an overview of existing market participant concerns including, Real Time issues, Integration of downstream systems issues, and requested inclusions for the next market simulation. Ms. LeVine provided an internal and external readiness update status and concluded her presentation by reviewing the current status of the Congestion Revenue Rights allocation process. Brief discussion followed regarding the MRTU schedule. Yakout Mansour, President and CEO, stated that the most important thing was to get it right, even if that meant delaying a few weeks. Mr. Mansour said that Board and market participants would be kept informed on the status of the schedule.

BRIEFING ON MARKET PERFORMANCE REPORT

Alan Isemonger, Manager – Market Information, provided highlights related to market performance in April and May 2007. Mr. Isemonger provided an overview of market highlights including an overview of hydroelectric generation capacity, the balancing energy perspective, real time balancing energy prices, cost of balancing energy, ancillary service markets, resource adequacy commitment costs, FERC must offer obligation costs, and inter-zonal congestion costs. Mr. Isemonger stated that he would brief the Board in September on the recently posted report on balancing energy price spikes.



ADR/AUDIT COMMITTEE UPDATE

Governor Gage, Chair of the ADR/Audit Committee, provided an updated on the ADR/Audit Committee activities and recommended that the Board accept the Audit of FERC Form 1 for the years ended December 31, 2006 and 2005 as accepted for recommendation to the Board earlier by the ADR/Audit Committee.

Motion:

Governor Page:

Moved, that the ISO Board of Governors accept the audited FERC Form 1 for the years ended December 31, 2006 and 2005.

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

POTENTIAL DISCUSSION REGARDING INFORMATIONAL REPORTS

There were no questions regarding the informational reports.

NEW GENERAL SESSION BUSINESS ISSUES AND FUTURE AGENDA ITEMS

Governor Willrich inquired as to the impact of the Arizona Corporation Commission's ruling rejecting the Palo Verde to Devers II power line on transmission planning. Mr. Mansour provided the Board with an update on the project and noted that the proponents were pursuing next steps.

ADJOURNED

There being no additional general session items to discuss, the general session of the Board of Governors was adjourned at approximately 4:20 p.m.